

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

COMPLAINT OF GAMEFLY, INC.

)
)
)

Docket No. C2009-1

**PUBLIC (REDACTED) VERSIONS OF
DOCUMENTS COVERED BY
PRESIDING OFFICER'S RULING NO. C2009-1/17**

PART 1 OF 2

Please direct any questions about these
documents to:

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Counsel for GameFly, Inc.

May 10, 2010

[REDACTED] US-151
[REDACTED] US-151
[REDACTED] US-153
From: [REDACTED] - Washington, DC
Sent: Tuesday, September 06, 2005 12:53 PM
To: [REDACTED] - Washington, DC; [REDACTED] - Washington, DC
Cc: [REDACTED] - Washington, DC; [REDACTED] - Washington DC; [REDACTED] - Washington, DC
Subject: RE: DVD MAILER: Proposed Interim Solution?

[REDACTED]
Right now, we are doing OK because clerks pick out almost all the Netflix envelopes and jackpot them for delivery to Netflix. This is expensive but workable as long as Netflix is almost all of the RDM, the Netflix piece design stays highly visible, and the remainder (e.g. Blockbuster which is much harder to pick out) continues to use a piece design which doesn't jam as bad as Netflix.

However, this situation is unstable [REDACTED]

[REDACTED]
[REDACTED]
[REDACTED] At some point it becomes humanly impossible to get most of them out of the mailstream resulting in higher jam rates from the pieces that stay in automation, plus a sorting operation for culls from the diverse RDM customers, which will cost a lot more than just jackpotting Netflix culls in a tray.

[REDACTED] US-151
[REDACTED] US-153
[REDACTED] US-152
[REDACTED] US-152
-----Original Message-----
From: [REDACTED] - Washington, DC
Sent: Tuesday, September 06, 2005 10:58 AM
To: [REDACTED] - Washington, DC; [REDACTED] - Washington, DC
Subject: FW: DVD MAILER: Proposed Interim Solution?

Hi [REDACTED] and [REDACTED] - US-151

[REDACTED] US-152
[REDACTED] US-156
-----Original Message-----
From: [REDACTED] - Washington, DC
Sent: Tuesday, September 06, 2005 9:53 AM
To: [REDACTED] - Washington, DC
Subject: DVD MAILER: Proposed Interim Solution?

[redacted] - Washington, DC

VS-151

From: [redacted] - Washington, DC -154
Sent: Friday, July 29, 2005 7:28 AM
To: [redacted] - Washington, DC -VS-151
Subject: Fw: Netflix DVD Mailers

Wireless response from [redacted] VS-154

-----Original Message-----

From: [redacted] - Washington, DC -VS-161
To: [redacted] - Southwest Area -VS-162
CC: [redacted] - Washington, DC VS-154
Sent: Fri Jul 29 06:24:51 2005
Subject: FW: Netflix DVD Mailers



netflix.pdf (50 KB)

[redacted] -- good information for the briefing we need to put together for Bill.

VS-161

-----Original Message-----

From: [redacted] - Merrifield, VA -VS-158
Sent: Thursday, July 28, 2005 12:13 PM
To: [redacted] - Washington, DC -VS-161
Subject: FW: Netflix DVD Mailers

[redacted] -VS-161

Below is the work that Engineering has done to support testing of the Netflix mailing. Bottom line is that the current packaging used by Netflix is not considered by Engineering to be Automation compatible. The new designs that have been tested would significantly improve the automation compatibility. In addition, the DVDs that were sent to Engineering to test for breakage were not considered to be appropriate since they were already damaged DVDs and would not represent the typical DVD being mailed.

All of the testing and messaging we have done with Netflix has been through [redacted] VS-129
I am including her on this email in case she has more to add.

Brent

-----Original Message-----

From: [redacted] - Merrifield, VA - Contractor -VS-159
Sent: Thursday, July 28, 2005 11:19 AM
To: [redacted] - Merrifield, VA VS-158
Cc: [redacted] - Merrifield, VA -VS-160

PUBLIC

Subject: Netflix DVD Mailers

US-158

I have emails to support this discussion that I can forward to you. Also, have attached the initial approval letters. Let me know if I can provide more info.

Chronological Discussion of NETFLIX 2-way DVD Mailer

June 11, 2002- Engineering tests Netflix mailer and finds the mailer is, overall, not automation compatible. The machineability results were described as good for the outbound mailer (DECS) but poor for the return processing (AFCS).

June 24, 2002- Netflix receives approval from Mail Preparation and Standards.

Netflix mailers processed by USPS nationwide. Many sites reporting problems. Many sites handling the return mailers manually (culling from AFCS).

June 2003- USPS Engineering begins design and development of proprietary DVD mailer. Focus on Machineability, stiffness, paperweight.

June 2004- Operations publishes SOP to standardize handling of Netflix mailers nationwide.

Feb 2004- USPS Engineering receives 5000 samples of its proprietary design for internal testing. Testing continues through Feb 2005. Results published April 2005 and submitted to DVD working group to support classification recommendations.

During this time Engineering also tested DVD mailers from Blockbuster, [REDACTED] and others.

Blockbuster mailers were approved.

May 2004- Netflix supplied several hundred test samples constructed of three different paperweights. These samples weighed approx. 1.1, 1.2 and 1.3 ounces. All samples were tested and although all samples performed well Engineering determined the 1.3 ounce piece would be the preferred choice. These samples were submitted in response to USPS testing of the USPS proprietary DVD mailer design. This mailer is constructed with 70lb paper and resulted in a mailpiece that exceeded 1 ounce. This design was not pursued since the issue of pieces exceeding 1 ounce had not been settled within USPS.

PUBLIC

November 2004- Engineering undertook a test to determine breakage rates for DVD mailers. Netflix supplied approx. 500 mailers addressed to USPS Engineering. 400 were entered through Gaithersburg P&DC and 100 through Salt Lake City. When all the disks arrived at Engineering they were opened for examination. After examination any unbroken disks would

[Redacted] Washington, DC *US-163*

From: [Redacted] Washington, DC *US-164*
Sent: Friday, September 26, 2003 12:30 PM
To: [Redacted] Washington, DC; [Redacted] *US-163*
Subject: FW: Netflix Processing *US-151*

-----Original Message-----
From: [Redacted] Washington, DC *US-165*
Sent: Tuesday, September 23, 2003 11:59 AM
To: [Redacted] Washington, DC; [Redacted] Washington, DC; [Redacted] Washington, DC; [Redacted] Washington, DC *US-166; US-164*
Cc: [Redacted] Washington, DC; [Redacted] Washington, DC; [Redacted] Washington, DC; [Redacted] Washington, DC *US-167; US-168; US-169; US-170; US-171*
Subject: RE: Netflix Processing *US-172*

Thanks, *US-166* Wow, that is interesting. [Redacted] talks about some issues that could very well be caused by our attempting to process this mail on automation equipment. And we even sent a letter telling them they don't have to pay the surcharge. I wouldn't have liked to be at the tests they conducted to justify that exception. And Houston's operation sounds very similar to what I saw in Cincinnati - I didn't see any mention of automation processing.

[Redacted] *US-165*

-----Original Message-----
From: [Redacted] Washington, DC *US-166*
Sent: Tuesday, September 23, 2003 11:58 AM
To: [Redacted] Washington, DC; [Redacted] Washington, DC; [Redacted] Washington, DC; [Redacted] Washington, DC *US-165; US-164*
Cc: [Redacted] Washington, DC; [Redacted] Washington, DC; [Redacted] Washington, DC; [Redacted] Washington, DC *US-167; US-168; US-169; US-170; US-171*
Subject: RE: Netflix Processing

[Redacted] *US-165*

I am not sure what information you have received, but I have attached three informative attachments:

- 1) Letter dated 9/12/02 from [Redacted] *US-172* regarding Netflix service talks
- 2) Letter dated 6/24/02 that was sent to the VP of Operations for Netflix regarding the automation-compatibility tests conducted on letter size mailpieces containing DVDs.
- 3) The Houston District SOP for handling Netflix.

<< File: svc talk.max >> << File: tom's ltr.max >> << File: Houston SOP.max >>

[Redacted] *-US-166*

PUBLIC

-----Original Message-----
From: [Redacted] Washington, DC *US-165*
Sent: Tuesday, September 23, 2003 10:34 AM
To: [Redacted] Washington, DC; [Redacted] Washington, DC; [Redacted] Washington, DC; [Redacted] Washington, DC *US-164*
Cc: [Redacted] Washington, DC; [Redacted] Washington, DC; [Redacted] Washington, DC; [Redacted] Washington, DC *US-167; US-168; US-169; US-171; US-166*
Subject: FW: Netflix Processing

The email file size was too large to send with the pictures imbedded in the text. Consequently, I put the pictures in the attached Powerpoint document.

VS-165

<< File: NETFLIX.ppt >>

Hi,

VS-164

Do you know if any operations group has issued Standard Operating Procedures (SOPs) to the field regarding the manner in which Netflix (and perhaps its competitors) mail pieces are processed?

I was in the midwest conducting field observations last week and saw the following:

I was at both the Madison P&DC and the Milwaukee P&DC early in the week observing Standard Mail flats processing. During those visits, I asked the managers showing me around if they were receiving large volumes of Netflix mail. The Madison Tour 2 MDO told me that they had not. However, the acting plant manager said they had just been contacted by Netflix representatives the previous week. The MIPS at the Milwaukee facility also thought the volume was small such that it was not a big issue. Given that the observations were conducted during Tour 1/2, it's possible that the facilities might have been receiving some Netflix mail. I wasn't present at either facility to witness cancellations and outgoing operations firsthand. In addition, the Milwaukee MIPS had been on detail for a long period of time, so he wasn't really sure.

Later that week, I asked the Tour 3 letters MDO at the Cincinnati P&DC how they processed Netflix mail. He wasn't sure, so we went from operation to operation to see how it was being processed. From what I saw, it appeared that this mail was being processed on virtually every machine and in every operation. I don't think it is likely that this was a plant-specific issue. For the most part, the clerks/mailhandlers we talked to all said that they thought the mail piece was nonmachinable because of the rigid DVD disc contained in the envelope. The operation to which those "nonmachinable" mail pieces were routed is what differed.

CANCELLATIONS (MODS OP. 010C):

For the most part, employees tried to isolate Netflix mail in the culling / cancellations operation. This mail appeared to be successfully processed through the primary culling mechanisms (e.g., Dual Pass Rough Cull, the "Barney" system) that transported mail to the AFCS-ISS. At the buffer/feeder unit on AFCS-ISS Nos. 1 through 7, the clerks attempted to remove Netflix mail pieces along with the other mail pieces that were determined to be nonmachinable.

Of those Netflix mail pieces that were not manually culled from the collection mail, some mail pieces were removed by the "fine cull" mechanism. According to Handbook PO 424 ("AFCS-ISS Operating System Guidelines"), mail pieces entering the fine cull mechanism "are checked for proper characteristics. Mailpieces that have the following improper characteristics are ejected from the machine: too stiff, too much height (more than 6.125 inches), too little height (less than 3.5 inches), too much length (more than 11.5 inches), too little length (less than 5 inches), skewed, too little gap between mailpieces (less than 70 millimeters)."

The mail pieces that were ejected by the fine cull mechanisms were dropped onto conveyors leading to AFCS-ISS No. 8. AFCS-ISS No. 8 had been retrofitted to operate at a slower speed so that it could process mail pieces the other AFCS-ISSs couldn't process. Mailhandlers near the end of the system that fed AFCS-ISS No. 8, however, typically culled the Netflix mail pieces from that conveyor and

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placed them into flats tubs before those conveyors fed the mail through the machine. The operator at the AFCS-ISS No. 8 buffer/feeder unit also would attempt to cull any remaining Netflix mail pieces before they were fed through the machine. Those mail pieces that were not culled were either ejected by the fine cull mechanism or sorted to one of the seven AFCS bins.

The Netflix mail pieces that were culled from the AFCS-ISS operation were routed with the other nonmachinable mail to the nearby hand cancel operation for processing. Once cancelled, this mail was placed in a container that was ultimately routed to a manual pouching operation. The Netflix mail was not isolated in a separate sack in that operation; it was mixed with the residual mail destined for the same ADC. In Cincinnati, the MDO thought there were three Netflix destination addresses on this mail. I only saw the following two addresses during my visit:

P.O. Box 30320
Lansing, MI 48909-9885

P.O. Box 66908
St. Louis, MO 63166-6908

AUTOMATION OUTGOING PRIMARY (MODS OP. 891):

Despite the fact that employees in the 010C operation made a concentrated effort to cull Netflix mail from the residual First-Class single-piece mail stream, some mail pieces did ultimately get routed to the automation outgoing primary operation ("FIM program") that was performed on a DBCS. It appeared that the AFCS-ISS machine may have had more difficulty processing these mail pieces when compared to the DBCS, as the latter machine appeared to be capable of sorting at least some of this mail.

Some Netflix mail pieces, however, were rejected or missorted by the DBCS. More often than not, the cause appeared to be misaligned address labels. It is my understanding that each Netflix customer has to apply the barcoded label with the Netflix address to each mail piece manually. The mail pieces appear to have markings to guide the customer, but some labels were still misaligned. If the markings were to include a text message and a complete outline of the label, perhaps the number of misaligned labels could be reduced. Mail pieces bearing misaligned labels were likely rejected or missorted due to "positional skew" - a situation in which the entire barcode on a given mail piece is tilted to an extent beyond the maximum requirements.

The mail pieces that were rejected in Operation 891 were ultimately routed to the manual outgoing primary letter sorting operation.

MANUAL OUTGOING PRIMARY (MODS OP. 030)

In the manual operation, most mail pieces that I saw appeared to have misaligned address labels. Some clerks cased the mail pieces, while others culled the mail pieces from the residual mail prior to sorting. The culled mail was placed in a hamper that was ultimately transported to the flats sorting machines. It wasn't clear to me whether flats personnel would process this mail on either the AFSM100 or UFSM1000, but I did hear different employees say that they had seen this mail processed on both machines. In addition, I saw some mail pieces in manual operations that had RBCS ID tags on the front and/or back of the mail piece, indicating that some mail pieces had been processed on the MLOCR-ISS.

CUTTING AREAS:

Netflix mail pieces were also found in cutting areas. Employees in this operation were placing these mail pieces in APCs with SPRs that were to be routed to SBPS operations.

As stated above, I don't think Netflix processing is only an issue at the Cincinnati P&DC. I was also at the Olympia P&DF several months ago and was told by the plant manager that they cull Netflix mail pieces from the residual First-Class Mail single-piece mail stream as well.

In conveying this information to you, it is not my intention to criticize any field personnel. The responses I have received to Netflix questions at all facilities in which I've conducted field observations lately seem to indicate that few sites have focused their attention on this mail. Perhaps we have just gotten to the point where there is enough volume out there to justify some sort of attempt at standardizing the way we process this mail.

Furthermore, DMM 58 Section C050.2.2.e states that a mail piece which "is too rigid" should be classified as a nonmachinable letter. Granted, rigidity seems to be a difficult characteristic to quantify. If it were determined that Netflix mail pieces technically meet this rigidity criterion, shouldn't these mail pieces be assessed the nonmachinable (formerly the "nonstandard") surcharge? Given that they are sent in bulk to a few addressees using the BRM Special Service, the surcharge should be easy to administer. If it were determined that these mail pieces were not "too rigid," what is it about these mail pieces that would distinguish them from mail pieces which are too rigid?

Although some Netflix mail pieces are processed on automation, many are not.

We rebutted the OCA's proposal to eliminate the nonstandard surcharge for low aspect ratio cards and letters in Docket No. R2000-1, using the argument that "the line had to be drawn somewhere." In other words, some mail pieces might be processed on automation, but a disincentive is needed to keep mailers mailers from inundating the postal service with mail that is more difficult to process. The Commission accepted that argument.

I'd be interested in hearing any thoughts you have on this issue.

VS-165

PUBLIC

US-172
[Redacted]

OPERATIONS



September 12, 2002

MANAGERS, OPERATIONS SUPPORT (AREA)
MANAGERS, MARKETING (AREA)
DISTRICT MANAGERS
PLANT MANAGERS, PROCESSING AND DISTRIBUTION CENTERS/FACILITIES

SUBJECT: NETFLIX Service Improvement

The e-commerce company, NETFLIX.COM is expanding their operation. They have twelve hub distribution centers around the country with plans to establish eight additional hub sites by the end of this year. They specialize in providing convenient and affordable home entertainment (DVD rentals) using the U.S. Postal Service for shipping to customers and for returns. NETFLIX sends disks in a reusable First-Class Mail envelope. When customers are finished, they return the disk by inserting it into the original reusable prepaid envelope at their convenience. The service now has over 625,000 subscribers. Their annual revenue contribution is over \$16 million.

It is important that we process this mail accurately and efficiently. The enclosed Service Talk includes some major points to share with your staff and employees to ensure excellent service is achieved. An enclosed sample mailer with a DVD disk is provided as a visual aid.

Listed below are some of the common problems reported by NETFLIX:

- Looping of the outbound mailpiece—returned to NETFLIX.
- Damaged (broken disks) during processing and/or delivery.
- Inconsistent volumes available for the first scheduled caller service pickup.
- Employees are not recognizing the difference between the outbound and inbound mailpieces.
- Extreme losses due to unknown theft or separation from the mailer.
- Loss of loose disks that were separated from the envelope.

Should you or your staff encounter problems in handling or processing NETFLIX mailpieces, please notify the local Business Service Network and Account Representative [Redacted] for immediate follow-up with the respective NETFLIX representative.

[Redacted] US-172

Enclosures

cc:

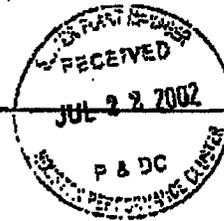
[Redacted] -US-036
US-173
Vice Presidents, Area Operations
Manager, Capital Metro Operations

PUBLIC

475 L'ENFANT PLAZA SW
WASHINGTON DC 20260-2700
202-268-5000
FAX: 202-268-7000
www.usps.com

GFL000010

Sr. Manager Distribution Operations
Processing & Distribution Center



July 22, 2002

ALL SUPERVISORS & MANAGERS, DISTRIBUTION OPERATIONS

**SUBJECT: ACTION PLAN FOR PROPER HANDLING OF MAIL FOR PREMIER ACCOUNT
CUSTOMER, NETFLIX, INC.**

NETFLIX, INC. is the world's largest online DVD rental store. All movies are delivered and returned through the U. S. Postal Service by First-Class mail. This customer reports significant service problems with damage, delays and nondelivery of their mail.

The attached mandatory service talk is a part of the action plan implemented to effect service improvement provided to this customer and must be given to all employees throughout the plant on all three tours as soon as possible.

A certification signed by each supervisor and manager verifying all employees have been given instructions on proper procedures for handling and processing this mail needs to be submitted to my office.

The outgoing mail enters our facility through the BMEU unit and is then dispatched to the truck terminal for distribution to the various processing units for appropriate sortation and routing. Copies of the mailpiece, both incoming and outgoing and a copy of the placard attached to each APC by BMEU identifying this mail are attached for review by all employees.

Any Netflix incoming BRM mail in each processing unit will immediately be isolated and dispatched directly to the caller service area of the box section. None of this mail will be sent to the Window Unit for postage due handling, the postage for the return envelope has been fully paid.

 VS-174
Attachments

PUBLIC

Fax:
www.usps.com

GFL0000012

MANDATORY SERVICE TALKNETFLIX INC.

TOUR 3 SUPERVISORS AND MAILHANDLERS WILL TRAP VOLUME IN MAIL PREP MONDAY-SATURDAY ON THE DOCKS, AFCS, OPENING UNIT, PLUGGERS AND FLATS UNITS.

TOUR 3 SDOs AND TOUR 1 FSM OPERATORS WILL ENSURE THE PROCESSING OF OUTGOING VOLUMES ON THE AFSM 100 #1,5,6,7, AND FSM 1000 #17 & 18, MONDAY-SATURDAY. THE SNEU SUPERVISOR WILL NOTIFY PLANT MANAGEMENT MONDAY-FRIDAY OF MAILINGS DROPPED BY THIS CUSTOMER BY CONTACTING THE MDCs OFFICE.

ON JULY 15, 16 & 17, SIGNS WERE PLACED ON THE WORKROOM FLOOR TO PROVIDE VISUAL OBSERVATIONS FOR TOUR 3 EMPLOYEES WHO HANDLE THIS MAIL. THE MAIL WILL BE CAPTURED DAILY BY TOUR 1 & 3 SUPERVISORS, MAIL PROCESSORS, MAILHANDLERS AND CLERKS IN THE FOLLOWING UNITS: AUTOMATED LETTER OPERATION, MANUAL LETTER OPERATION, UNIT 111/SPBS AND IN THE PRIORITY UNIT.

THE MAIL WILL BE CONSOLIDATED DAILY IN THE BOX SECTION BY TOUR 1 & 3 SUPERVISORS, CLERKS AND MAILHANDLERS. ALL UNITS AND TOURS WILL FOLLOW THE STANDARD OPERATING PROCEDURES FOR HANDLING DAMAGED MAIL.

TOUR 1 SUPERVISORS, CLERKS AND MAILHANDLERS WILL ENSURE ALL AVAILABLE MAIL FOR THIS CUSTOMER IS PROVIDED MONDAY-FRIDAY BY 7:00 AM. THEY USUALLY PICK UP AROUND 8:00 AM AND AGAIN LATER IN THE AFTERNOON.

ALL ACTIONS WILL BE MONITORED BY UTILIZATION OF VOLUME LOG BOOKS.

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July 16, 2002

Greg Lewis

Reflex MAP

Follow-up to ensure compliance 7/17/02

July 17, 2002

Strategy: Provide Reflex with all available mail by 7:00 AM

ACTION	Who	When	Where	Tracking
Reflex Service Talk	MDO's, SDO's, AMO's	July 15, 16, 17	All Tours and Mail	Training records
Trip volume in Mail Feed	SDO's Tour 3 & Mailhandlers	Monday through Saturday	Docks, AFC's, Opening, Flyers, Flats	Volume Log
Process outgoing volume	SDO T-3 & Tour 1 FSM Operators	Monday through Saturday	AFSSJ 100 # 1, 5, 6, 7 and FSM 1000 # 17 & 18	Volume Log
Trial Notification	BMELU Supervisor	Monday through Friday	MDO's Office	Log Book
Place Signage on Workroom Floor	MDO's, SDO's, AMO's	July 16, 16, 17	Tour 3	Visual observations
Capture in Automated Letter Operation	SDO's Tour 1, 3 Mail processors & mailhandlers	Daily	ISS, DIOS, DBCS	Volume Log
Capture in Manual Letter Operation	SDO' Tour 1-3 Clerks & mailhandlers	Daily	Outgoing and Incoming Manual Primary	Volume Log
Capture in Unit 111 & SFB'S	SDO' Tour 1-3 Clerks & mailhandlers	Daily	SFB'S and Unit 111	Volume Log
Capture by Entry Unit	SDO' Tour 1, 3 Clerks & mailhandlers	Daily	Local / Intra Bell - CPD Annex &	Volume Log
Consolidate in Box Section	SDO' Tour 1-3 Clerks & mailhandlers	Daily	Callr-Service	Volume Log
Process Damaged Mail	SDO' Tour 1-3 Clerks & mailhandlers	Daily	All tours and Units	Volume Log
Provide volume at 7:00 AM	SDO' Tour 1 Clerks & mailhandlers	Monday through Saturday	Callr-Service Window	Volume Log

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Business Mail Entry Unit

First Class Mail Release

Verification Completed

Postal Equipment: _____ of _____

Number of Pieces _____

Date _____ Time Released _____

Clerk _____ Round Date: _____

Netflix To Be Processed



THIS PLACARD IS YELLOW

PUBLIC

OUTGOING

NETFLIX

FIRST CLASS
VAL
LE POSTAGE
PAID
NETF. X

04070813-038828

1102 BROOKSWOOD AVE
AUSTIN, TX 78721-2458

Open here →
(Lift flap and tear away upwards)

BACK FOR
NETFLIX

PUBLIC

Certification

I certify that I have delivered the following stand-up talk to the employees that I supervise:

1. MANDATORY SERVICE TALK/NETFLIX, INC/ACTION PLAN

_____ Date talk delivered

_____ Location

_____ Supervisor

_____ Manager, Distribution Operations

PUBLIC

Reply Separator
Subject: FW: CD'S IN THE MAIL STREAM
Author: [REDACTED] at WADC076L -US-209
Date: 3/27/02 12:59 PM

PUBLIC

-----Original Message-----

From: [REDACTED]
Sent: Tuesday, March 26, 2002 4:33 PM
To: [REDACTED] - Washington, DC -US-209
Subject: RE: CD'S IN THE MAIL STREAM

US-209
Mr. [REDACTED] you mentioned the Times article. "It is a UNIQUE GROWTH OPPORTUNITY.." Look at the following problems with handling this material. I'm from San Jose where this all got started. I have see many messages from processing folks all over the country all saying the same thing, we do not handle and process CDs very well. Do you think we are making any money here?

Reply Separator
Subject: CD'S IN THE MAIL STREAM
Author: [REDACTED] at SJCA001L US-210
Date: 3/26/02 3:59 PM

FYI
Communications on problems with NetFlix's mailer.
[REDACTED]

Forward Header
Subject: CD'S IN THE MAIL STREAM
Author: [REDACTED] at RENV001L US-211
Date: 3/26/02 8:43 AM

Good Morning [REDACTED]
Is there anything we can do to help!

Forward Header
Subject: CD'S IN THE MAIL STREAM
Author: [REDACTED] at RENV001L US-212
Date: 3/25/02 11:22 PM

Hello All

Well I've been selected to write this letter to explain the "NETFLIX.COM" cd rom that has been coming thru the mail stream lately. It starts with coming into the AFCS's and jams into the inverter gate first. Then if it gets thru that gate then it may jam at either of the dies that cancel the mail. When either of these jams happen the production thru-put goes way down on the machines. O.K. then if this mailing gets thru the AFCS's then it goes to the OCR-ISS's for another chance to jam some more mail at the bin gates. Again this jamming from these CD's is causing us excessive lower run times for our machine thru-puts. So now we have gotten to the DBCS's for the next run either on first pass or the second pass which may be the DPS run. These c.d.'s will most always jam at the

GFL000022

gates. Which damages many letters behind the CD cause it jammed first. We not only damage the gate in the machines but we are damaging mail that was good running mail before this CD jammed and destroyed the good mail. This CD is not, repeat not machineable mail [REDACTED] National has not been in the field to watch this CD damage good machineable mail like we have. [REDACTED]

Any questions, please feel free to contact me and we can show and explain this in more detail. [REDACTED]

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GFL0000023

Binghamton NY P&DC

Binghamton plant processes Netflix through AFCS equipment and downflows to DBCS machines for processing. I was in the plant last week and just by chance noticed the mailings because of the poor envelope stack with the DBCS Stacker. Lead edge is flimsy and enters the stacker gate and bin at such a high rate of speed the lead edge rolls over sometimes covering the address label and missorting on the DBCS. Binghamton DBCS operators were trained to look for the unique envelopes that missorted in the machine and manually take them to the correct tray for dispatch.

I hope this helps for Thursday' telecon.

[Redacted] VS-175

From: [Redacted] - Washington, DC VS-148
Sent: Tue 9/28/2004 12:35 PM
To: [Redacted] - Washington, DC -VS-175
Subject: RE: Netflix telecon

[Redacted] said they are noticing an increase in brakeage. It started after we told the Plants to make sure they work the DVD's through letter automation and not the SPBS and FSM

-----Original Message-----

From: [Redacted] - Washington, DC -VS-175
Sent: Tuesday, September 28, 2004 10:41 AM
To: [Redacted] - Washington, DC VS-148
Subject: RE: Netflix telecon

As a heads up can you tell me what is happening to their DVDs in your discussions?

From: [Redacted] - Washington, DC -VS-148
Sent: Tue 9/28/2004 9:32 AM
To: [Redacted] - Washington, DC; [Redacted] - Merrifield, VA; [Redacted] - Washington, DC; [Redacted] - Washington, DC
Subject: Netflix telecon

VS-176
VS-151
VS-123
VS-160
VS-175
VS-177

We are planning a telecon on Thursday September 30th with Netflix to discuss damage to their DVD disc during automated processing. Wanda is trying to work out an agreeable time between [Redacted] and Netflix COO. We will send you all the details as soon as possible.

VS-177

9/29/2004

GFL0000028

CD/DVD CFR Draft

Properly designed letters and flats containing Compact disc (CD) / Digital Versatile Disc (DVD) can be processed on automated equipment. The mail pieces containing CD/DVDs are dropped off at Acceptance units or picked up with collection mail. Letters in collection mail are separated from flats and inducted into the Advanced Facer Cancellor System (AFCS). Subsequently, all machinable letters pass through multiple letter sorting machines – commonly Delivery Barcode Sorters (DBCS) – for sorting down to the appropriate delivery stop. If the letters are poorly designed, the combination of a fairly rigid disc and the flexible paper envelope produce jams in our high speed processing equipment, and damages other mail as well. Commonly, the damaged mail includes not only the pieces causing the jam but also other pieces that jam up behind it. Jams cause loss in productivity. Service failures have been attributed to poorly designed mail with CD/DVD. Even if a poorly designed envelope with a disc avoids jamming, it is more likely to double feed resulting in rejects, missorts, delayed mail, and possibly, misdelivery.

On the DBCS and AFCS, the letters are bent through sharp angles at high speeds in diverter gates which can damage CD/DVDs. Depending on the physical characteristics of the discs, they may eventually crack from repetitive stress damage. Damaged mail pieces are routed to the manual rewrap section for repair and subsequent manual sortation.

To properly handle the CD/DVD mail, facilities generally remove such mail pieces before AFCS and DBCS processing and route them to manual sortation or to the flat operations for processing on the AFSM 100 machines. The AFSM 100 machines use a slower cart and dropper technology that avoids repetitive stress damage. The major exception is barcoded, presorted CD/DVD letters that are fresh and crisp and can be sorted for delivery in just a few passes on the DBCS.

Removing poorly designed CD/DVD envelopes from letter automation is inefficient and costly. However, leaving them in letter automation causes damage to mail and equipment. They also cause missorts that result in service failures. Regardless of the process used, i.e. letter automation, manual operations, or routing the mail pieces for processing in flat automation, additional costs are incurred due to some combination of rewrap activities, handling of missorted mail, jams, and misdelivery.

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GFL0000029

**Operations Requests
Netflix, DALs, and ECR Basic Letters
5/16/05**

Netflix

Currently, DVDs being returned to Netflix jam excessively in latter automation so plants try to pull them out before the AFCS and process them manually. This prevents significant DVD cracking that would occur as disks are repetitively bent through gates on our equipment, but is very costly for us. Major competitors are entering the DVD mail rental market. [REDACTED]

Some stiffness detectors on the AFCS's reject all or almost all DVDs; others do not. Is it feasible to have the AFCS's stiffness detectors adjusted to reject almost all letters with DVDs for subsequent processing on the AFSM-100? If so, how much other mail that would process well in automation would also be rejected? We would like your help in addressing these questions. Processing Operations can arrange to field test proposed processing strategies.

DALs and ECR Letters

Can or should we request that customers mailing .007 cards in excess of 4.5" x 6" voluntarily barcode their cards, which would be to their benefit as well as to our benefit? Our direction to date suggests that we only want them to voluntarily barcode the pieces if they meet the strict requirements stated above. Examples would be Detached Address Labels and ECR LOT letters (HD and Saturation letters are already required to be barcoded), neither of which can get an automation discount, so rates are not an issue.

The problem is that many of these pieces are processed on automation anyway and the lack of a barcode is causing additional handlings and in some case significant problems (e.g. no clear zone, or no standardized address formatting resulting in a sort to the return address). These problems could be solved if we could convince them to optionally apply a barcode just in case we choose to automate the pieces, but, they think they either cannot or should not based on our rules.

Testing

Could testing be used to produce card construction requirements, not for automation rate eligibility (the current DMM requirements would remain), but rather voluntary barcoding recommendations for DALs and ECR Basis (non-auto) letters?

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GFL0000030

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SUBURBAN MD P&DC

Thursday 7 pm 11/06/03

General Comments:

We found another Netflix competitor: [REDACTED] with a destinating address in [REDACTED]

Bulk Mail Entry Unit (BMEU):

The BMEU typically receives a flats tub full of mail each day that was sent to Netflix with the return mail pieces the previous day by mistake (e.g., FCM single-piece non-Netflix mail pieces). This is consistent with what the Netflix staff told us during the tour of the Netflix facility.

On occasion, the BMEU staff rejects some Netflix mailings. They say that Netflix generally agrees to pay the additional postage at the moment the rejection occurs, but then complains later and the money is refunded by some other party. It was unclear who the party is that overrides the BMEU.

They have had some problem with Netflix not sleeving and strapping their mailings.

Mail to Richmond and Norfolk would typically be processed through the Capital HASP, which would result in 2-day service. Netflix uses their own transportation to improve the service to customers in those areas.

Most of the mail is 3-digit presort. Netflix prepares little to no 5-digit presort at this time. Some mail is also sent to Charlottesville, VA; Wilmington, DE; and Pittsburgh, PA.

The Netflix outgoing mail pieces contain tabs. We did not discuss this during our tour of their facility, but they obviously have a tabbing machine. In some instances, Suburban MD P&DC staff stated that the tabbed mail pieces stick together.

For mailings over 10K pieces, a 1,000 piece sample must be analyzed. This typically amounts to five trays. Netflix mails over 10K pieces every night so the BMEU typically samples five trays per day. The barcodes on automation rate mailings sampled on MERLIN must achieve a 90 percent acceptance rate. The presort level for mailings sampled on MERLIN must be 95 percent accurate.

The Netflix mailing is placed on a scale. The weight and number of trays are verified by the BMEU clerk. The clerk retains one copy of the mailing statement and returns the other to the Netflix driver. He also randomly samples five trays for MERLIN testing.

The BMEU has two MERLIN machines. For some reason, the Netflix mail receives higher scores from one machine than the other. Consequently, the machine generating the highest scores is generally used. This phenomenon is not typically seen with other non-Netflix mailings.

Section 1: Current Status

Operational Issues

Industry growth is highlighting operational challenges in processing the two-way envelopes on their return trip. In their return configuration, most of the current envelope designs do not process effectively on letter-sorting equipment. Many of the envelopes are:

- Not machinable in letter automation: Inadequate design features and construction cause jams and damage mail.
- Not automation-compatible: some unreadable barcodes and addresses lower productivity.

Handling Instructions

Headquarters instructed the field in December 2003 to run outgoing RDM letters on automation equipment. No processing instructions have been issued to the field describing how to handle the return pieces, although the field has been instructed to dispatch this mail in sleeved EMM trays.

Headquarters Operations conducted plant visits and interviews in early 2005 and learned that local offices have developed a variety of ways to handle the return pieces. Some plants pull all identifiable mail in the opening operations and handle it either manually or in flats processing

Manual handling of these nonmachinable envelopes reduces contribution by an estimated \$2 million each month at current volumes.

Section 5 provides diagrams showing current mail flows for letter-size RDM, along with proposed automated mail flows (which follow standard mail flows for all other automated letter mail).

Confidential Information

May 27, 2005

Postal Service responses to questions received via email on May 13, 2005, in regard to unpublished proposed standards for letter-size mail containing optical discs, from ██████████ at Netflix, Inc.

NF-016

Netflix Question

- First and foremost for us is the requirement: "The outside of the mailpiece must not have any window(s)." For months now we have shipped millions of pieces with a Bar Code window on the back of the mailpiece that is 5/16" X 2 3/8" without any problems whatsoever. This is part of our internal process of automation and is essential to our operations. We are using this currently in 4 of our major locations and will complete the rollout by end of September.

Postal Service Response

Postal Service Engineering has not tested or authorized Netflix pieces that include the window on the back of the reusable mailpiece as described above. We do understand the business need for such a window as you explained, although we believe that there might be alternatives to using windows, depending on the processes Netflix has in place.

Letter-size pieces containing discs with uncovered windows—especially large windows for delivery addresses—can catch other mail during processing. Additionally, the exterior of these pieces can tear more readily because of the reduced strength around the cut-out area of the windows.

The position and the size of any uncovered window on a mailpiece containing a disc are critical to efficient processing. We will consider revising our proposed specifications to allow uncovered windows, with the provision that Postal Service Engineering must approve envelopes containing windows prior to the use of such envelopes.

Netflix Question

- The intent of these requirements appears to force anyone opting into their use, to have a top load mailer. Obviously this is a change for us and we would rather see an option that permits the DVD to be oriented towards the leading edge of both the outbound piece and the return piece. This would then satisfy what I believe is the spirit to make the piece automation compatible.

Postal Service Response

The intent of the proposed specifications is to make the letter-size mailpiece inherently stiffer in the direction of letter mail processing. That direction is the line of movement on which the mailpiece travels from left to right. Orienting the folds parallel to that processing direction (a horizontal construction) accomplishes this and allows the piece to process smoothly. A letter-size mailpiece with folds perpendicular to the direction of processing (vertical construction) does not machine well because it is not inherently stiffer in the direction of processing. Centering the disc within the mailpiece also is imperative for maintaining the necessary stiffness for this direction of processing.

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Discussion Points and Tasks

1. Engineering Report and DMM Text

Testing Procedures—Letter-Size Mail and Flat-Size Mail

The team agreed to the following clarification on envelope testing:

- Letter-size mail. Mailers authorized to use Round-trip Disc Mail (RDM) would be required to use envelopes tested and certified by USPS Engineering. Envelopes would bear the certification ID assigned by the USPS. All other letter-size mail containing optical discs would be handled through current testing procedures.
- Flat-size mail. Mailers authorized to use RDM would not be required to use tested and certified envelopes, provided the envelopes met published standards for RDM. All other flat-size mail containing optical discs would be handled through current testing procedures.

Testing procedures would form part of the DMCS and DMM text for the RDM service.

► **Task: Testing Procedures.** Work with [redacted] to update DMCS product description to include testing requirement.

Lead: [redacted] with [redacted] Due: 4/4/05.

Stiffness Criteria

US-152 US-157

[redacted] reported that [redacted] is collecting information about the specifications. No definitive explanation yet available. US-159

► **Task: Stiffness Criteria.** Work with [redacted] to determine actual specifications for working group to review. US-151

Lead: [redacted] with [redacted] Due: 4/4/05.

Flat-Size Mail Physical Characteristics

US-159 US-151

[redacted] shared with the team an updated (3/24/05) version of ideal criteria for flat-size RDM mail, providing these specifications:

- Size: Minimum 8-1/2 inches by 10 inches, with an aspect ratio of at least 1.15. The minimum dimensions ensure handling individual return pieces as flats. The aspect ratio optimizes handling on the AFSM.
- Paper Weight: Minimum 24-pound basis weight envelope material (500 sheets at 17 by 22 inches). This weight provides needed substance to protect the optical disc while processing.
- Construction. Disc and sleeve must be fully enclosed for both outbound and inbound (return) mail. Folds and perforations must be oriented horizontally (in same direction as longest dimension). No windows (even covered windows) permitted.
- Disc Position: Centrally located along bottom length and restricted from moving inside mailpiece. The location allows bending over of top for casing into letter cases as required by Delivery.
- Automation Compatibility: Reconfiguration of piece (such as another flap or full sheet) to obscure completely the original face with delivery address and any barcode (including any Flats Identification Coding System (FICS) applied by the USPS). US-014

The issue of polywrap was raised and reconsidered. [redacted] mentioned that the USPS is in the process of revisiting polywrap for flat-size mail. [redacted] said that he would continue work to determine how to design a reusable piece that eliminated the potential for loop mail. US-136

► **Task: Flat-Size Characteristics.** Revise specifications for working group to review.

Lead: [redacted] with [redacted] and [redacted] Due: 4/4/05.

DMM Text

US-136 US-088 US-014

[redacted] reported that she is still waiting for the specifications to finalize the DMM text for letter-size mail. These specifications would be placed in the original draft [redacted] presented at the March 21 meeting. US-012

► **Task: DMM Text.** Present DMM language of new specifications for working group to review.

Lead: [redacted] Due: 4/4/05.

US-012

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2. Product Description

Product Name

reported that he had contacted the Law Department to handle possible trademarking the service, correctly spelled and punctuated, as Round-trip Disc Mail (RDM). reported that other recommended names had also been submitted as a precaution. agreed to take the lead for this task for the team.

US-152

US-152

- ▶ **Task: Trademarking.** Work with appropriate attorneys to ensure trademarking and branding issues considered for new service. Provide team with update.

Lead: Due: 4/4/05. US-112

Label Design

provided the team with an overview of the need to develop quickly a design for the return label that used only elements of the current business reply mail (BRM) design (maintaining most of the same type sizes and features) that were appropriate. The team agreed to following recommendations:

US-077

US-077

- Eliminate the horizontal bars below the indicia. Those bars are a visual cue for the USPS that the mail bearing them generally requires postage assessment.
- Keep the indicia message "NO POSTAGE NECESSARY IF MAILED IN THE UNITED STATES." This message is a signal that consumers do not need to apply postage.
- Revise the BRM legend enclosed in a ruled box to read: "ROUND-TRIP DISC MAIL."
- Use the wording below "ROUND-TRIP DISC MAIL" as found on BRM pieces: "First-Class Mail" "Permit NO. ####" "ANYTOWN ST" [The Pricing and Classification Service Center would issue all RDM permit numbers as part of the authorization process; payment, however, would be made at the local office and the account would be maintained at the local office.]
- Revise statement under BRM legend to read: "POSTAGE HAS BEEN PAID BY ADDRESSEE." This revision reminds USPS employees that this is a prepaid return.

The team agreed that the following elements require clarification:

- [Redacted]
- [Redacted]

agreed to research the use of FIM and volunteered to contact the major users of the two-way service to determine who they are barcoding their mail. mentioned that Netflix is using an address block barcode on a label on both outbound and inbound (return mail).

- ▶ **Task: RDM Label Design.** Develop a preliminary RDM design format.

Lead: with (FIM) and (barcoding); Due: 4/4/05. US-077 US-066 US-027

3. Operational Issues

Plant Report

provided the team with her findings over the past two months about the handling of letter-size Netflix return mail from eight different processing and distribution centers (P&DCs). These findings are based either on personal plant visits or information supplied by the plants. or another person visited Milwaukee, Ft. Worth, Phoenix, and Tampa. She received similar information from plant personnel at Southern Connecticut, Middlesex-Essex, Northern VA, and Dulles.

US-154

These plants attempt to cull the easily identifiable return mail from the collection mail received for processing in the opening operation 010. In some districts, the stations and associate offices attempt to cull the mail from collection mail and separate it from the rest of the collection mail before dispatching it to the P&DC.

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Round-Trip Disk Mail Work Group Minutes: 28 March 2005

Return mail not trapped or culled may flow into various operations as follows:

- Advanced Facer Cancellor System (AFCS). Return mail rejected by the equipment at this operation is manually faced and sent to manual letter distribution (outgoing primary) operation 030. Mail not rejected by the equipment continues through the mail processing system (either to the automated flats operation or the automated letters operation).
- Automated Flat Sorting Machine (AFSM). Return mail processed across AFSMs generally causes few reported incidents of jams or double-feeds.
- Delivery Barcode Sorter (DBCS). Return mail processed across DBCSs either causes no incidents or it causes jams or double-feeds. Mail causing processing incidents is either sent to manual operation 030 or, if damaged, first to the rewrap section then to manual operation 030.

Some plants experiencing processing failures caused by the return mail believe that many of these failures can be traced to the envelope design, particularly with the disc seated in the trailing edge of the envelope.

▶ No further action. Task completed.

BSN Report

US-154

[redacted] then provided the team with a comprehensive draft that she and [redacted] had worked on from data collected through the Business Service Network. These reports cover the two-month period from January 3 through March 4, 2005. Of a total of 106 issues (20 reported and recorded by the customer, and 86 reported and recorded by the USPS), 35 concerned mail processing problems including damaged mail (28 reported by the USPS) and 29 concerned delivery (28 reported by the USPS).

US-066

Owing to the density of information in the BSN reports pulled for January and February, [redacted] and [redacted] will refine their distillation of the information and provide the team with an update at the next meeting.

US-154

US-066

▶ **Task: BSN Reports.** Provide the team with a status report on progress in compiling the data about operational issues.

Lead: [redacted] with [redacted] Due: 4/4/05.

US-154

US-066

4. Planning

Activity Plan

Team members were asked again to "flesh" out the plan with lists of major tasks pertaining to their organizations and to provide timelines for these tasks by Mach 31. Those tasks would then be added to the plan to ensure that critical points are not overlooked.

▶ **Task: Activity Plan.** Provide additional tasks to plan presented at meeting and report at the next meeting.

Lead: [redacted] with [redacted] and [redacted] Due: 4/4/05.

Business Case

US-152 US-027 US-066 US-125

[redacted] and [redacted] reported that they had accumulated extensive research material for preparing the business case using the standard USPS formula used for CMM, RPNs, and Premium Forwarding.

US-152

US-125

▶ **Task: Business Case.** Provide draft of progress on business case.

Lead: [redacted] with [redacted] and [redacted]; Due: 4/4/05.

US-152

US-156

US-125

Respectfully submitted,
Pricing Strategy

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With omnibus rate case R2001-1, filed on September 24, 2001, and implemented on June 30, 2002, the Postal Service decided to redefine the nonstandard-size surcharge and its scope in response to this change to a nearly automated mail processing environment. Because size is not the only factor that can make a piece nonmachinable, the Postal Service renamed the nonstandard-size surcharge for letters and flats the nonmachinable surcharge. The redefined and renamed surcharge included certain physical characteristics that inherently make a mailpiece nonmachinable (that is, noncompatible with Postal Service mechanical and automated processing equipment) so that manual handling becomes necessary to move the piece through a highly automated distribution system.

A nonmachinable piece processed on high-speed letter-sorting equipment or facer-canceler equipment can impede mail flow, cause double-feeds, fly of the equipment, or jam machinery parts by becoming damaged during processing or by damaging other mailpieces being processed at the same time. Although manual handling of such pieces eliminates or reduces these occurrences, it is a costly solution that can be avoided with appropriately designed machinable pieces.

As a point of reference, in fiscal year 2004 a 1-ounce nonmachinable single-piece rate First-Class Mail letter without the surcharge costs the Postal Service on average 36.691 cents (the unit cost) to process. If the postage on that piece were 37 cents (rather than 37 cents for postage and 12 cents for the nonmachinable surcharge), the Postal Service earns only 0.309 cent, slightly more than 3/10ths of 1 cent. For the same period, the weighted average unit cost of nonmachinable Standard Mail was 30.802 cents.

For various reasons, some mailers want to stipulate manual processing of their mail even if the mail itself is machinable. When the pieces are machinable or automation-compatible, this requested manual handling imposes the same costs on the

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Postal Service as nonmachinable pieces. The Postal Service therefore included customer requests for manual handling as another basis for which a mailpiece would be subject to the nonmachinable surcharge.

Rate Design

With the design and implementation of the nonmachinable surcharge, the Postal Service limited the potential of applying the surcharge to certain First-Class Mail letter-size and flat-size pieces weighing 1 ounce or less, and certain Standard Mail letter-size mail weighing 3.3 ounces or less. The Postal Service continued to apply the surcharge for First-Class Mail only to pieces weighing 1 ounce or less because it is not unreasonable to design rates such that the additional ounce rate recovers the additional costs of the nonmachinable pieces.

For First-Class Mail pieces weighing 1 ounce or less, the nonmachinable surcharge is applied to a relatively small number of pieces with different mail characteristics as compared with the majority of pieces weighing 1 ounce or less. In fiscal year 2004, only 1 percent of all First-Class Mail was assessed the nonmachinable surcharge (508.9 million pieces out of a total of 45,161.7 million pieces).

For Standard Mail, the nonmachinable surcharge was applied to letters only, but up to the break-off point of 3.3 ounces. Unlike First-Class Mail flat-size pieces, Standard Mail flat-size pieces are not subject to the nonmachinable surcharge because the Standard Mail pricing structure accommodates the potential for nonstandard-size pieces.

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Purpose of Surcharge

A surcharge that applies to both nonmachinable mail and customer-requested manually worked mail meets the criteria specified in the Postal Reorganization Act

§3623(c). First, the surcharge is fair and equitable (criterion 1). It requires mailers to pay rates that recognize part of the higher costs associated with manual processing, whether from a mailpiece design or from a customer request for such processing. At the same time, mailers who design and prepare machinable mail are not unfairly penalized by the upward pressure on costs incurred by nonmachinable pieces. Secondly, in the case of manual processing requests, the nonmachinable surcharge also recognizes the higher value of service (criterion 2) received when the Postal Service fulfills these requests.

For mailers, the nonmachinable surcharge should clarify that, in today's highly automated processing environment, the Postal Service incurs a higher processing cost for handling nonmachinable pieces. The Postal Service believes that it is appropriate to price mail with widely disparate costs accordingly. Not only does this approach to pricing spread the processing cost burden equitably, but it also provides a useful and unmistakable signal to mailers for evaluating the relative costs between preparing machinable and nonmachinable mailpieces. Automation best reduces overall unit costs when signals from rate incentives and preparation requirements lead to a cost-minimizing mix of mail.

II. Nonmachinable Surcharge

Current Nonmachinable Characteristics

The following physical characteristics currently make a letter-size piece subject to the nonmachinable surcharge (see DMM 101.1.2 and DMM 201.2.0):

- a. A length-to-height aspect ratio (length divided by height) of less than 1.3 or more than 2.5.
- b. Enclosure in any plastic material including polybag and polywrap.
- c. Closure devices such as clasps, strings, or buttons.

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Netflix and the Round-Trip Disk Mail (RDM) Project

Background

Beginning early this year, Pricing and Classification, Operations, Engineering, Finance, Law, Sales, and Marketing began meeting to resolve issues related to First-Class Mail customers using the mail for renting movies, games, and audio books on compact discs (CDs) or digital versatile discs (DVDs).

Engineering: In April, Letter Mail Technology completed the first phase of an extensive envelope machinability test. A total of 5,000 envelopes using five different prototype designs (including one created by a commercial envelope manufacturer) were tested using current letter automation for both outgoing and incoming trips. Engineering compiled and analyzed the data from these tests, including an individual damage assessment of the discs contained in the envelopes. From this testing and data, specifications were developed for machinable letter-size pieces containing discs. Flat Mail Technology also designed and conducted a separate test for flat-size pieces containing discs, using similar testing procedures. Engineering then developed specifications for ideal flat-size pieces containing discs.

Operations. Operational Requirements and Processing Operations made several site visits, conducted telephone interviews, collected data from the Business Service Network and documented mail flows for two-way pieces containing discs – both current practices and possible improvements.

Marketing. Pricing and Classification, working with Operations, Engineering and Law, developed proposals for a separate First-Class Mail niche classification for RDM mailpieces that meet strict content and automation requirements (including national testing and certification procedures for envelopes). Mailers would not be permitted to participate in this program unless their mailpieces met those requirements.

Current Status

RDM volumes are growing at about 75% a year. Netflix remains dominant, accounting for approximately 94% of the volume, but they have over 20 competitors.

A decision to file the niche classification is pending. A major issue is the potential impact on our rationale for the additional ounce rate.

A Federal Register Notice is being prepared to propose a clarification to existing DMM rules that would subject all letters containing disks to the nonmachinable surcharge unless they meet tight machinability specifications developed in the Engineering tests, or use an industry developed mailer that is pre-certified by Engineering as machinable. The lightest envelope that current Engineering specifications permit is an RDM envelope (with disk) that is slightly over 1 ounce

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outbound and slightly under 1 ounce returning due to the tear-off address label. Engineering continues to work on a machinable envelope that can be under an ounce outgoing, but there is some doubt whether this is physically possible. Major envelope manufacturers appear motivated to try, given guidance from USPS Engineering test results and the reward of a machinability certification.

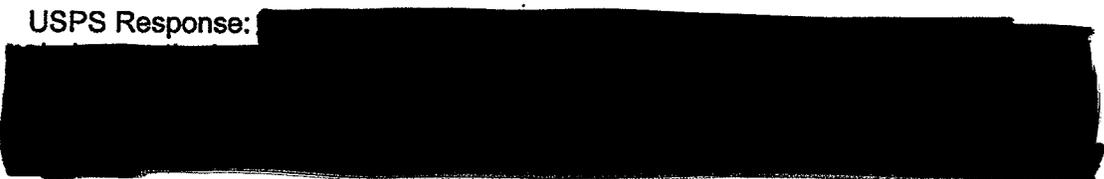
Letter mail may not be a viable long term product in the RDM market due to disk cracking. Engineering tests indicate that the disks are being destroyed by repetitive stress cracks when the disks are bent at high speed as they pass through diverter gates on the AFCS and DBCS. These tests suggest that if RDM disks are processed completely within letter automation in both directions, they would suffer losses due to cracking in excess of 5 percent per round trip. Industry data indicates that the dominant firm in the RDM market, Netflix, pays about \$10 per disk so their loss per rental would exceed 50 cents in a fully automated letter environment. (Currently, the design of returning Netflix disks is nonmachinable.) Two ounce flats, which are not subject to similar damage, may be a lower cost alternative. Service performance on FCM flats is a significant issue since the rental life for most DVDs is quite limited.

The field is instructed to run outgoing RDM letters on automation. There are no similar instructions on returning RDM pieces, but field practice is to remove these pieces from automation as early as possible due to machine jams, damage to other mail and our equipment, and complaints from Netflix about disk damage. In some cases Netflix pieces can be trayed immediately, but otherwise Netflix mail and other RDM must be sorted manually or in flats-automation. As an interim workaround, Engineering is testing use of the AFCS stiffness detector to extract returning RDM letters for processing as flats.

Netflix Issues

Potential RDM policies have been discussed with the industry. In recent correspondence, Netflix made three specific requests. Suggested responses are as follows:

1) Netflix: We cannot see a reason for banning a small window. For months now we have shipped millions of pieces with a window on the back of the mail piece that is 5/16" X 2 3/8" without any problems whatsoever. This is part of our internal process of automation and is essential to our operations. We are using this currently in 6 of our major locations and will complete the rollout to all locations by end of September. Going back to no window would be a multi million dollar expense to Netflix.

USPS Response: 

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[REDACTED]

2) Assuming that we can agree on the use of a small window, the orientation of the disc within the Tyvek envelop is a major problem for us. Your proposal is that the sleeve opening not be at the top. However, inserting the sleeve with the opening to the left or right against the glue line would cause the bar code on the sleeve to be vertical and not readable through the window. Redesigning the barcode would require a substantial investment to re label over 14 million discs. Changing the window to be vertical would potentially introduce some automation problems. We see no real operational issue when the disc opening is facing up and the existing barcode is horizontal. Gravity is holding the disc down during the outbound processing. We have seen no problems with this orientation in the past 6 years.

USPS Response: [REDACTED]

3) The requirement that the envelop be made of paper that is a minimum of 70-pound puts seemingly arbitrary restriction on the mailer design when we must keep the total mail piece weight to a maximum of 1 oz. We currently use 50-pound paper and have few problems sorting the mail. And a revised design that centers the disc per your new requirement will provide more stability than our current mailer. We would like to see that number reduced to 55 or 60-pound paper if possible. Of course, if the allowable weight for the outgoing mail piece were closer to 1.5 oz then this would not be a concern and would enable the use of heavier paper weight. If the rate break for our outgoing mail continues to be 1 oz., then your proposed minimum of 70-pound would put us over that 1 oz. limit and push us into the 2nd oz. rate category

USPS Response: [REDACTED]

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RDM

Pricing Structure [Proposed Prices]

Type	Single-Piece	5-Digit Auto	3-Digit Auto	ADC Auto	Mixed ADC Auto
Letter	\$ [REDACTED]				
Flat	\$ [REDACTED]				

- Annual permit fee: \$ [REDACTED]
- Annual presort mailing fee: \$ [REDACTED]
- No per-piece handling fees or surcharges

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NETFLIX 11/1/07

- Blockbuster design w/ heavier paper and gold along the long edge, ^(cut in the middle) thus providing stiffening in the direction of travel, ~~is better~~ runs better in long tests
- [REDACTED] was pky on Blockbuster plans.
- [REDACTED] is interested in N9A
- Netflix isn't because they don't want it on auto.

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GFL0000189

**DRAFT
NOT FOR DISTRIBUTION**

TEST RESULTS

**USPS 2-Way DVD Mailer
Machineability and Automation Test**

March 4, 2005

**United States Postal Service
Engineering - Letter Technology**

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GFL0000210

DRAFT

USPS 2-way DVD Mailer Test Results, Conclusions and Recommendations

Background

2-way DVD mailers, although a small percentage of total letter mail volume, were causing a disproportionate amount of difficulty for the Operations that processed the pieces. Although the Mailers were enjoying automation rates for their mail, most pieces were being handled as flats or manually, resulting in financial losses for the postal service.

In order to minimize processing difficulties and increase automated handling of this type of mailpiece, USPS engineering commenced a design development and test program to validate a machineable mailpiece. The resulting data would guide the establishment of new requirements and/or classifications for 2-way mailers containing optical disks.

USPS Engineering designed four proprietary 2-way DVD mailers (patent applied for) These mailers were unique, being a completely different configuration than the 2-way DVD mailers in use at the time. The goal was the development of a machineable and automation compatible 2-way DVD mailer.

After the development of the mailpiece, manufacturing companies were contacted for quotations to produce a large number of samples for test. (This search led to the inclusion of a fifth, none USPS designed sample developed independently by an envelope manufacturer⁽²⁾; increasing the sample size would be statistically beneficial.)

Description of Test Samples

Each test sample was a complete functional 2-way DVD mailer, comprising one DVD, a Tyvek[®] sleeve, two address labels and appropriate printed postal indicia, FIM and permit information. The labels bore no "live" address to insure stray samples would not leak into the mail stream.

Since it was clear that the poor machineability of existing DVD mailers was due, in part, to the flexibility of the paper used (all existing mailers weighed ≤ 1 oz.), the postal design specified minimum paper weights of 701b (offset) or 281b (bond) and was finish folded along the horizontal edges for added stiffness.

Anecdotal information attributed DVD damage to the cancellation process on the Advanced Facer Canceler System (AFCS) so the pocket containing the disk was moved toward the trailing edge of the mailpiece. The large USPS designed samples (Type B and D) maintained this design feature. The small samples (Type A and C) located the disk centrally to minimize the "flaps" on the lead and trail edges. The smaller package was intended to satisfy the ≤ 1 oz. weight requirement sought by most mailers at that time. Another significant design difference was the configuration of type c and d. their design anticipated the need for obscuring the barcode and id tag that may be printed on an outbound mailpiece. This feature will eliminate loop mail.

PUBLIC

DRAFT

Approximately 1500 of each sample type were procured for test.
Table 1. Size and weight of the test samples

Test Sample Identifier	Size - Inches (H x W)	Weight - Ounces (Outbound/Inbound)
Type A	5-1/2" x 7-1/4"	1.02 / .92
Type B	5-3/4" x 7-3/4"	1.03 / .93
Type C	5-1/2" x 7-1/4"	1.02 / .9
Type D	5-3/4" x 7-3/4"	1.07 / .95
Type E	5-3/4" x 7-3/4"	.95 / .86

Eliminate ID tags = copy mail

Tests Performed

All test samples were tested on production letter sortation equipment in one of three Facilities: Northern Virginia P&DC, Suburban Maryland P&DC and Portland (OR) P&DC.

Approximately 1500 of each sample type were available for test. This quantity was subdivided into smaller groups to allow for distribution to other sites and to facilitate the use of different mail processing equipment to account for variations in machine performance.

The test plan (Attachment A) was designed to simulate the processing to which an individual 2 way DVD mailer is subjected by performing several consecutive test runs. Samples were removed from the group after each run if they exhibited unusual damage and after the 3rd DBCS and 1st AFCS run to help isolate where disk damage may have occurred.

Test Results

The following table lists test results by sample type, group and test run. Group 2 tests were performed at the Portland (OR) P&DC, and the results are described in Attachment B. Type A and C samples performed so poorly during Group 1, 2 and 3 test runs that the samples were withdrawn from further testing.

PUBLIC

KEY: JM = Jams FX feeder Jam
TX transport Jam
SX stacker Jam

FO = Flyouts (samples not captured in stacker module)

DD = Damaged Disks

4 1/2%
400 samples pulled
2

DRAFT

Table 2. Test Results

TYPE A		RUN 1	RUN 2	RUN 3	RUN 4	RUN 5	RUN 6	RUN 7
GROUP 1 225 pcs	JM	0	T1	0	0	0	0	0
	FO	30	45	20	-	10	6	0
	DD							
GROUP 2 225 pcs	JM							
	FO							
	DD							
[REDACTED SECTION]								

TYPE B		RUN 1	RUN 2	RUN 3	RUN 4	RUN 5	RUN 6	RUN 7
GROUP 1 225 pcs	JM	0	0	0	0	0	0	0
	FO	11	10	0	-	6	3	1
	DD							
GROUP 2 225 pcs	JM							
	FO							
	DD							
GROUP 3 225 pcs	JM	0	0	S1	0	0	0	0
	FO	4	1	3	-	0	0	0
	DD							
GROUP 4 225 pcs	JM	0	0	0	0	0	0	0
	FO	1	2	2	-	0	0	0
	DD							

DRAFT

GROUP 5 225 pcs	JM	0	0	0	0	0	0	0
	FO	1	0	0	-	0	0	0
	DD							
GROUP 6 225 pcs	JM	0	0	0	0	0	0	0
	FO	0	1	1	-	0	0	0
	DD							

TYPE C		RUN 1	RUN 2	RUN 3	RUN 4	RUN 5	RUN 6	RUN 7
GROUP 1 225 pcs	JM	0	0	0	0	0	0	0
	FO	11	21	40	-	2	2	2
	DD							
GROUP 2 225 pcs	JM							
	FO							
	DD							

TYPE D		RUN 1	RUN 2	RUN 3	RUN 4	RUN 5	RUN 6	RUN 7
GROUP 1 225 pcs	JM	0	0	0	0	0	0	0
	FO	8	14	10	-	0	0	0
	DD							
GROUP 2 225 pcs	JM							
	FO							
	DD							

PUBLIC

DRAFT

GROUP 3 225 pcs	JM	0	0	0	0	0	0	0
	FO	0	1	1	-	0	0	0
	DD							
GROUP 4 225 pcs	JM	0	0	0		0	0	0
	FO	1	3	0		0	1	0
	DD							
GROUP 5 225 pcs	JM	0	0	0		0	0	0
	FO	0	1	0		0	0	0
	DD							
GROUP 6 225 pcs	JM	0	0	0		0	0	0
	FO	1	0	0		0	3	0
	DD							

* SUSPECT AFCS STACKER GATE WAS AT FAULT

TYPE E		RUN 1	RUN 2	RUN 3	RUN 4	RUN 5	RUN 6	RUN 7
GROUP 1 225 pcs	JM	0	0	S1	0	0	0	0
	FO	2	0	0	-	0	0	0
	DD							
GROUP 2 225 pcs	JM							
	FO							
	DD							
GROUP 3 225 pcs	JM	0	0	0	0	0	0	0
	FO	1	0	0	-	0	0	0
	DD							
GROUP 4 225 pcs	JM	0	0	0	0	0	0	0
	FO	1	0	0	-	0	0	0
	DD							
GROUP 5 225 pcs	JM	0	0	0	0	0	0	0
	FO	0	0	0	-	0	0	0
	DD							
GROUP 6 225 pcs	JM	0	0	0	0	0	0	0
	FO	0	1	0	-	0	0	2
	DD							
4950	JM		1	2	*			

PUBLIC

DRAFT

Conclusions

Feeding

No feeder jams occurred. Feeding of all sample types was excellent with the leading edges sustaining minor tearing damage particularly near the perforations. This damage did not effect subsequent feeding operations. Despite the samples being constructed with the disk on the trailing edge, the paper weight and fold orientation was sufficient to prevent the leading edge from folding over. In later tests of group 5 and 6, samples were fed upside-down to simulate a leading edge disk location. This improved handling on the feed belt and stack quality

Stacking

Two jams occurred in DBCS stackers. The larger samples (Type B & D) performed very well; the smaller samples (Type A & C) exhibited poor stacking with as many as 5% flyouts on the outbound DBCS passes. High-speed video was taken of this behavior in an effort to identify the cause. The variation in thickness of the mailer causes the sample to dive when entering the stacker. The lower leading corner sometimes snagged on the stacker structure causing poor stacking or flyouts. The tendency to flyout is reduced in the longer samples since their length allows them to clear the snag points. The poor performance of Type A and C samples caused them to be withdrawn from testing after Group 3 was tested.

Disk Damage

Percentage of disks damaged is not available at this time, as examination of the samples is ongoing. Attachment C contains interim disk damage data from a small sample set of other mailers under test by Engineering and indicates about 4.5% breakage. The damage occurs in both the DBCS and AFCS runs equally. This indicates the gate geometry, which is common to both machines, is the most likely cause of damage (rather than the bullwheels or cancellation impact). Samples entering the diverter gates are bent momentarily to about 120 degrees. It is believed that breakage occurs after the disk has experienced this bending stress several times.

Concurrent Testing

During the period of the test several other DVD mailers were submitted to engineering for test. These provided valuable, additional experience on which to base design recommendations:

- Netflix - Current design made from heavier paper weight.
- Blockbuster - Submitted a samples almost identical to USPS Type B. Received approval
- [REDACTED] - Submitted samples identical to Type E (purchased from [REDACTED]). Received approval.
- [REDACTED] - Several unique designs submitted in various paper weights and configurations. Not yet approved

PUBLIC

DRAFT

[REDACTED]

[REDACTED]

[REDACTED]	[REDACTED]

PUBLIC

DRAFT

ATTACHMENT A USPS 2-Way DVD Mailer Test Plan
ATTACHMENT B Test Report from Portland (OR) P&DC
ATTACHMENT C Interim Disk Damage Data

PUBLIC

US-151
Author: [REDACTED] at WADC070L

Date: 4/24/02 2:17 PM

Normal

Receipt Requested US-129

TO: [REDACTED] at VAACOMAN [REDACTED] at MEVA003L

CC: [REDACTED] at WADC035L, [REDACTED] at ARVA017L

Subject: Stiffness Standard for Non-machinable Letters

----- Message Contents

US-111
To confirm your conversation with [REDACTED] and I, we would appreciate your advice on appropriate standards for the new non-machinable surcharge (12 cents) which will apply to single piece letters in the new rate structure to be implemented on June 30. We also request your advice on possible equipment modifications if single piece mail that pays the non-machinable surcharge occurs in high volume.

The current proposed standard is modeled on the standard (CS10) for automation rates. The stiffness standard in particular requires only that the mail piece must "bend easily when subjected to a transport belt tension of 40 pounds around an 11-inch wheel." We are concerned that the proposed non-machinable standard may not be sufficient to avoid significant jams, damage, and lost productivity in some operations. In particular, there are field reports that letters containing CDs in collection mail (e.g. DVD movies being returned, home movies on CDs) are a major and rapidly growing problem on the AFCS.

I can be reached at 202-268-[REDACTED]

Thanks,

[REDACTED]
US-151

PUBLIC

GFL0000272

Washington, DC VS-143

From: [redacted] - HQ- Operations VS-042
Sent: Thursday, July 05, 2007 9:09 AM
To: VS-148 [redacted] - Washington, DC; [redacted] - Washington, DC;
Subject: US-161 RE: Oklahoma District Review - Netflix
US-051
US-104

More disturbing is their proposed bypass of BMSU entry so they can shuttle mail directly to Tulsa to turn 2-day mail into OND, or their proposal that we work mail manually to meet their OND expectation for 2-day commitment. This effectively establishes a new CFT category - "Overnight delivery for destination volume"

-----Original Message-----
From: [redacted] - Washington, DC VS-148
Sent: Thursday, July 05, 2007 8:54 AM
To: [redacted] - Washington, DC; [redacted] - Washington, DC;
Cc: [redacted] - Washington, DC VS-148 VS-161; US-051; VS-104
Subject: Re: Oklahoma District Review - Netflix VS-042

[redacted]

[redacted] - VS-148
-----Original Message-----
From: [redacted] - Washington, DC
To: [redacted] - Washington, DC; [redacted] - Washington, DC;
Subject: FW: Oklahoma District Review - Netflix VS-051; VS-104; VS-148

FYI

[redacted] - VS-161

-----Original Message-----
From: [redacted] - Dallas, TX - VS-090
Sent: Thursday, July 05, 2007 7:51 AM
To: [redacted] - Washington, DC - VS-161
Cc: [redacted] - Washington, DC - VS-101
Subject: FW: Oklahoma District Review - Netflix

PUBLIC

[redacted], VS-161

Some interesting reading below, notes from a Netflix - Oklahoma District Manager meeting last week. Oklahoma is not unique, Netflix is meeting with various postal officials throughout the Area and nation. While this meeting was positive, the detailed notes below show the extent of what's going on.

[redacted] VS-090

c: 214-244-5257

PUBLIC

-----Original Message-----

From: [redacted] - Oklahoma City, OK
Sent: Tuesday, July 03, 2007 3:21 PM
To: [redacted] - Dallas, TX; [redacted] - Dallas, TX
Subject: FW: Oklahoma District Review - Netflix

VS-072

VS-058

VS-090

Thought you might be interested in this summary of their visit last week.

-----Original Message-----

From: [redacted]
Sent: Thursday, June 28, 2007 10:48 AM
To: [redacted] - Oklahoma City, OK; [redacted] - Tulsa, OK
Cc: [redacted]
Subject: Oklahoma District Review

NF-007

VS-058; VS-178

NF-016; NF-017; NF-018; NF-019

NF-019

Thank you for the cooperation you and your staff extended to [redacted] and me during our recent visit to the Oklahoma District. As per our opening meeting with you, our goal for delivery and return service performance for our Netflix mail is 95% on time delivery and return. Your district accounts for 7.1% of the Southwest Area volume of Netflix shipments. The following is a breakout of the volume percentage for your 5 largest 3 digit zips: 730 - 22.2%, 731 - 20.2%, 740 - 17.9%, 741 - 14.2%, and 735 - 8.1%. These zips account for almost 83% of our volume in your district. Since the Netflix Hub opened in Oklahoma City, you have made significant improvements in both but you are not yet achieving these targets. Over the last few weeks your delivery performance has been in the 92%-93% range and the return service was a very good 94.9% during the last measurement period. Your damage statistics indicate that you have some of the lowest damage to our DVDs in the Netflix system - typically around 1%.

Our discussion in the entrance meeting centered around how to improve in all of the above metrics and we spent considerable time discussing performance to 740 since that appeared the 3 digit area that was impacting your bottom line performance the most. We found out that 740 is a 2 day delivery area for mail originating in Oklahoma City and destinating in 740. The scorecard that has been provided by Netflix has measured 740 as if it were an overnight area. Since the Netflix mail on Monday and Tuesday nights has generally been shipped on the 2150 dispatch from OKC to Tulsa and has been arriving in Tulsa around 2330-midnight, the Tulsa plant has had difficulty finishing sortation to associate offices in this zip...thus impacting your score and achievement of the target. I spent time in the Tulsa plant and validated with management and personnel who handle our mail that this late arrival of mail from OKC has negatively impacted their ability to achieve an overnight commitment. There is an earlier dispatch that leaves OKC in the 1800-1830 timeframe and on lighter volume days, our Netflix mail is entered earlier at the BMEU and the mail travels on this HCR. When the mail is on this shuttle, Tulsa is able to work the mail to 740 as if it were an overnight committed zip. Following are some strategies that the USPS and Netflix should explore in order to meet our objective of achieving 95% (particularly in 740):

1. Netflix Hub Manager to staff and schedule operation in order to achieve a drop at the BMEU by 1700 on ALL days, not just Wed-Fri (light volume days). If this accomplished then the mail can go on the earlier dispatch and arrive in Tulsa in time to have the mail worked in a DPS operation for one day delivery. In addition, should we achieve this cutoff time, zips 743, 744, 745, 746, 747, 749 will have a strong chance to also achieve overnight delivery since these zips are ALL overnight from Tulsa.. Discussions with the Plant Manager in Tulsa and the MIPs indicate that if we get mail to Tulsa by 2200, then they can achieve overnight delivery on these zips and especially 740 which is a high

volume destination. Netflix would have to provide containers with the mail broken out to zips to provide for dock transfers with minimal handling in the Tulsa plant

PUBLIC

2. Implement a shuttle from OKC to Tulsa if the Netflix Hub is unable to achieve the 1700 CET at the BMEU on Monday and Tuesday. On these days, the Hub would have to tender mail and have it cleared by 1930 in order to achieve the 2200 CET in Tulsa. Again, if 2200 is achieved then overnight service for all of the above zips could be achieved. Netflix would incur operational and transportation costs.

3. Continue as is but once the mail arrives at Tulsa they would do a 5 digit sortation on all the 3 digit trays and forward this mail and any 5 digit trays to the AOs to work in a manual operation. The USPS would incur operational costs.

I spoke with the Netflix Hub Manager Thursday night and we discussed the opportunity to staff and schedule his operation to achieve that 1700 CET time at the BMEU. He believes that once his staffing is updated and stable, he can achieve this target. We will run some staffing models based on volumes and productivity targets to determine if this is feasible. If not, then I would recommend that we pursue a shuttle from the Netflix Hub to Tulsa in order to meet the expectations of our customers for one day delivery. I understand your objections to working the mail manually and even if you did this, we could not achieve the overnight goals in the smaller zips.

Other observations:

Your culling operations at the docks and in the 010 operation are some of the best that we have seen. When we visited the FIM DECS operation we only saw a handful of pieces that had been cancelled and made it that far. Your AFCS operators and the staff in the 010 were doing an outstanding job of capturing our mail before it was cancelled. THANKS! Your damage rate shows your attention to our mail!

We discussed the need for the re-wrap section to send ALL Netflix mail regardless of the damage to the Hub every night...no need to try to piece it back together, just give it to us.

You have a good system in place to get our returns back to us. The plant manager in Tulsa began sleeving our mail after we discussed the issue with him.

The BMEU personnel were really customer friendly and supportive of Netflix...we recognize that there are acceptance rules and that MERLIN tests must be done, but they were explained in a positive manner.

US-038

[REDACTED], MIPS in Tulsa, has requested that we provide him with addresses and zips for any new hubs or shuttle locations so he can program the automation to send to one bin (although I didn't see much mail at all in the FIM DECS).

Collectors in both locations were doing a great job in isolating our mail (and that of our competitors) while they were collecting it from the boxes. Kudos to them.

In closing, we appreciate your support of our Netflix efforts to increase business by giving a great service to our customers and look forward to a successful resolution to the issue of improving delivery scores to the 740 area.

[REDACTED] NF-007

[REDACTED]
Netflix, Inc.
[REDACTED]
[REDACTED]

PUBLIC

NETFLIX - Standardized Distribution Process

Background

NETFLIX is an on-line DVD rental company that uses first class envelopes to mail their product to customers. Customers then return the DVD in the attached Business Reply Envelope provided. The BRM envelope containing the DVD being returned to NETFLIX is non-machineable. Because mail pieces returned by customers to NETFLIX are non-machineable, they are being handled in a variety of distribution operations.

Additionally, NETFLIX has established a nationwide network of distribution/receipt centers that service specific geographic areas. As a result, the majority of return product at each USPS processing and distribution center is destined for specific sites.

Purpose

Implementation of a Standardized Process is required for the processing and distribution of the NETFLIX customer return product. This will identify a standardized mail flow for this (and similar) products. A standardized flow will enable distribution operations to reduce handling related to the processing of this product, ensuring an increased performance achievement.

Processing and Distribution Center

010 Operations:

All NETFLIX customer returns found in collection mail are to be culled at the 010 and trayed to basic separation(s), which will be established based upon the highest density NETFLIX service center destinations. At a minimum, each facility will require one tray separation labeled to the NETFLIX service center location (which services the local area) and one tray separation for residual NETFLIX service centers. Full trays generated from this operation will be weighed into MODS operation 030.

030 Operations:

NETFLIX mail pieces are to be speed cased as first class letters and placed into EMM trays. Trays should be sleeved and labeled for proper dispatching. Any mail pieces received from other operations are to be combined into trays for dispatch to the NETFLIX service center.

PUBLIC

 8/25/2009

US-213

GFL0000287

[Redacted] - Washington, DC US-143

From: [Redacted] NF-013

Sent: Friday, March 11, 2005 9:26 AM

To: [Redacted] - Washington, DC; [Redacted] - Washington, DC US-036; VS-148

Cc: [Redacted] NF-016; NF-004

Subject: MEETING SLIDES

Thanks again for meeting with us and your willingness to work together and reduce product damage. Attached are the slides on damage and processing variation. We are anxious to move forward on the key items discussed as summarized below.

- 1) Start sleeving the mail so that we avoid the damage caused to mail on the bottom of pile.
- 2) Adopt the San Diego return mail process which is cost effective and significantly reduces damage.
- 3) Implement the "Nearest Netflix Hub" concept at all plants which eliminates the need to sort return mail to exact address. We will send out a list of nearest hubs by PDC early next week.
- 4) Begin a joint evaluation project to determine if modifications to the AFCS can be made that will automatically eject Netflix mail at the thickness reject gate. If successful this would enable full automation of our mail with the benefits of no downstream sorting and damage. If possible we would like to develop the prototype and do the evaluation in the San Jose PDC so our automation manager and staff can easily work the project.
- 5) And finally, we would like to get on with process change to drop tabbing. We have mailed over 1,000,000 mailers without tabs and have zero problems as reported by customers or USPS plants. Tabbing actual caused more problems for the USPS because tabs come loose and cause equipment jams.

Thanks again for the meeting and we look forward to working with your staff on the improvements.

Regards,

[Redacted] VS NF-013
[Redacted]
Netflix

PUBLIC



SERVICE BULLETIN

IPS -018

08/04/03

United States Postal Service Atlanta Processing & Distribution Center

NETFLIX PROCESSING

GOAL: To ensure appropriate handling of Netflix mail on all three tours.

TASK: Identify and publish proper handling procedures for Netflix.

ACTION:

1. Netflix is received mixed in 010 collections. AFCS operators cull Netflix from the AFCS feeder section. The culls are placed in the non-machineable mail tray for 030. Missed pieces go to FIM "A" stacker on the AFCS for processing on the 891 FIM sort program on DBCS machine #11.

2. Netflix sent to the 891 FIM machine is culled by the ledge loader, as much as possible. The Netflix culls are placed in a tray, located on top of the tray rack, next to the feeder section. When the tray is filled, a red Duluth GA 30096 label is placed in the tray. Missed pieces are sorted to bin #27, Duluth GA 30096.

3. Netflix sent to 030 is culled by the 030 Gatekeeper. The direct tray for Netflix is placed in the originating SCF 300 container. A Clerk on the N. Metro SCF case verifies the mail piece by piece and labels the trays for Duluth GA 30096 for dispatch to North Metro. There are no direct separations for Netflix on the SCF 300 letter case, 030, or on the 891 Sortplan. The clerks hold Netflix out to the side, then make a direct tray.

PUBLIC

GFL0000302

4. All Netflix mixed in with flats are pulled out of the machineable mail, to the extent possible, and placed in a flat tray labeled for North Metro.

4. All Netflix trays are labeled for Duluth GA 30096.

CUSTOMER: Mail Processing
EFFECTIVE: 08/04/2003.
ISSUED BY: In Plant Support Office
Atlanta P&DC

PUBLIC

APPROVAL AND DATE:

PLANT MGR: _____

IPS MGR: _____

T-1 SR MDO: _____

T-2 MDO: _____

T-3 SR MDO: _____

US-153

From: [redacted] - Washington, DC
 Sent: Wednesday, February 22, 2006 4:08 PM
 To: [redacted] - Rosslyn, VA; [redacted] - Rosslyn, VA
 Cc: [redacted] - Washington, DC; [redacted] - Washington DC; [redacted] - Washington, DC; [redacted] - Washington, DC; [redacted] - Washington, DC
 Subject: FW: Online DC Directory.xls UPDATED

US-024; US-023

US-155; US-063; US-148

US-176

Importance: High

Attachments: DC Directory.xls; Scan218, February 22, 2006.max

[redacted], I was going to suggest you contact [redacted] group, which I see that you have since they'll be the function in charge of making it happen (at least from the HQ level). [redacted] initial reaction was mine as well, in terms of the "doability". Furthermore, they're much more difficult to identify, since they don't stand out.

[redacted] - US-153

US-154

-----Original Message-----

From: [redacted] - Washington, DC
 Sent: Wednesday, February 22, 2006 3:51 PM
 To: [redacted] - Washington, DC; [redacted] - Atlanta, GA
 Cc: [redacted] - Washington, DC; [redacted] - Washington DC; [redacted] - Washington, DC
 Subject: FW: Online DC Directory.xls UPDATED
 Importance: High

US-154

US-161; US-101

US-155

US-153

There is no way the AFCS is set up to cull and separate DVDs for two different mailers - and who knows how many more request we are going to receive. - I really think that a non-machinable surcharge needs to be applied if the mailers continue to insist the piece is not automation compatible. We knew that culling Netflix at the AFCS was going to open the door to other mailers requesting the same treatment.

-----Original Message-----

From: [redacted] - Rosslyn, VA
 Sent: Wednesday, February 22, 2006 3:39 PM
 To: [redacted] - Washington, DC; [redacted] - Washington, DC; [redacted] - Merrifield, VA - Contractor; [redacted] - Washington DC; [redacted] - Washington, DC
 Subject: FW: Online DC Directory.xls UPDATED
 Importance: High

US-023

US-082; US-154; US-015; US-159; US-155; US-151

FYI - See attached letter from Blockbuster requesting manual culling of their return mail.

-----Original Message-----

From: [redacted] - Rosslyn, VA
 Sent: Wednesday, February 22, 2006 3:13 PM
 To: [redacted] - Washington, DC
 Cc: [redacted] - Rosslyn, VA; [redacted] - Dallas, TX
 Subject: FW: Online DC Directory.xls UPDATED
 Importance: High

US-024

US-153

US-023; US-028

[redacted] - US-153

US-023

As follow up to [redacted] telephone message, attached is the max file containing the letter forwarded to me by the NAM for Blockbuster, who is requesting that their return DVD piece receive manual culling and processing in our system. Your assistance is requested in determining if this is doable and who should provide the response to the customer's request. Thanks for your help.

[redacted]

US-024

PUBLIC

-----Original Message-----

From: [redacted] - Dallas, TX
Sent: Friday, February 17, 2006 3:43 PM
To: [redacted] - Houston, TX; [redacted] - Memphis, TN; [redacted] - Dulles, VA; [redacted] - Hazelwood, MO; [redacted] - St Paul, MN
Cc: [redacted] - Rosslyn, VA; [redacted] - Rosslyn, VA; [redacted] - Rosslyn, VA
Subject: FW: Online DC Directory.xls UPDATED

Good Afternoon,

Heads up! Blockbuster is once again expanding their operations. They are opening 5 new distribution sites as follows:



Most OISs have had the BB start up experience and I hope you still have your start up implementation guide that was previously sent when new sites were opened. Richmond VA is schedule to begin around the end of March.

I'll schedule a telecon next week for further discussion on the remaining sites (we don't have start up dates yet for the others).

-----Original Message-----

From: [redacted] - BSN Dallas, TX
Sent: Monday, January 30, 2006 12:17 PM
To: [redacted] San Antonio, TX; [redacted] - Dallas, TX
Subject: FW: Online DC Directory.xls UPDATED

BB is adding 5 more DC's. See attached.

Thanks,



-----Original Message-----

From: [redacted]
Sent: Monday, January 30, 2006 11:54 AM
To: [redacted]
 [redacted], Corporate Payroll; [redacted] - BSN Dallas, TX; online.dcmangers@blockbuster.com; [redacted]
Subject: Online DC Directory.xls UPDATED

PUBLIC

Please update your Online DC Directory with the one attached.

Thx,

file://R:\C2009-1 GameFly\Discovery\Blockbuster\FW Online DC Directory.xls UPDATED.htm

8/25/2005

GFL0000312

- BB-026; BB-001
- BB-029; BB-004
- BB-014; BB-027
- BB-028; BB-013
- BB-017; BB-002;
- BB-018; BB-003
- BB-020; BB-005
- BB-024; BB-006
- BB-022; BB-010

VS-028
 VS-092
 VS-046
 VS-035
 VS-052
 VS-024
 VS-095
 VS-023

US-116

US-142

VS-083

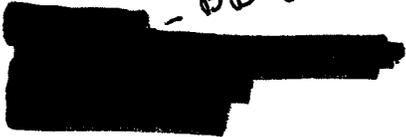
VS-028

US-083

BB-007

VS-083

- BB-007



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PUBLIC

Blockbuster
SR1-203650346

Southwest Area Senior Business Service Network Specialist [redacted] received
the following email from customer [redacted] with Blockbuster:

Parhed 6/11

*KC Exception
Bypass
etc*

BB-011

VS-179

BB-011

-----Original Message-----

From: [redacted]

Sent: Monday, May 21, 2007 2:34 PM

To: [redacted] Dallas, TX

Cc: [redacted] *BB-025*

Subject: Blockbuster Returns in the USPS St. Louis Facility

VS-179

Will you please instruct the USPS processing facility in St. Louis to delivery all Blockbuster return mail (even that which is addressed to our Kansas City DC) to the Caller Service in St. Louis. Please let me know if you have any questions or need any additional information from me.

[redacted] will research and respond.

VS-179

[redacted]

VS-072

*work HQ working
on getting something
from HQ. Call
we currently have
in something
from customer
Bypassing it
with.*

PUBLIC

VS-179

[Redacted] - Dallas, TX

From: [Redacted] - Dallas, TX VS-072
Sent: Monday, June 11, 2007 5:53 PM
To: [Redacted] - Washington, DC - VS-040
Cc: [Redacted] - Dallas, TX - VS-179
Subject: FW: Automation Bypass Request Letter

[Redacted] VS-040

This is the letter from Blockbuster we discussed. They want something in writing from HQs stating that their mail should be culled from AFCS operations. They have been told previously it was up to each local plant to make this decision. But they are requesting this be escalated and a decision be put in writing from HQs.

Thanks,

[Redacted] VS-072

"We are what we repeatedly do. Excellence, then is not an Act, but a Habit." - ARISTOTLE



-----Original Message-----

From: [Redacted] BB-008
Sent: Thursday, May 31, 2007 12:54 PM
To: [Redacted] Dallas, TX VS-072
Cc: [Redacted]
Subject: Automation Bypass Request Letter

BB-012

BB-011

VS-069

VS-048

[Redacted] -VS-072

I had printed this and forgot to give it to you when we met today. Attached is the automation bypass request letter we discussed yesterday.

Thanks,

[Redacted] BB-008

The information transmitted is intended only for the person or entity to which it is addressed and may contain confidential and/or privileged material. If the reader of this message is not the intended recipient, you are hereby notified that your access is unauthorized, and any review, dissemination, distribution or copying of this message including any

PUBLIC

6/12/2007

GFL0000315

attachments is strictly prohibited. If you are not the intended recipient, please contact the sender and delete the material from any computer.

PUBLIC

6/12/2007

GFL0000316



May 16, 2006

[Redacted] US-083
[Redacted]

[Redacted] US-083

Blockbuster Online is continually seeking to improve delivery performance and quality service to our customers. To this end, as suggested by multiple USPS plant operations contacts, the Postal Service might find it beneficial to their operations to bypass automated processes for Blockbuster BRM return mailers and send them directly to the box section. Blockbuster has no objection to this solution, and we agree it could also be beneficial to our customers. In order to facilitate this process, mail collectors at all levels could separate Blockbuster return mailers with all the other DVD and video game mailers. This solution may result in shorter transit duration and reduced damage to our product, as well as improved performance of postal mail processing machinery since fewer adjustments to accommodate these mailpieces would be required. This process should apply only to the white-faced BRM return mailers, which are always addressed to Blockbuster distribution centers and stores. Yellow-faced stamped mailers addressed to customers should be processed via normal distribution operations.

In addition, Blockbuster Online has no objection if the Postal Service delivers return mailers to the nearest Blockbuster Online distribution center's post office box regardless of which Blockbuster facility is specified on the return envelope. Upon receipt of the DVDs at any Blockbuster Online facility, they will be returned to our inventory and made available for our customers to rent.

Please feel free to contact me with any questions or to discuss this further.

Sincerely,

[Redacted]

BB-008

[Redacted]

Blockbuster Online

[Redacted]

PUBLIC

1/13/2006

1-114703455

Issue input 1/13/2006 with this information:
Seattle WA Business Service Network Manager [redacted] contacted [redacted] Southwest Area regarding the low Planet Code scans for Blockbuster Online DVD mailers. [redacted] reported that [redacted] local Blockbuster Distribution Center Mgr contacted the Seattle District for assistance in increasing the scan percentages locally. [redacted] contacted [redacted] requesting if Headquarters has been contacted regarding the issue and a suggestion if the problem could be a data transmission issue.

VS083

BB019

U5083

BB-008

Issue closed out on 03/29/2006 with this:
Closing issue as [redacted] Program Mgr for Blockbuster Online is unable to schedule time with Blockbuster's IT group to review how the PLANET Code information reports are developed. [redacted] advised several months down the line they may be able to schedule time to look into the report. [redacted] said currently they are switching gears from requesting the USPS to process their mailers on automation equipment, to request the mailers are manually processed. Blockbuster has submitted a letter to Postal Headquarter (letter attached). At this time HQ has not responded to Blockbuster's request. When a response is received a Service Request will be created as documentation.

BB-008
BB008

PUBLIC

GFL0000327

Service Request

SR #: 1-114703455	Summary (Max 100 Char): PLANET Code date	Status: Closed	Resolution: Closing issue as 2006 Program Mgr for Blockbuster is unable to schedule t Blockbuster's IT group the PLANET Code link Disposition:
BSN Account: BLOCKBUSTER		Priority: 3-Routine	Resolver User ID: KPH04M
Contact Last Name: C	Extended Data (Max 2000 Char): Seattle WA Business Center New York NY Business Center Contacted Southwest Area regarding the low Planet Code issue for Blockbuster Online DVD	Critical Reason: Working with NCS2 to see if validation of reports Blockbuster is sending is accurate.	CSM Assistance: [Redacted]
Contact First Name: VS083	Category: USPS Issue	Product: BLOCKBUSTER ENTERTAINMENT CLUB MAIL	Date Opened: 1/13/2006 11:01:52 AM
BSN Account Type: Auto Strategic	Sub-Product: Product Issue	Business Partner: Customer	Day of Week Opened: Friday
Area Strategic: USPS Issue	Issue: Scanning	Reported By (Source of Issue): Customer	Date Resolved: 3/29/2006 01:23:09 PM
BSN Site: BLOCKBUSTER ENTERTAINMENT CLUB MAIL	Responsibility Location: Sortation Category:	Communication Method: Email	Day of Week Resolve: Wednesday
Contact Job Title: Supply Chain Manager	Functional Area:	Created By: KPH04M	Data Closed: 3/29/2006 01:23:22 PM
Contact Address Line 1: 1204 Elm ST STE 2100	Mailing Name:	Owner User ID: KPH04M	Day of Week Closed: Wednesday
Contact Address Line 2:	Mail Type: Letter	Owner Area: Southwest	Age (Resolved): 75 Days, 2 Hours, 17 M
Contact City: Dallas	Mail Issue Origination ZIP Code: 75247	Owner District: Southwest	Age (Closed): 75 Days, 2 Hours, 21 M
Contact ZIP Code: 75270	Origination Area: Southwest Area	Owner Email: [Redacted] VS083	Age Total: 75 Days, 2 Hours, 21 M
Contact +4: 2902	Origination District: Southwest - Dallas	Owner Work Phone #: (214) 267- [Redacted]	Resolver: [Redacted] VS083
Contact Phone #: (214) 254-4670	Origination BMS/ASF: DALLAS BULK MAIL CENTER	Comments (Max 250 Char):	Resolver Work Phone: (214) 267- [Redacted]
Contact Email: [Redacted]	Origination P&DC: DALLAS MFO BOX SECTION	Customer Viewable: Yes	Resolver Area: Southwest
BSN Rep: [Redacted]	Mail Issue Destination ZIP Code: 75247	Follow Up: No	Resolver District: Southwest
BSN Rep Area: Southwest	Destination Area: Southwest Area		Satisfactory Resoluti
BSN Rep District:	Destination District: Southwest - Dallas	Closed User ID:	
BSN Account Code: BSN120705			

BB008

VS217

VS083

VS083

VS083

BB008
VS218

PUBLIC

BSN Corporate Name: BLOCKBUSTER	Destination B/M/ASF: DALLAS BULK MAIL CENTER	Closer:
BSN Corporate Code: BSN00175	Destination P/B/P: DALLAS MPB BOX SECTION	Mail Preparer Customer Input:
	Account: BLOCKBUSTER	Mail Preparer Account:
	Account Code: 000245	Mail Preparer Account Code:
	Account Type: National	Mail Preparer Account Type:
	Corporate Name: BLOCKBUSTER	Mail Preparer Site:
	Corporate Code: 800348	Mail Preparer BSN R:
	Site: BLOCKBUSTER ENTERTAINMENT	

PUBLIC

BB-011

Attached are the two letters we spoke about this morning during our telecon on automation bypass of returns. Per our conversation, if we are to resubmit language to the field your request to bypass automation on returns we need a new letter that does not include reference to the different colors of mailers (as the 2006 letter) or placing in tubs vs. trays (as in 2007 letter) - since some of your DC's prefer the trays.

Also this morning you advise you needed something in writing regarding the telecon in July of this year with [redacted] and Manager, Operations Requirements and Integration [redacted]. The purpose of the telecon was to discuss Blockbuster's request to have something in writing by USPS that would be issued on a national level requiring processing centers to bypass automation processing and work Blockbuster return mailers manually. Mr. [redacted] advised a national policy would not be put into place to override local decision making.

If you need additional information on this, please advise.

Thank you,

[redacted]
Senior Business Service Network Specialist
Southwest Area
8200 Brookriver DR STE [redacted]
Dallas TX 75247-4037
214-267-[redacted]
214-267-[redacted]

US-153

US-153 -

US-179

BB-008

US-072

PUBLIC

GFL0000337



July 27, 2007

Southwest Area Business Service Network
8200 Brookriver Dr ste [redacted]
Dallas TX 75247

US-179

RE: USPS Processing of Blockbuster return DVDs

[redacted] *US-179*

Blockbuster Online is requesting that all Blockbuster return DVDs processed by the USPS be returned to the nearest Blockbuster Online distribution center's caller service regardless of which Blockbuster facility is specified on the return envelope.

In addition, Blockbuster Online has no objection to the USPS mail processing culling our return mailers to flat tubs with lids. This process has proven to benefit both the USPS and Blockbuster in the Areas where it has been implemented.

Please let me know if you have any questions or need any additional information from me.

Best Regards,

BB-011

USPS Program Manager Supply Chain Operations
214-854-[redacted] office
817-846-[redacted] cell

*— need new letter
just requesting bypass*

— Auto Bypass

PUBLIC

VS-153
FW Damage SOP.txt
From: [redacted] - Washington, DC
Sent: Wednesday, September 12, 2007 11:37 AM
To: [redacted] - HQ- Operations; [redacted] - VS-148
Washington, DC
Subject: FW: Damage SOP VS-042

Attachments: [redacted].62907v1.doc.rtf BB008

As I know you know, any national codification of Pacific's SOP will certainly be met with BB's insistence on equal treatment. It was just a couple months ago that BB insisted on a formal HQ position on their request for manual processing of their returns. I drafted the attached letter, but [redacted] asked that I attempt to respond through a phone call. I spoke with [redacted] and described the reasons why we were not going to take plant processing discretion out of the equation, and it seemed to work. BB has been silent since, as far as I know. BB008 VS-148

[redacted] VS-153

-----Original Message-----

From: [redacted] - HQ- Operations VS-042
Sent: Wednesday, September 12, 2007 10:54 AM
To: [redacted] - Washington, DC VS-153
Subject: FW: Damage SOP

original with attachments

-----Original Message-----

From: [redacted] - Washington, DC VS-148
Sent: Wednesday, September 12, 2007 6:40 AM
To: [redacted] - Operations VS-042
Subject: Fw: Damage SOP

Info

[redacted] VS-148

----- Original Message -----

From: [redacted] - Washington, DC VS-161
To: [redacted] - Washington, DC; [redacted] - Washington, DC; VS-051
[redacted] - Washington, DC
Sent: Wed Sep 12 05:21:09 2007
Subject: FW: Damage SOP

FYI

[redacted] VS-161
Manager, Processing Operations
Office: (202) [redacted]
FAX: (202) [redacted]
email: [redacted] VS-161

-----Original Message-----

From: [redacted] NF-016
Sent: Tuesday, September 11, 2007 4:59 PM
To: [redacted] - Washington, DC
CC: [redacted] - Washington, DC
Subject: FW: Damage SOP VS-161

PUBLIC

Page 1

VS-036

NFO20

GFL0000347

VS-036

Fw Damage SOP.txt

[Redacted]

NF-020

I had [Redacted] put together what we feel is working the best. First is the Pacific Area AOP and second is small piece [Redacted] put together to summarize the entire issue and express our disagreement with one statement in Pacific Area's SOP. I'd like to work to achieve your objective of getting one document out that is held as the model along with the performance metrics to support its use. Please let me know how we are to proceed from here.

Thanks.

[Redacted] NF-016
Director, Postal Operations

NETFLIX, INC.

Nevada Office: [Redacted]

Sunnyvale Office: [Redacted]

[Redacted]
[Redacted]

From: [Redacted] NF-020
Sent: Sunday, September 09, 2007 3:37 PM
To: [Redacted] NF-016
Cc: [Redacted] NF-006
Subject: Damage SOP

NF-007 NF-015

[Redacted] NF-016

VS-036

Here is a draft summary of "Best Practices" and the Pacific Area's SOP to send to [Redacted]. Let me know if this works for you.

[Redacted] NF-020
Senior Manager Postal Operations
NETFLIX, Inc.

[Redacted]
[Redacted]

PUBLIC

June 29, 2007

[REDACTED] - BB-008
Director, Supply Chain Operations
Blockbuster Online
1201 Elm Street - Suite 2100
Dallas, TX 75270

Dear [REDACTED] BB-008

I would like to take this opportunity to explain the position of Operations at USPS Headquarters regarding the processes individual plants employ to distribute mail to an individual customer. I have been made aware that you are requesting a position from headquarters on the separation of the Blockbuster white-faced BRM return mailers such that they will consistently bypass all automated operations and be sent directly to the box section. While it is our goal to maximize the mail in our automated operations in order to provide the most efficient and cost-effective service, it is our position that we will not dictate the specific methods each plant must adopt to handle a segment of the mail base. We believe it important to leave it to the discretion of local operations management to carry out the most productive processes based on local circumstances.

There are various reasons why conditions at each plant will vary such that the removal of local discretion would not be advisable. Though our automated letter sorting equipment is similar across the network, there are variations among the numerous versions. Furthermore, the equipment can be maintained and tuned with slight differences to account for site-specific conditions and the local mail base in order to improve productivity and decrease mail piece damage. These factors together can result in varying levels of automated performance for individual mail pieces at plants across our network.

Also, the amount of mail tendered daily to a customer will certainly influence the decision of when and where to hold out mail pieces. Mail to large-volume customers is often sorted out earlier in the process to minimize the cost of handling the volume. Though you certainly are a large national mailer, there will be significant differences in the number of pieces moving through the collection mail stream at plants across the country, again necessitating the reliance on local expertise for the determination of the most efficient procedures.

If you have additional questions, feel free to give me a call on 202-268-[REDACTED]

Sincerely,

[REDACTED] US-153
Manager, Operational Requirements and Integration

PUBLIC

cc: Sr. VP, Operations

GFL0000349

March 16, 2007

[REDACTED]

Re: [REDACTED] Two-way Disk Mailer

[REDACTED]

On February 27, 2007 U.S. Postal Service Engineering received approximately 500 two-way DVD mailers from [REDACTED] for evaluation.

Description

[REDACTED]

History

It should be noted that Engineering tested a similar mail piece in 2002 and in a letter dated June 11 of that year, informed the requestor that the mail piece was not automation compatible. The samples submitted by [REDACTED] are not substantially different in configuration, paper weight, disk placement or any other characteristic that would improve their performance.

Tests

Approximately 250 samples were run three times on DBCS to simulate outbound processing. An additional 150 samples were converted to return configuration and processed once on an AFCS. No formal assessment of disk damage was made post test; the samples were not opened in order to examine the disks.

Results

The outbound DBCS processing of the samples was good with nominal feeding and stacking. This can be attributed to the double tabbing and disk leading configuration of the samples. No jams occurred in the DBCS related to the mail piece.

The return AFCS processing of the samples was poor. The leading edges of disk trailing samples collapsed due to their velocity entering the buffer feeder. This degradation of the leading edge leads to several processing issues:

- Double feeds
- Fine Cull rejects due to "skew"
- Envelope damage.
- Potential transport jams
- "Fold Over" obscuring the address

PUBLIC

All of the above circumstances, except jamming, occurred during this test.

GFL0000373

Conclusion

This mail piece design is being processed everyday throughout the Postal system with very poor results. Engineering's ongoing experience with the poor machineability of this design indicates that the [REDACTED] mailer will sustain damage, cause jams and be mis-sorted during processing. This will cause operations personnel to remove the mailers from the automation mail stream and handle them manually. This culling and manual handling will be doubled due to the outbound AFCS pass required. In addition, the lack of a disk sleeve increases the possibility of a disk cutting the mailer from the inside.

Based on extensive experience with this type of mailer and the tests performed on the samples submitted, Engineering finds the [REDACTED] two-way DVD mailer is not machineable or automation compatible.

[REDACTED] VS-159
Letter Technology
8403 Lee Highway
Merrifield, VA 22082-8101

PUBLIC

GFL0000374

May 22, 2007

[REDACTED] NF-016
Netflix Inc.
[REDACTED]

Dear [REDACTED] NF-016

On May 8 and 11, U.S. Postal Service Engineering tested approximately 400 Netflix Type II sample two-way disk mailers.

Description

Each sample measures 6 x 8 inches and weighs approx. 0.90oz. The mailer has vertical folds and perforations and is side loading with the disk positioned toward the leading edge on the outbound configuration. The samples are finished with adequate adhesive on the closure and around the disk pocket. The samples bear no outbound address, POSTNET or indicia. The return portion is printed with Business Reply Mail (BRM) rather than Permit Reply Mail (PRM) information. Each sample contained one sieved disk. The samples are significantly different from the current Netflix mailer. No tabs are used, rather two glue dots serve to secure the face sheet to the pocket portion of the mailer and the samples are perforated through all paper layers approximately one-half inch from the trailing edge to facilitate opening.

Tests

All samples were run four times on DBCS to simulate outbound processing. Approximately 25 samples were converted to return configuration and run on the Advanced Facer-Canceller System (AFCS). No assessment of disk damage was made post test.

Results

Although outbound Delivery Barcode Sorter (DBCS) processing seemed nominal, the samples degraded with each pass. The trailing edge perforation was torn or removed on a number of the samples after each run. This damage varied from as few as five to as many as 25 pieces per run. The damaged samples were removed from the group before the next run. No jams occurred in the DBCS during the test.

The return AFCS processing of the samples was poor. The leading edges of disk trailing samples collapsed due to their velocity entering the buffer feeder. This degradation of the leading edge leads to several processing issues:

- Double feeds
- Fine cull rejects due to "skew"
- Envelope damage.
- Potential transport jams
- "Fold Over" obscuring the address

All of the above circumstances, except jamming, occurred during this test.

PUBLIC

GFL0000402

Conclusion

Engineering's tests indicate that the samples supplied by Netflix will sustain damage, cause jams and be missorted during processing. This will cause operations personnel to remove the mailers from the automation mail stream and handle them manually. In addition, the lack of tabs magnifies the potential for mailpiece damage and disk loss or theft.

Engineering finds the mailpiece supplied by Netflix is not machinable.

Sincerely,

[Redacted]

US-160

Letter Mail Technology

cc:

[Redacted]

US-026

US-015

PUBLIC

UNITED STATES POSTAL SERVICE (USPS)
OFFICE OF INSPECTOR GENERAL (OIG)
MARKETING

VS-123
INTERVIEW WITH [REDACTED] USPS Engineering

VS-123
PURPOSE: To document telephone interview with USPS Engineering, [REDACTED] Manager, Acquisition Management.

DATE and TIME: May 24, 2007; 2:00 PM

PLACE: Telephone Conversation

PARTICIPANTS:

[REDACTED] USPS Engineering, VS-123
[REDACTED] Auditor, Marketing -VS-094

CONCLUSION:

VS-123 [REDACTED] stated that he did not provide any written documentation of any sort to Marketing, or [REDACTED] indicating that Netflix's pieces were automation compatible or machinable. He stated he would not have contradicted anything that [REDACTED] had issued. VS-129

DETAILS:

VS-094 [REDACTED] explained that the OIG was performing a review of PRM and we were trying to determine how Netflix obtained the current mailing rate, without having being subject to the manual surcharge for its return pieces.

VS-160 According to a 6/11/02 memo issued by Engineering (signed by [REDACTED], VS-160 the Netflix return piece was not automation compatible (machinability was not mentioned). A 6/24/02 memo issued by Marketing (signed by [REDACTED], VS-129 stated that this piece was machinable, but was not automation compatible. The OIG contacted [REDACTED], and she stated that she remembered receiving an VS-129 email/letter from [REDACTED] stating that the piece was automation compatible. VS-123

VS-123 [REDACTED] stated that he did not write any memo/letter/email, and he said he would never have written anything that would have contradicted something that [REDACTED] would have issued (he was referring to the 6/11/02 memo).

PUBLIC

GFL0000419

UNITED STATES POSTAL SERVICE (USPS)
OFFICE OF INSPECTOR GENERAL (OIG)
MARKETING

US-160

INTERVIEW WITH [REDACTED] USPS Engineering

US-160 **PURPOSE:** To document follow up telephone interview with USPS Engineering, [REDACTED], to determine USPS Engineering involvement with determining the machinability of Netflix return mailpieces.

DATE and TIME: May 24, 2007; 10:00 AM

PLACE: Telephone Conversation

PARTICIPANTS:

[REDACTED] USPS Engineering, [REDACTED] US-160
[REDACTED] Auditor, Marketing US-094

CONCLUSION:

US-123 - After explaining to [REDACTED] that [REDACTED] (formerly [REDACTED]) stated that [REDACTED] issued a letter/email indicating that the mailpiece was automation compatible and was flexible enough [REDACTED] was not sure what was said about the flexibility but knew it contained something about flexibility). Based on this letter, [REDACTED] issued the 6/24/02 letter stating it was machinable. [REDACTED] doubted the fact that [REDACTED] would have issued this memo. [REDACTED] was [REDACTED] manager and [REDACTED] does not think he issued any memo. US-129 US-160 US-123

US-160 [REDACTED] Laws believes that someone in Marketing overruled Engineering's decision in order to give Netflix the desired rate.

DETAILS:

US-094 [REDACTED] explained that the OIG was just following up on an earlier conversation to determine USPS Engineering's role in Netflix being allowed to mail at automation rates.

US-129 [REDACTED] began the conversation by explaining to [REDACTED] that he had spoke to [REDACTED] (formerly [REDACTED]), who had signed the 6/24/02 letter stating that the Netflix return mailpiece was machinable. [REDACTED] explained that [REDACTED] said they made the decision to issue that letter because she believes that she received an email/letter signed by [REDACTED] who she had been working on the Netflix issue with, basically saying that the mailpiece was automation compatible and something about it being flexible enough. She was not sure US-094 US-129 US-123

PUBLIC

GFL0000420

**UNITED STATES POSTAL SERVICE (USPS)
OFFICE OF INSPECTOR GENERAL (OIG)
MARKETING**

exactly what was said, since it was 5 years ago. She lost this letter last year when her computer crashed.

US-160

██████████ does not believe that is correct because he is fairly certain that ██████████ would not have issued that letter and went against the results of their testing, especially since he was ██████████ manager.

US-123

US-160

US-094

██████████ asked why when ██████████ read the 6/24/02 letter and it stated that Netflix was machinable and ██████████ knew it was not correct, why did he not react.

US-160

US-160

US-160

██████████ basically felt that someone in Marketing overruled his office in order to give Netflix the desired rate.

PUBLIC

GFL0000421

UNITED STATES POSTAL SERVICE (USPS)
OFFICE OF INSPECTOR GENERAL (OIG)
MARKETING

US-129
INTERVIEW WITH [REDACTED] USPS Mail Preparation and Standards

PURPOSE: To document telephone interview with former USPS Manager, Mail Preparation and Standards, [REDACTED] (formerly [REDACTED]), to determine how Marketing decided that the Netflix mailpiece was machinable. *US-129*

DATE and TIME: May 22, 2007; 10:00 AM

PLACE: Telephone Conversation

PARTICIPANTS:

- [REDACTED] USPS Marketing, *US-129*
- [REDACTED], Auditor, Marketing *US-094*

CONCLUSION:

US-129
[REDACTED] (as former Manager of Mail Preparation and Standards) issued a letter on 6/24/02 stating that the Netflix return mailpiece was machinable, although in a 6/11/02 letter USPS Engineering had ruled it to be not automation compatible, but had not issued a ruling on machinability. [REDACTED] reason for *US-129* issuing this letter was that someone from Engineering [REDACTED] had sent *US-123* her a letter stating that it was automation compatible. [REDACTED] also stated that [REDACTED] had later said he did not send her this letter stating these facts. [REDACTED] is *US-129* not able to produce the letter/email because her computer crashed last year and she lost everything.

DETAILS: *US-094*

US-094
[REDACTED] explained that we were conducting an audit on PRM and were determining how it was determined that Netflix mailpieces were machinable, specifically the return pieces. [REDACTED] stated that USPS Engineering issued a letter on 6/11 saying that the mailpieces were not automation compatible, but did not address machinability. [REDACTED] then stated that a piece has to be machinable in order to be automation compatible. *US-129*

US-094
[REDACTED] then stated that [REDACTED] (as the former Manager of Mail Preparation and Standards) had signed a letter on 6/24 saying that although the mailpiece was not automation compatible, it was machinable. [REDACTED] asked how [REDACTED] made *US-129* that determination. [REDACTED] said it was five years ago and really could not remember all the details, but does remember getting a letter from [REDACTED] *US-123*

PUBLIC

**UNITED STATES POSTAL SERVICE (USPS)
OFFICE OF INSPECTOR GENERAL (OIG)
MARKETING**

US-129

of Engineering saying that the piece was flexible enough to be run on automation and was automation compatible. [REDACTED] said that she could probably not find that letter because her computer crashed last year and she lost almost everything. She did go on to say that [REDACTED], a few years later, said that he had never sent any letter on that issue, but she says that he did. (She will try to find the letter and if she does she will email it to the OIG.)

US-123

PUBLIC

GFL0000423

UNITED STATES POSTAL SERVICE (USPS)
OFFICE OF INSPECTOR GENERAL (OIG)
MARKETING

US-160

INTERVIEW WITH [REDACTED], USPS Engineering

PURPOSE: To document telephone interview with USPS Engineering, [REDACTED], to determine USPS Engineering involvement with determining the machinability of Netflix return mailpieces.

US-160

DATE and TIME: May 21, 2007; 3:50 PM

PLACE: Telephone Conversation

PARTICIPANTS:

- [REDACTED], USPS Engineering, [REDACTED]
- [REDACTED], Marketing US-208
- [REDACTED], Auditor, Marketing US-094

US-160

CONCLUSION:

According to USPS Engineering, although the letter they issued in 6/11/02 stated that the Netflix return mailpiece was not automation compatible, it was also not machinable. (which was not addressed in letter). In regards to the 6/24/02 letter that Marketing issued stating that the piece was machinable, Mr. [REDACTED] stated that "Marketing will have to address that". USPS Engineering had concluded the piece was not machinable.

US-160

DETAILS:

[REDACTED] explained that the OIG was just following up on an earlier conversation to determine USPS Engineering's role in Netflix being allowed to mail at automation rates.

US-094

We first asked the definition of machinability vs automation compatibility. Mr. [REDACTED] explained that he would have to go back to the DMM but in a mailpiece has to be machinable to be automation compatible. Mr. [REDACTED] explained that the criteria is written in the negative, meaning it states what it can't be, not what it should be.

US-160

US-160

We then asked if in the last five years there have been any changes in the definitions of machinability and automation compatibility. Mr. [REDACTED] said there have been some minor changes but nothing that would have any impact on Netflix's machinability.

US-160

PUBLIC

UNITED STATES POSTAL SERVICE (USPS)
OFFICE OF INSPECTOR GENERAL (OIG)
MARKETING

We then stated that back in '02, Engineering tested Netflix mailpiece and determined that it was not automation compatible, but did not address machinability in the letter. We asked if the piece was machinable because Marketing issued a letter two weeks later that stated that although the piece was not automation compatible, it was machinable. We asked Mr. [REDACTED] if the piece was machinable. He stated that according to USPS Engineering, the piece was not machinable. When asked how Marketing determined it was machinable, Mr. [REDACTED] answered, "Marketing will have to address that."

We then stated that in more recent letters, USPS Engineering has specifically stated when a company has failed for machinability. We asked what were the reasons they failed. Mr. [REDACTED] stated that unless he knew the specific company he would not know why they had failed.

We then asked if there was any type of result data sheet that USPS Engineering had when they completed the test. Mr. [REDACTED] said there was not, they would only send an email or a letter stating what the results of the test had been. (There were no written test results, nor was he aware of any separate testing done by Marketing.) We specifically asked for the 2002 results, and Mr. [REDACTED] said that there were not any written results for that testing. They just issued the 6/11 letter.

We then asked what it would take to retest all the PRM mailers and Mr. [REDACTED] said it would take 2-3 weeks per mailer because only one person does the testing and it would vary based on the workload that they have.

Mr. [REDACTED] said he did not know how many national authorizations they have for PRM. Marketing or PSSC may have that information.

Mr. [REDACTED] was also not aware of any situation where a mailer was approved to mail PRM or BRM and then it was determined that a mistake had been made. If that had occurred, he was not aware.

Mr. [REDACTED] states that when they deem mailpieces to be nonmachinable, they are also considered not automation compatible.

PUBLIC

GFL0000425

FW: NETFLIX

[Redacted] - Rosslyn, VA VS-180

From: [Redacted] - Chicago, IL - VS-098
 Sent: Thursday, July 17, 2003 6:58
 To: [Redacted] - Chicago, IL - VS181
 Cc: [Redacted] - Rosslyn, VA - VS-180
 Subject: FW: NETFLIX
 Sharon 1,
 Sharon 2,

It seems almost everyone is processing this mail manually. Is it possible to "change" the "automation compatible" rating, especially with the upcoming [Redacted] Deal on DVD's?

[Redacted] VS-098

-----Original Message-----

From: [Redacted] - Chicago, IL - VS-146
 Sent: Wednesday, July 16, 2003 6:14 PM
 To: [Redacted] - Chicago, IL; [Redacted] - Chicago, IL - VS-096
 Cc: [Redacted] - Chicago, IL; [Redacted] - Chicago, IL
 Subject: RE: NETFLIX VS-098 L VS-105

*With the
 return pieces
 are not receiving
 an automatic
 discount - Netflix
 pay single class
 postage*

You're exactly right [Redacted]. Netflix got a sweet deal from our marketing department. At one point, our three was processing Netflix on the AFSM 100, reasoning the envelopes were automation compatible, in direct conflict with the original directive governing Netflix processing (no flat tabs), and the directive from Headquarters relative to processing "fletters" (large letters).

Although mail prep captures a great deal of the Netflix volume and trays it for subsequent manual processing, a small percentage manages to find its way to our automated mail stream.

[Redacted] To do so will surely invite damage to the DVDs, especially if multiple disks are mailed.

Netflix is getting an automation mailing rate discount for pieces that we process manually!

*IP Netflix Subst
 in our
 analyzer*

*Customer pays \$1.11 for DVDs to be returned separately.
 It would have cost .83 for 3 DVDs in one envelope.*

-----Original Message-----

From: [Redacted] - Chicago, IL VS-098
 Sent: Wed 7/16/2003 8:42 AM
 To: [Redacted] - Chicago, IL VS-096
 Cc: [Redacted] - Chicago, IL; [Redacted] - Chicago, IL; [Redacted] - Chicago, IL
 Subject: FW: NETFLIX VS-105 VS-146

I haven't received any additional information on this from HQ, but I have talked to San Jose, CA (they process the most Netflix in the country) and they are capturing the DVD at the AFCS! This means they are processing this mail MANUALLY, NOT through automation. Their AFCS operators pull the DVD's out at the feeder and throw it into a tub, that is then manually transferred into an EMM tray.

[Redacted] VS-098

-----Original Message-----

From: [Redacted] - Chicago, IL VS-098
 Sent: Monday, July 07, 2003 1:39 PM
 To: [Redacted] - Chicago, IL VS-181

630-978-4329

PUBLIC

7/17/2003

GFL0000428

Author: [REDACTED] at INTERNET NF-002
Date: 4/25/02 8:25 PM
Normal
TO: [REDACTED] at WADC047L NF-003
CC: [REDACTED] at INTERNET - NF-013
Subject: NPF San Diego followup
----- Message Contents

[REDACTED]
You were great at the forum. I was able to make key contacts with your help. Here's a recap of my requests:

1) You're taking samples of our mailer to [REDACTED] to get her blessing the mailers are machineable. Assuming [REDACTED] considers the mailer machineable then some sort of notification goes out to the districts announcing the ruling. The objective is to keep districts from applying a \$.12 surcharge because of a wrong assumption. VS-129

2) You're talking to [REDACTED] regarding ruling #3 of the March 19, 2002 letter. #3 states we must meet the Business Reply Mail format elements according to the DMM and prior to distribution we must have the BRM format approved by every delivery office accepting our mail. The arrangement agreed on by [REDACTED] and [REDACTED] called for the return piece to be a called a "Prepaid envelope that happens to use the BRM elements". VS-018
Technically the return is not Business Reply. We also can't have multiple envelope types to satisfy the different interpretations of the BRM format. rules. The objective is to replace #3 with a clause that explains the unique mailpiece and that it is in fact readable as it is.

3) You're talking to [REDACTED] regarding the April 5, 2002 letter which VS-061 forces us to pickup up our mail at an associate office (caller service location) instead of at the P&DC. The objective is to allow the flexibility of special arrangements for pickup when absolutely needed. Now we pick up the mail later (impacting our operations) and the post office spends more man hours working the mail again at the smaller associate office.

4) You're emailing me the postal link that has a cool article on Netflix.

Many Thanks,

[REDACTED] NF-002

PUBLIC

GFL0000430

CC: [REDACTED]
Subject: NETFLIX

-VS-180

Sharon,

-VS159

I've talked twice to [REDACTED] in reference to the NETFLIX operation, and it appears that the majority of this mail (98%) is being captured at the AFCS and then manually put into EMM trays. They are capturing this mail at the first part of the process, which is not "automation". The AFCS is classified as "mechanization", the MLOCR and DBCS are classified as "automation". My question is if so much of this mail is being manually trayed, where is the savings. This must be costing us [REDACTED] to process. Add to this the fact that some of the customers are putting up to 3 DVD's in 1 envelop and I'd say we have some serious issues.

[REDACTED]

Handwritten notes:
-VS159
-VS180
3 DVD's
EMM f

Stamp:
San J
AFCS I
operate
EMM f

PUBLIC

GFL0000458



September 12, 2002

MANAGERS, OPERATIONS SUPPORT (AREA)
MANAGERS, MARKETING (AREA)
DISTRICT MANAGERS
PLANT MANAGERS, PROCESSING AND DISTRIBUTION CENTERS/FACILITIES

SUBJECT: NETFLIX Service Improvement

The e-commerce company, NETFLIX.COM is expanding their operation. They have twelve hub distribution centers around the country with plans to establish eight additional hub sites by the end of this year. They specialize in providing convenient and affordable home entertainment (DVD rentals) using the U.S. Postal Service for shipping to customers and for returns. NETFLIX sends disks in a reusable First-Class Mail envelope. When customers are finished, they return the disk by inserting it into the original reusable prepaid envelope at their convenience. The service now has over 625,000 subscribers. Their annual revenue contribution is over \$16 million.

It is important that we process this mail accurately and efficiently. The enclosed Service Talk includes some major points to share with your staff and employees to ensure excellent service is achieved. An enclosed sample mailer with a DVD disk is provided as a visual aid.

Listed below are some of the common problems reported by NETFLIX:

- Looping of the outbound mailpiece—returned to NETFLIX.
- Damaged (broken disks) during processing and/or delivery.
- Inconsistent volumes available for the first scheduled caller service pickup.
- Employees are not recognizing the difference between the outbound and inbound mailpieces.
- Extreme losses due to unknown theft or separation from the mailer.
- Loss of loose disks that were separated from the envelope.

Should you or your staff encounter problems in handling or processing NETFLIX mailpieces, please notify the local Business Service Network and Account Representative [redacted] for immediate follow-up with the respective NETFLIX representative.

Enclosures

cc:

Vice Presidents, Area Operations
Manager, Capital Metro Operations

475 L'ENFANT PLAZA SW
WASHINGTON DC 20260
202-268-
FAX 202-268-
www.usps.com

PUBLIC

GFL0000460

SERVICE TALK

NETFLIX DVD RENTAL MAILERS

A PHOTOCOPY OR ACTUAL SAMPLE OF THE REUSABLE MAILER SHOULD BE DISPLAYED WHEN PRESENTING THE SERVICE TALK TO EMPLOYEES

Listed below are key points postal personnel should be aware of to handle and process NETFLIX mailings consistently and timely.

- **Outbound Mailpiece Characteristics:** Red automation compatible (letter-size) reusable envelope with permit imprint noting First-Class Mail, U.S. Postage PAID, NETFLIX. The envelope contains a rental DVD disk. See sample.
- **Inbound Mailpiece Characteristics:** White (front) and red (back) prepaid return (letter-sized) envelope in the Business Reply format (EIM C). The mailpiece is machineable. The envelope bears the NETFLIX logo on the return address area. The envelope contains a rental DVD disk. See sample.
- The inbound mailpiece has been prepaid by NETFLIX and should not be treated as postage due. NETFLIX has established Caller Service to pickup the inbound BRM mailers. The majority of this mail should be processed, staged, and made available for the first customer pickup.
- Processing facilities should target and isolate all NETFLIX inbound mailpieces in a staging area for Caller Service pick-up, not the box section.
- To prevent any damage when the mail is being handled or transported, the letter-size mailers should be placed in EMM trays in lieu of flat containers (tubs).
- Loose disks that become separated from the mailpiece during processing should be collected daily and returned to NETFLIX. Supervisors should make the disks available along with the inbound (BRM) mail for pickup, and should not be subject to postage-due fees.
- Report deficiencies to the local Business Service Network and Account Representative [REDACTED] for immediate follow-up with the NETFLIX representative. [REDACTED]

US-182

PUBLIC

GFL0000461



US-172

OPERATIONS



December 18, 2003

MANAGERS, OPERATIONS SUPPORT (AREA)
PLANT MANAGERS
DISTRICT MANAGERS

SUBJECT: Netflix Outgoing Processing Requirements

Netflix continues to expand its operation specializing in DVD rentals via the Internet using the U.S. Postal Service as the shipping and delivery provider. Customers order up to six DVDs at a time and Netflix mails each DVD in separate Netflix patented red envelopes which are converted for the return mailings. The service now has over 1,000,000 subscribers with an annual revenue contribution of over \$22 million.

Netflix presents mailings at the business mail entry unit and pays First-Class presort/automation letter rates for the outbound mailpieces. Postage for the return envelopes using the Business Reply Mail format is prepaid concurrently with the postage collected for the outgoing mailing under a special postage payment system agreement.

When the current Netflix envelope was introduced, we identified the mailpiece as automation compatible. Recent reviews in the field indicate this product has migrated away from letter automation and is being processed most frequently on the Automated Flat Sorting Machine 100 and Small Parcel and Bundle Sorter. This adds unnecessary costs.

The outgoing Netflix envelope is automation compatible. The chart below represents processing results of testing the Netflix envelope on the Delivery Barcode Sorter (DBCS) at plants with the largest outgoing Netflix volume:

Facility	Pieces Presented	Pieces Accepted	Accepted Rate	Number of Items	% of Items	Mail Location
San Jose CA P&DC	3031	3031	100.0%	1	0.03	stacker
Santa Ana CA P&DC	805	805	100.0%	0	-	-
Suburban MD P&DC	4785	4785	100.0%	0	-	-
Richmond VA P&DC	1545	1545	100.0%	1	0.06	stacker
Southeastern PA P&DC	3521	3516	99.8%	0	-	-
Total	13687	13682	99.9%	2	0.01	-

Outgoing Netflix mailpieces must be processed using the DBCSs and kept in the delivery point sequence mailstream.

We are developing standardized work methods to process the return Netflix mailpieces while we test the automation compatibility of a Postal Service developed dual use DVD mailer.

475 L'ENFANT PLAZA SW
WASHINGTON DC 20260
202-268-
FAX: 202-268-
www.usps.com

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GFL0000462



**ROUND TRIP DISK MAIL
Take-Away:**

**A Cost Study Will Not Make the
Decision Regarding Policy Treatment
of Round Trip DVDs**

GFL0000464

PUBLIC



ROUND TRIP DISK MAIL Cost Study for What?

- **What are we trying to fix?**
- **What are the options considered for fixing the problem(s) identified?**
- **What options do we have the nerve to implement?**
- **What do we do with the cost study (and its implications for other categories of mail) if we decide to not implement a solution?**



ROUND TRIP DISK MAIL

What Is the Problem?

What Are We Trying to Fix?

- **Breakage and damage of DVDs**
- **Nonmachinability of DVDs**
- **Rates available would be too high**
- **Favoritism of one customer**
- **Ad hoc operations**



ROUND TRIP DISK MAIL

Current Operations Not Standardized

- Cull All (Springfield, IL; Pacific Area; Cap Metro; NY Metro)
 - But Netflix runs sometimes
 - Blockbuster runs some/most times
- Cull None (Royal Oak; Fort Worth)
 - How do they run?
- Cull Netflix
 - Why?
 - They're red and easily isolated
 - They have a floppy edge
 - The mailer requested we pull them



ROUND TRIP DISK MAIL Mailers' View

- **Breakage and damage**
 - Reducing damage by fixing envelope would lead to heavier mailpiece and additional ounce surcharge
- **Issue is not the floppy edge**
 - Nonmachinable surcharge not applicable under current regulations
- **Breakage can be reduced by culling**
 - But mailer does not want to pay surcharge for manual handling

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ROUND TRIP DISK MAIL

Netflix Versus Other DVDs

Other DVDs

- Fewer complaints about breakage
- Work on processing machines – no floppy leading edge



ROUND TRIP DISK MAIL

Purpose of Proposed Cost Study

GFL0000470

PUBLIC



ROUND TRIP DISK MAIL Design of Cost Study

PUBLIC



ROUND TRIP DISK MAIL Cost Study Concerns

- Results may not support desired option
 - Volume variability for culling very low (change in volume leads to very small change in costs)
 - DVDs bypass outgoing primary operation
- Results will be skewed toward the Netflix picture
- Results will reflect only current customer mix
- Results will be tied to current operations
 - Issuing an SOP would invalidate the results
- Results will be tied to current mailpiece design
 - What if mailers change envelopes?



ROUND TRIP DISK MAIL

Cost Study Design Depends on Options for Approach

- **Assess the mail pieces the nonmachinable surcharge?**
- **Assess the mail pieces a lesser RDM-specific surcharge?**
- **Keep the rates as they are?**
- **Offer a discount?**
- **Force mailers to conform to processing standards?**
- **Create a new mail stream for DVDs?**

PUBLIC

GFL0000473

VS-165

DVD DISTRIBUTOR MAIL PIECE ISSUES

A sample mail piece is included in Attachment 1.

I. ENGINEERING ISSUES

- A. Handbook PO-424 "AFCS/ISS Operating System Guidelines" (see Attachment 2) describes unit 12, the Fine Cull mechanism. This mechanism will eject mail pieces that are "too stiff" or "skewed."
1. During field observations some mail pieces are ejected while others are not. Is this perhaps related to whether the disc in the mail pieces is at the leading or trailing edge, such that in one circumstance the mail pieces are ejected, while in the other they are not?
 2. Were the pieces processed on the AFCS-ISS during the machinability tests described in the letter to [REDACTED] (see Attachment 3) fed as both leading and trailing edge mail pieces?
 3. What were the conditions of the test? Was Netflix mail processed by itself, was it mixed with other live mail, etc.?
 4. What is an example of a "skewed" mail piece that is ejected by the fine cull mechanism? Is it the entire mail piece that is "skewed?"
- B. In terms of barcode readability, what does a barcode that meets or exceeds DMM "positional skew" limits as described in DMM 58 Section C840.6.0 look like (see Attachment 4 for various DMM information pertaining to these mail pieces)?
- C. The letter to [REDACTED] states that the return mail pieces were machinable, but not "entirely automation compatible." In that case, wouldn't we prefer to have these mail pieces bear FIM B, such that they are sorted to bins 5 and 6 and would be subsequently processed on an MLOCR-ISS? Would positional skew also be an issue as far as the MLOCR-ISS directly applying a barcode in the lower left-hand corner of the mail piece? Would the darkness of the back side of the mail piece result in ID tag errors? Has a machinability test been conducted on the MLOCR-ISS?
- D. During field observations, some plants are routing at least a portion of this mail to the FSMs. Despite that fact, FSM supervisors have indicated that this mail can get damaged on that machine. Have we conducted any machinability tests on either the AFSM100 or the UFSM1000?

PUBLIC

GFL0000474

- E. Is there any way that current culling system / AFCS-ISS technology could be used to cull this mail from the residual single-piece mail, either in its current state or with an envelope modification, were it determined that this would benefit operations?

II. MAIL PIECE DESIGN ISSUES

- A. At least for Netflix, the address labels on the return BRM mail piece are not applied by the customer; they are applied by Netflix employees (see Attachment 5). During field observations, these labels sometimes appear to violate the DMM "positional skew" requirements and, according to mail processing clerks working in the outgoing primary "FIM" operation at some plants (Op. No. 891), they missort as a result. If these mail pieces are not "entirely automation compatible" as described above, should they bear a FIM B, rather than FIM C? If they continue bearing FIM C, doesn't that violate the DMM 58 Section S922.6.0, which states "BRM enclosed in automation rate mailings and all QBRM must be ZIP+4 barcoded" and "meet the barcode standards in C840."

III. OPERATIONS ISSUES

- A. ⁰⁵⁻¹⁷² [REDACTED] letter to the field regarding "Netflix Service Improvement" (see Attachment 6) lists several problems that have been reported by Netflix. If these mail pieces are testing the limits of our machinability definition as it pertains to cards and letters, the fact that some of the mail pieces are processed on that equipment could be the cause of some of the stated problems. On the "Service Talk" attachment to that letter, however, it states that "the mail piece is machinable." Do we know, in fact, that the processing of these mail pieces on high speed card and letter processing equipment isn't the cause of some of the damage to mail pieces?
- B. The outbound and inbound mail pieces are very similar in appearance. The Service Talk also states that employees have difficulty recognizing the difference. If this mail is truly being processed on card and letter automation, then it should always get sorted to the proper destinating address. This statement alone seems to indicate that mail is being processed manually.
- C. The attached service talk from the Houston District (see Attachment 7) specifically states that this mail is not always processed on card and letter automation.
- D. The attached response to an email I sent to various Managers of In-Plant Support at plants that served one of the destinating Netflix BRM

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GFL0000475

mail pieces also indicates that this mail is not entirely processed on card and letter automation (see Attachment 8).

- E. The BRM mail pieces processed at some plants are destined for multiple Netflix addresses. For example, at the Cincinnati P&DC this mail was destined for either Lansing, MI or St. Louis, MO, while at the Tampa P&DC, this mail was destined for either Duluth, GA or Fort Lauderdale, FL. Is it possible that plant personnel are not aware of this fact and the mail is being mixed together, given that the mail pieces all look the same? In addition, there is always the possibility that Netflix customers drop this mail in collection boxes outside their normal service area. How do we address this issue?
- F. In recent field observations, this mail has been observed in card/letter, flats, and even parcel (SPBS) processing operations. Where should this mail really be processed and/or where do we want it to be processed?
- G. Netflix processing is not solely a plant issue. At some plants, it was observed that Netflix mail arrived from some DUs prepped with the SPRs, not the collection cards and letters.

IV. RATE-RELATED ISSUES

- A. Are Netflix competitors being assessed/waived the same postage and fees in a "fair and equitable" manner?
- B. Witness Kinsley's Docket No. R2001-1 testimony (see Attachment 9) was the basis for the expansion of the nonmachinable surcharge to include mail pieces containing "rigid or odd-shaped items." Where did the "40 pounds around an 11 inch turn" requirement now specified in DMM 58 Section C050.2.2e come from, as it was not discussed in that docket? Is it possible this requirement is not strict enough?

C.



D.



PUBLIC

1. [REDACTED]

2. [REDACTED]

[REDACTED] The mail pieces housing the DVDs for various competitors look virtually identical, as if they were created by the same manufacturer. In addition, the identical processing issues would seem to apply.

3. [REDACTED]

PUBLIC

GFL0000477

ATTACHMENT 6



US-172



September 12, 2002

MANAGERS, OPERATIONS SUPPORT (AREA)
MANAGERS, MARKETING (AREA)
DISTRICT MANAGERS
PLANT MANAGERS, PROCESSING AND DISTRIBUTION CENTERS/FACILITIES

SUBJECT: NETFLIX Service Improvement

The e-commerce company, NETFLIX.COM is expanding their operation. They have twelve hub distribution centers around the country with plans to establish eight additional hub sites by the end of this year. They specialize in providing convenient and affordable home entertainment (DVD rentals) using the U.S. Postal Service for shipping to customers and for returns. NETFLIX sends disks in a reusable First-Class Mail envelope. When customers are finished, they return the disk by inserting it into the original reusable prepaid envelope at their convenience. The service now has over 625,000 subscribers. Their annual revenue contribution is over \$16 million.

It is important that we process this mail accurately and efficiently. The enclosed Service Talk includes some major points to share with your staff and employees to ensure excellent service is achieved. An enclosed sample mailer with a DVD disk is provided as a visual aid.

Listed below are some of the common problems reported by NETFLIX:

- Looping of the outbound mailpiece--returned to NETFLIX.
- Damaged (broken disks) during processing and/or delivery.
- Inconsistent volumes available for the first scheduled caller service pickup.
- Employees are not recognizing the difference between the outbound and inbound mailpieces.
- Extreme losses due to unknown theft or separation from the mailer.
- Loss of loose disks that were separated from the envelope.

US-182

Should you or your staff encounter problems in handling or processing NETFLIX mailpieces, please notify the local Business Service Network and Account Representative [redacted] for immediate follow-up with the respective NETFLIX representative.



US-172

Enclosures

cc: [redacted] US-036
[redacted] US-173
Vice Presidents, Area Operations
Manager, Capital Metro Operations

475 L'Enfant Plaza SW
Washington DC 20020
[redacted]
www.usps.com

PUBLIC

6-1

GFL0000495

SERVICE TALK

NETFLIX DVD RENTAL MAILERS

A PHOTOCOPY OR ACTUAL SAMPLE OF THE REUSABLE MAILER SHOULD BE DISPLAYED WHEN PRESENTING THE SERVICE TALK TO EMPLOYEES

Listed below are key points postal personnel should be aware of to handle and process NETFLIX mailings consistently and timely.

- **Outbound Mailpiece Characteristics:** Red automation compatible (letter-size) reusable envelope with permit imprint noting First-Class Mail, U.S. Postage PAID. NETFLIX. The envelope contains a rental DVD disk. See sample.
- **Inbound Mailpiece Characteristics:** White (front) and red (back) prepaid return (letter-sized) envelope in the Business Reply format (EIM C). The mailpiece is machineable. The envelope bears the NETFLIX logo in the return address area. The envelope contains a rental DVD disk. See sample.
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- Processing facilities should target and isolate all NETFLIX inbound mailpieces in a staging area for Caller Service pick-up, not the box section.
- To prevent any damage when the mail is being handled or transported, the letter-size mailers should be placed in EMM trays in lieu of flat containers (tubs).
- Loose disks that become separated from the mailpiece during processing should be collected daily and returned to NETFLIX. Supervisors should make the disks available along with the inbound (BRM) mail for pickup, and should not be subject to postage-due fees.
- Report deficiencies to the local Business Service Network and Account Representative Anne Meyer (ameyer@usps.com) for immediate follow-up with the NETFLIX representative.

PUBLIC

6-2
GFL0000496

[redacted] - Washington, DC US-143

From: [redacted] - Washington, DC US-132

Sent: Friday, September 05, 2003 4:47 PM

To: [redacted] - Washington, DC; [redacted] - Washington, DC US-020; US-167

Subject: FW: NetFlix.Com Situation - Update

fyl

-----Original Message-----

From: [redacted] - Washington, DC -US-128

Sent: Wednesday, September 03, 2003 5:21 PM

To: [redacted] - Washington, DC -US-145

Cc: [redacted] - Washington, DC; [redacted] - Washington, DC; [redacted] Rosslyn, VA; [redacted] - Rosslyn, VA US-010 US-132 US-173 US-004

Subject: RE: NetFlix.Com Situation -- Update

S.010 US-145 US-113 and [redacted] thanks for the thorough followup - [redacted] mentioned Netflix at last week's EC meeting so this is timely info which I am forwarding to [redacted] and [redacted] (I agree with the suggestion we have a prepaid service) and to [redacted] as info. [redacted] US-128 US173 US004 US036

-----Original Message-----

From: [redacted] - Washington, DC -US-145

Sent: Tuesday, September 02, 2003 4:07 PM

To: [redacted] - Washington, DC -US-128

Subject: FW: NetFlix.Com Situation - Update

Importance: High

Fyl...

-----Original Message-----

From: [redacted] - Washington, DC US-010

Sent: Friday, August 29, 2003 1:28 PM

To: [redacted] - Washington, DC -US-145

Subject: RE: NetFlix.Com Situation - Update

Importance: High

[redacted] -US-145

Update.....

The envelope currently being used by NetFlix.com was not designed by Engineering. Engineering, however, did work closely with the customer to improve the design. The NetFlix.com reusable envelope was tested by Engineering in June 2002. Engineering determined that on the outbound the envelope was eligible for automation rates. However, the return envelope was not automation compatible, but it was machineable. The problem with the leading edge is being addressed by the Letter Technology group managed by [redacted]. This group has designed a prototype reusable envelope for these type of mailings (DVDs). The design has been forwarded to the legal department for patent processing. When legal advises, the Letter Technology department will start a pilot test with a customer (more than likely it will be NetFlix). They are also working with an envelope vendor to assess the requirements/efforts necessary to mass produce the new designed envelope. The next steps would consist of Engineering developing the specifications for reusable envelopes and Marketing Standards writing and publishing the rules. US-160

NetFlix is currently the largest volume mailer of rental DVDs; however, [redacted], Blockbuster and [redacted] are now joining. To prepare for the increase volume, Operations is currently developing a standard operating procedures for processing this type of mail. [redacted] is handling this effort. She has experienced a couple of road blocks, but the project is now moving forward.

In addition to the processing problem, the issue of granting an unlimited exception for NetFlix.com to utilize the Business Reply Mail format (format only - not service) should be addressed. As more companies enter this line of business, we need to consider or prepare to request a service for prepaid return mail. As it stands, the RCSC (San Francisco) has granted two exceptions to utilize the BRM format (NetFlix.com and [redacted]). But, with companies such as [redacted] now offering

Message

online DVD rentals, we will need an official service for this type of mail.

I will continue to research how [REDACTED] and others are utilizing prepaid return mail and how their individual return envelopes are impacting operations.

[REDACTED] US-010

PUBLIC

Washington, DC VS-143

From: [redacted] - Rosslyn, VA - VS-089
Sent: Monday, July 14, 2003 10:33 AM
To: [redacted] - Washington, DC - VS-167
Subject: FW: Netflix

FYI

-----Original Message-----
From: [redacted] - Rosslyn, VA - VS-183
Sent: Monday, July 14, 2003 9:31 AM
To: [redacted] - Rosslyn, VA - VS-074
Cc: [redacted] - Rosslyn, VA - VS-089; VS-184
Subject: FW: Netflix

FYI

-----Original Message-----
From: [redacted] - VS-047
Sent: Friday, July 11, 2003 5:34 PM
To: [redacted] - Rosslyn, VA - VS-183
Subject: FW: Netflix

fyi

-----Original Message-----
From: [redacted] - Rosslyn, VA - VS-071
Sent: Friday, July 11, 2003 4:39 PM
To: [redacted] - Washington, DC; [redacted] - Rosslyn, VA - VS-152; VS-110
Cc: [redacted] - Rosslyn, VA
Subject: RE: Netflix

Thanks, [redacted] That's very helpful.

VS-152

[redacted] - VS-071

Vice President
USPS

-----Original Message-----
From: [redacted] - Washington, DC - VS-152
Sent: Friday, July 11, 2003 4:33 PM
To: [redacted] - Rosslyn, VA - VS-110
Cc: [redacted] - Rosslyn, VA; [redacted] - Rosslyn, VA - VS-047; VS-071
Subject: Netflix

[redacted] VS-110

As mentioned to you at the NSA meeting yesterday, here is an FYI for your meeting on July 14 with Netflix

ISSUE ONE: Machinability of current mailer used by Netflix

Sales, Operations, Engineering, and Mailing Standards have formed an ad-hoc group to work on designing and testing a re-usable mailpiece for sending and receiving CDs and DVDs. This is being done in view of the ongoing problems the Postal Service is experiencing with similar mailing envelopes being used by Netflix.

Reports from Operations indicate the outgoing mail has caused few problems but the incoming

mail causes jams and double-feeds. Most of the mail is not processed on our faster letter-sorting equipment but rather on the slower FSM 1000, or worse yet, manually worked.

The current configuration of the Netflix envelope seats the DVD on the trailing edge of the envelope (left part of the envelope) to allow the front of the envelope to serve as the flexible "grab" to spend around the 14-inch drum (diameter of a standard coffee can) and prevent the relatively inflexible DVD from breaking.

Our engineers have conceived of a similar-style envelope that places the disc always in the center, weighs less than 1 ounce with a disc enclosed. We will be testing the envelope and probably asking for mailers interested to test this design once it is finalized.

ISSUE TWO: BRM Format

Under a pilot program approved by the San Francisco RCSC on March 13, 2000, with no ending date, the Postal Service authorized the use of the BRM format provided that the mailer made both the outbound and the inbound postage at the time of mailing, paid only the BRM permit fee, and paid no BRM accounting fee and no per-piece rate. Originally Netflix used metered reply mail, but that method was too labor-intensive. In turn, Netflix did not want to use BRM because of the delay in receiving pieces that first had to be counted in a Postal Service postage due unit before return to Netflix.

VS-183
Perhaps the Postal Service should revisit the issue of establishing a minor classification for Prepaid Reply Mail (PRM) as an appropriate vehicle for mailers who want to use such a service. [REDACTED] explained to me why the Board of Governors in 1998 decided not to pursue PRM, even though the PRC recommended that service in that omnibus rate case. At the eleventh hour, the credit card industry mounted a consolidated campaign to stop implementation of PRM. Because the credit card industry is basically an oligopoly, there is a great amount of interdependent strategy. If one company began offering PRM to its customers as a product differentiation strategy, then all others would be compelled to follow suit. I am not sure that would occur since some companies offer BRM and others only self-address return envelopes requiring postage.

This is not something I would discuss with Netflix, but it is a growing concern because several other mailers are now wanting a similar return service vehicle.

PRM might also be a useful tool [REDACTED] particularly among financial institutions (the organizations originally opposed to PRM). I have not heard whether Product Development is pursuing this issue or even aware of it at this juncture.

VS-002 [REDACTED] and I have extensive files on PRM, including market research.

Hope this information helps.

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History - Chronological of NETFLIX 2-way DVD Mailer (From Engineering):

June 11, 2002- Engineering tests Netflix mailer and finds the mailer is, overall, not automation compatible. The machineability results were described as good for the outbound mailer (DBCS) but poor for the return processing (AFCS).

June 24, 2002- Netflix receives approval from Mail Preparation and Standards.

June 2003- USPS Engineering begins design and development of proprietary DVD mailer. Focus on Machineability, stiffness, paperweight.

June 2004- Operations publishes SOP to standardize handling of Netflix mailers nationwide. (Outbound Processing)

Feb 2004- USPS Engineering receives 5000 samples of its proprietary design for internal testing. Testing continues through Feb 2005. Results published April 2005 and submitted to DVD working group to support classification recommendations.

May 2004- Netflix supplied several hundred test samples constructed of three different paperweights. These samples weighed approx. 1.1, 1.2 and 1.3 ounces. All samples were tested and although all samples performed well Engineering determined the 1.3 ounce piece would be the preferred choice. These samples were submitted in response to USPS testing of the USPS proprietary DVD mailer design. This mailer is constructed with 70lb paper and resulted in a mailpiece that exceeded 1 ounce. This design was not pursued since the issue of pieces exceeding 1 ounce had not been settled within USPS.

November 2004- Engineering undertook a test to determine breakage rates for DVD mailers. Netflix supplied approx. 500 mailers addressed to USPS Engineering. 400 were entered through Gaithersburg P&DC and 100 through Salt Lake City. When all the disks arrived at Engineering they were opened for examination. After examination any unbroken disks would then be entered into the mailstream through various collection mail points and examined again after receipt by Engineering. The initial inspection revealed many of the disks supplied by Netflix were marked as damaged (Netflix places the dvd in a sleeve with a label that the customer may indicate receipt of a broken or unplayable disk). The disk was useless for an accurate test and was returned to Netflix. Netflix indicated their desire to perform the test and would supply fresh samples. This never occurred.

Jan 2005- Netflix expresses desire to eliminate the tab on the mailer. They had tested mailers without tabs and reported good results. Engineering did not participate in these tests and recommended that Netflix be required to continue tabbing their mailer.

March 2005- Engineering publishes breakage data results from examination of all 5000 USPS test samples. Rate is approx. 2.2%.

Feb 2005- Engineering becomes aware of a redesigned Netflix mailer. Netflix designs a new mailer with a window on the back. Again, Netflix tested the mailers without the assistance of Engineering. They reported the window caused no processing problems and implemented the use of the design nationwide. Engineering has never tested or approved this design. This is the mailer they currently use.

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GFL0000511

ENGINEERS



UNITED STATES
POSTAL SERVICE

June 11, 2002

[Redacted] - NF-002

NETFLIX
2219 Oakland Road
San Jose, CA 95131-1402

Dear [Redacted] NF-002

Engineering tested for automation eligibility the second batch of mailpiece samples submitted by your office for automation eligibility on May 22, 2002. These samples have the CD located in the right (lead) portion of the mailpiece when it is sent by NETFLIX and in the left (trail) portion when it is returned to NETFLIX.

The samples were analyzed both as NETFLIX would send them and as they would be returned to NETFLIX. The samples were run as a batch on a delivery bar code sorter (DBCS) to simulate processing of pieces mailed by NETFLIX. The samples were mixed with other mailpieces and run on an advanced face canceler and a DBCS to simulate processing of pieces mailed back to NETFLIX.

The samples were processed without problems when they were run simulating pieces being mailed by NETFLIX. However, when the pieces were tested simulating pieces being mailed back to NETFLIX, the pieces did not stack correctly. Many pieces simulating return mail had the flimsy end fold over and covered the address information. This same problem was observed with earlier samples of similar construction. Consequently, Engineering finds that the submitted mail samples are not automation compatible.

If you have any further questions, please contact [Redacted]

Sincerely,

[Redacted Signature]

US-008

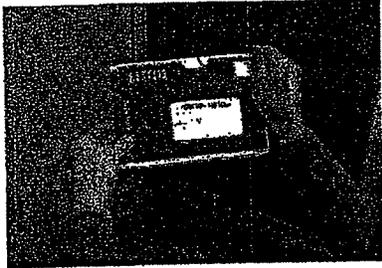
Letter Mail Technology [Redacted] US-160

5423 001-3-0000
Use only as directed

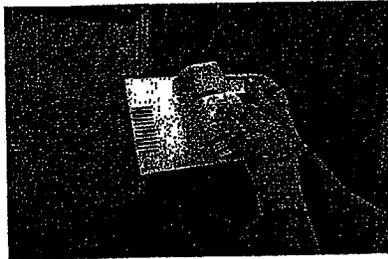
PUBLIC

GFL0000512

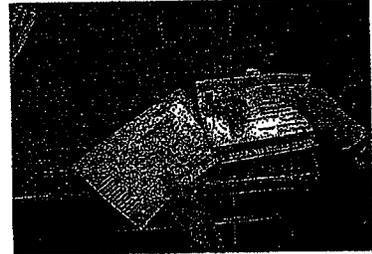
Netflix Envelopes



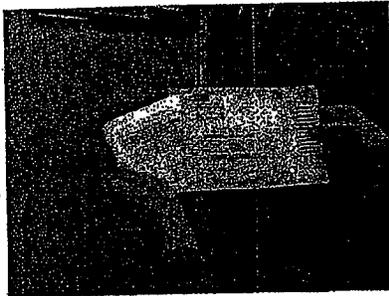
Customer receives the Netflix envelope. The DVD inside the envelope is located on the right leading edge of the envelope allowing for processing on the DBCS.



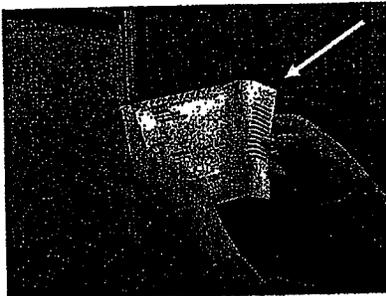
The envelope is opened by tearing the left side of envelope marked "Open Here."



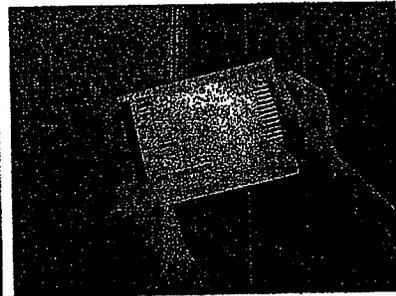
The loose paper is removed and the DVD is pulled out. The DVD is in a sleeve. Note the return envelope is upside down.



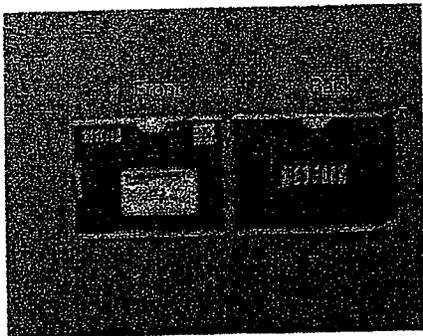
For the returns, the DVD is placed back in the sleeve and put in the prepaid envelope.



The DVD is positioned on the left side of the return mail piece. This results in a floppy leading edge preventing processing on the AFCS and DBCS.

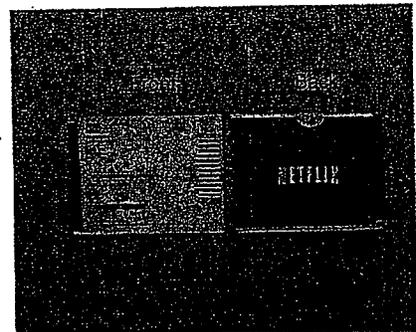


The envelope is sealed and entered into the mail stream for return to Netflix.



← Netflix mail pieces going to the customer are red on both sides.

A return mail piece to Netflix → will be white on the front and red on the back. The return postage is prepaid.



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GFL0000519

PROCESSING AND DISTRIBUTION CENTER OPERATIONS



February 15, 2005

PLANT MANAGERS, PROCESSING AND DISTRIBUTION CENTERS/FACILITIES

SUBJECT: Netflix Return Mail

Netflix On-Line DVD Rental Company receives customer returned DVDs through the U.S. Postal Service caller service. The attached picture (Attachment #1) illustrates improper handling of Netflix DVD returns. The Netflix service improvement memorandum and service talk distributed September 2002 mandated the Netflix mailers be put in Extended Managed Mail (EMM) trays. Netflix believes stacking weight to be a possible contributor to DVD damage.

Upon receipt of this letter, please ensure consistent application of the following policy:

- Netflix return mail placed in EMM trays
- Netflix EMM trays placed in General Purpose Mail Containers (GPMCs)

The added support of the EMM trays and the GPMC center shelf will minimize the possibility of damage to Netflix products. (Attachment #2)

- Please direct questions or concerns to [REDACTED], Operations Specialist, Processing and Distribution Center Operations at 202-268-[REDACTED].

US-154

[REDACTED]

US-161

Attachments

- cc: Managers, Operations Support (Area)
Managers, In Plant Support (Area)
District Managers

PUBLIC

475 L'Enfant Plaza SW
Washington DC 20260
202-268-
FAX 202-268-

GFL0000520

US-036

DEPUTY POSTMASTER GENERAL & CDO

TO: All Plant Managers
PJM'S
DMS
DSS



RECEIVED

May 9, 2005

MAY 13, 2005

DISTRICT MANAGER
GREATER IN DISTRICT

VICE PRESIDENTS, AREA OPERATIONS
MANAGER, CAPITAL METRO OPERATIONS

SUBJECT: Standardized Processing Procedures for DVD Returns

This is in reference to the memorandum (see attached) concerning Netflix Return Mail dated February 15 to plant managers from [redacted] Processing and Distribution Center Operations. In response to increasing concerns of high damage rates, we have conducted a review of digital video disc (DVD) return processing procedures at facilities recording the lowest breakage rates of DVDs being returned to our customers. We have found that low product damage rates are a direct result of full compliance with policies previously issued from headquarters.

-US-161

Areas are to reiterate to their staff the importance of verifying and complying with the standardized processing procedures. Processing and Distribution Centers/Facilities will identify a consolidation point for all letter trays destined to DVD mailers or subsequent U.S. Postal Service destination for final delivery. The following procedures should be used to ensure compliance:

Tray Containerization

The required Mail Transport Equipment (MTE) for DVD return mailings is the Extended Managed Mail (EMM) letter tray. The EMM tray's higher profile sidewalls enable the tray to be completely filled without the product exceeding the tray height, thus protecting the mail piece from damage. It is the responsibility of all managers at consolidation points to maintain an adequate number of trays to accommodate daily volumes because the use of EMM trays is critical to the protection of these mailings. Upon tray containerization, it is imperative that a tray sleeve is used for each EMM tray prior to subsequent consolidation to MTE rolling stock.

Dispatch Containerization

Upon verification that trays have been prepared properly, they will be loaded for dispatch in appropriate over-the-road rolling stock using a "brick-layed" stacking configuration. Regardless of the equipment type, DVD return trays are never to be stacked more than four layers high. The preferred piece of MTE to be used for tray volumes in excess of 12 is the shelved General Purpose Mail Container (GPMP). Eastern Region Mail Containers (ERMCs) are not to be used for tray volumes in excess of 12 unless a shelf is present. For tray volumes of 12 or less, GPMPs, ERMCs, or 1048 hampers are acceptable.

These procedures are to be implemented immediately in all facilities that receive or process DVDs being returned. Where warranted by volume, this also includes any collection points where letter carriers or dedicated collectors are able to identify, extract, and consolidate DVD mail products from regular collection volumes.

475 L'ENFANT PLAZA, SW
WASHINGTON, DC 20260
WWW.USPS.COM

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US-154

Any questions regarding this matter may be directed to [redacted] Processing and Distribution Center Operations, at 202-268-4064.



Attachment

- cc: Mr. [redacted] US-031
- Mr. [redacted] -US-051
- Mr. [redacted] -US-185
- Mr. [redacted] -US-193
- Mr. [redacted] -US-192
- Mr. [redacted] -US-161
- Mr. [redacted] -US-148

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February 8, 2006



US-102

2/10 Copies

COPY

Other P/C

managers

(New-Borg)



US-071

US-132

US-167

US-183

US-119



US-128

SUBJECT: CD/DVD Mailer Issues

The utilization by customers of the two-way CD/DVD mailers in the letter mail stream has been increasing since 2000. The two largest current users of these mailers are Netflix and Blockbuster. Two recurring issues keep arising about the use of this type of mailing package; machinability and disk breakage.

Generally, machinability issues are the result of the design of the two-way mailer and for the most part occur when the two-way mailer is configured as a return piece, from the mailer's customer back to the mailer.

Many sites have reported problems at the AFCS with two-way mailer return pieces, due primarily to jams, and are culling them out at the AFCS and processing them either as flats or as manual pieces. Previous testing by USPS Engineering has confirmed the problems reported by the field and was detailed in a June 11, 2002 memo to Netflix (see attachment B). Extensive testing of two-way CD/DVD mailers by USPS Engineering has identified four mailer characteristics that contribute to poor handling of two-way mailers on USPS automation equipment. These characteristics are included in Attachment A.

Using the knowledge obtained from testing problem two-way mailers, USPS Engineering developed and patented a two-way CD/DVD mailer that is machineable both as an outgoing piece and as a return piece, and still qualifies as a one ounce piece. However, mailers, particularly Netflix, have been less than enthusiastic about adopting the design of the USPS developed two-way mailer to improve machineability of their mailers. Part of Netflix's rationale for not adopting the USPS mailers is the belief that processing of their mailers on the AFCS is causing an increase in disk damage. Thus, they prefer that their disks are culled at the AFCS and processed manually (although they have not volunteered to pay a manual surcharge).

In addition to identifying factors that influence machineability, the testing of current disk mailers by USPS Engineering identified three aspects of letter mail automation and one processing method that can contribute to increased stress on disks. The possible contributors to CD/DVD disk damage are associated with processing through the AFCS or DBCS bullwheels, diverter gates, stacker induction and stacking in trays and tubs. More definition of these issues can be found in Attachment A.

The new DIOSS-D and the AFCS Overhaul will be gentler with disks than the existing automation. The DIOSS-D was designed with larger bullwheels and shallower diverter angles in an effort to "straighten" the mail path. The results of preliminary testing on the DIOSS-D with a small sample are consistent with the belief that there will be less disk damage on the DIOSS-D. However, more testing with a larger sample is required to definitively state that the DIOSS-D reduces disk damage. The AFCS Overhaul will also be using larger bullwheels, and it will be replacing diverters with channel gates. Channels gates will significantly reduce bending stress on disks. The new DIOSS-D machines are currently in deployment and the AFCS Overhaul program is expected to begin implementation in the 2008-2009 timeframe.

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8408 LEE HIGHWAY
MERRIFIELD VA 22082
703-280-7001

RECEIVED

FEB 09 2006

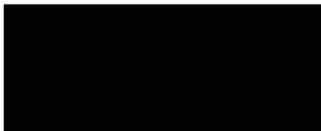
Office of CFC/ENV
Films, USAF

F212/104 D

1

GFL0000523

In summary, the machineability issue with the two-way CD/DVD mailers can be overcome today if the customers would agree to move to the USPS designed package. The disk damage issue will be significantly improved in the future with the new AFCS and DBCS designs.



US-102

Attachment

PUBLIC

Revised

US Postal Service
Pacific Area

Standard Operating Procedure
SOP # OS-05-4
March 1, 2005

Processing Netflix Mailings

Objective:

Efficient processing of time sensitive mail requires the identification of additional opportunities to optimize handling of uniquely packaged items.

The Netflix business model involves presenting outgoing mailings, using automation compatible envelopes containing the DVD(s) ordered by the customer, to the BMEU. It also requires customers return fragile DVDs to one of a handful of Netflix processing centers in the same envelope which can be converted to a uniquely identifiable, DVD return mailer. Regardless of which Netflix processing center they are returned to, Netflix records them as checked in and ready for rental. The Netflix business model also requires minimal breakage during transport of these return items. These returned DVDs can be subject to breakage if improperly fed through our automated processing machinery.

The objective of this SOP is to maximize processing efficiency, while minimizing potential breakage, of Netflix mailings (outgoing and return).

Procedures

Outgoing Pieces

The outgoing Netflix piece, a DVD mailer originating at Netflix and destined to each customer, is **automation compatible**. The DVD placement is in the **lead end** (front end) of a red, automation compatible, letter-sized reusable envelope with permit imprint designating it as First Class, U.S. Postage PAID from Netflix (see *Attachment #1*).

The Netflix outgoing envelope was extensively tested for automation compatibility on Delivery Barcode Sorters (DBCS) in 2003 with acceptable jam/breakage rates. Outgoing Netflix pieces must be processed using DBCS machinery and must be kept in the delivery point sequence (DPS) mailstream

Incoming Pieces

The incoming Netflix piece, the converted original DVD mailer, originating from the customer and destined to Netflix, is **not automation compatible**. The DVD placement is in the **trail end** (back end) of a red, letter-sized envelope with permit imprint designating it as First Class, U.S. Postage PAID to Netflix.

To minimize jams and DVD breakage, 775 Flat tubs (see *Attachment #2*) are to be set up adjacent to every piece of equipment (culling belt, AFCS, Flyer, etc...) which may be used to

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GFL0000527

Initially cull Netflix returns. Items in tubs are to be subsequently *riffled* into **sleevable Extended Managed Mail Letter Trays (EMM)** (see *Attachment #3*) to ensure accuracy prior to containerization.

As Netflix believes that stacking weight is also a contributor to damaged DVDs, Mail Handlers will **sleeve the Extended Managed Mail Letter Trays (EMM)** and stack them into General Purpose Mail Containers (GPMCs) as shown in *Attachment #4*. Items in the direct container are to be labeled for direct dispatch to the processing and distribution facility serving the closest Netflix processing center (see *Attachment #5*).

In some cases, delivery will be to a PO Box(s) / Caller Service within the same processing facility. In that event, these Netflix return pieces will be a direct extraction from the AFCS, and will be available to the customer in a shortened time frame.

Loose Items

Loose disks which have become separated from the mailpiece during handling/processing should be collected daily and returned to the closest NetFlix processing center. Supervisors are to make the disks available along with inbound (BRM) mail for pickup; however, they are not subject to postage-due fees as return postage has already been paid by Netflix.

Biohazard Detection System (BDS) Issues

The processing window for an AFCS Biohazard Detection System (BDS) testing cycle is 90 minutes. You must ensure that the Mail Inventory Control Tracking (MICT) procedures, Integrated Emergency Management Plan (IEMP) and Continuity of Operations Plan (COOP) for your installation reflect identification of unique processing of the Netflix return mailer and established processes for handling this mail and contacting Netflix in a BDS alert environment.

RESPONSIBILITIES:

Senior Plant Manager/Plant Manager

The Senior Plant Manager/Plant Manager/Postmaster/OIC is responsible for ensuring that this SOP is implemented in their facilities.

Senior Manager, Distribution Operations/Manager, Distribution Operations/Supervisor, Distribution Operations

Managers of Distribution Operations and Supervisors will ensure that sleeveable EMM trays are to be set up adjacent to every piece of equipment which may be used to process Netflix return pieces, and that filled trays are sleeved, containerized and dispatched to the processing and distribution facility serving the closest Netflix processing center, consistent with this SOP. Loose DVDs are to be returned to Netflix daily as outlined.

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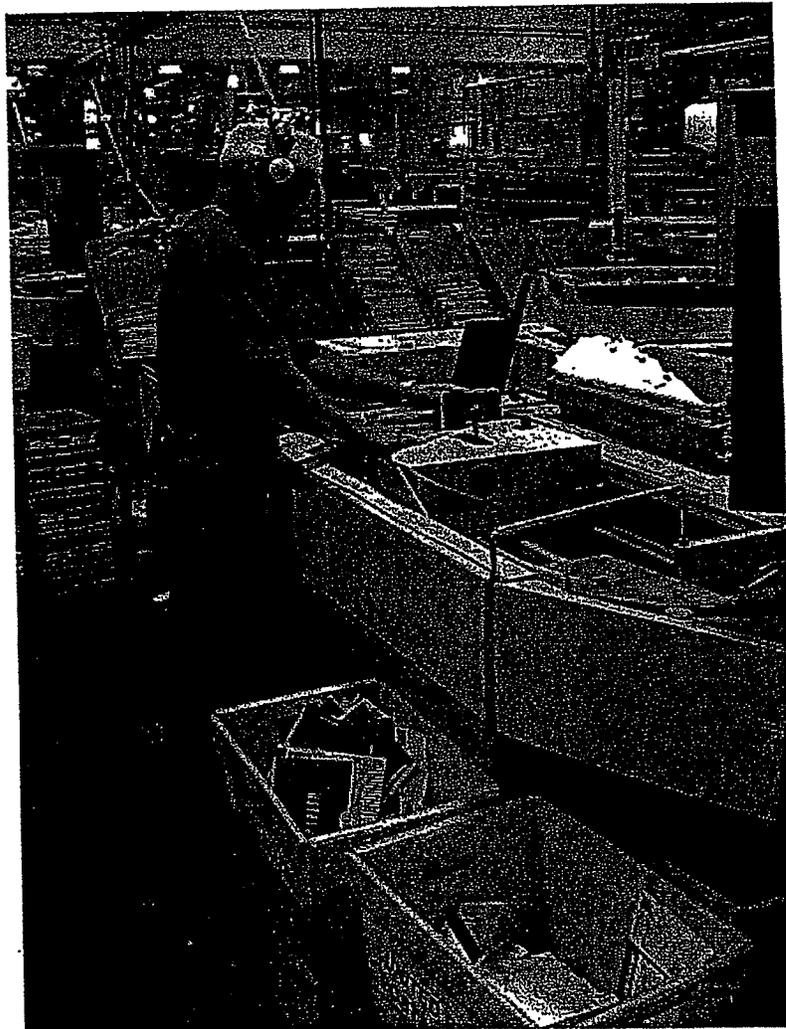
Manager, In-Plant Support

Managers of In-Plant Support are to ensure that Mail Inventory Control Tracking (MICT) procedures, the Integrated Emergency Management Plan (IEMP) and Continuity of Operations Plan (COOP) for the installation reflect identification of this situation and established processes for handling this mail and contacting with the customer in a BDS alert environment.

PUBLIC

GFL0000529

Processing Netflix Mailings -- SOP OS-05-4

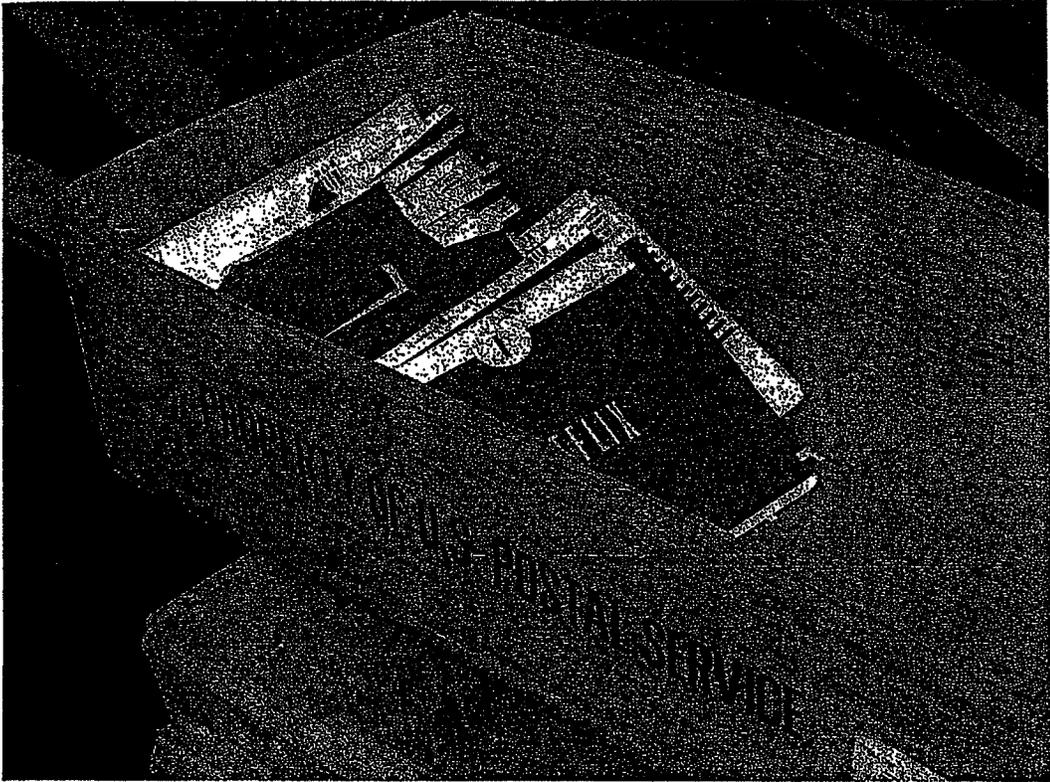


Attachment 2

PUBLIC

GFL000531

Processing Netflix Mailings – SOP OS-05-4

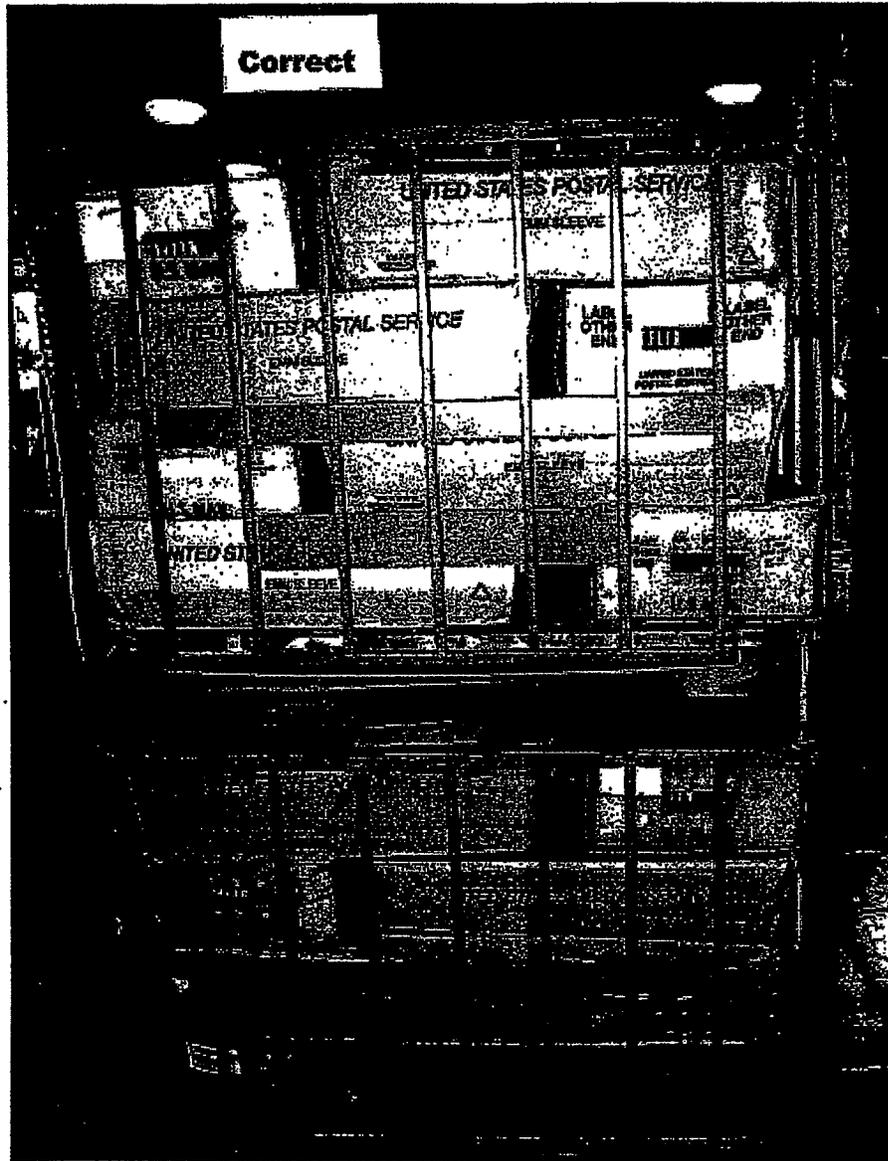


Attachment 3

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GFL0000532

Processing Netflix Mailings – SOP OS-05-4



Attachment 4

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GFL0000533

Netflix Processing Centers (Pacific Area)

San Jose
545 Oakmead Parkway
Sunnyvale CA 94085

Santa Ana
1700 E Carnegie Ave
Santa Ana CA 92705

Phoenix
2727 West Baseline Rd
Tempe AZ 85283

Las Vegas
3811 Renate Dr
Las Vegas NV 89103

Hawaii
99-1445 Koaha PI Unit D
Aiea HI 96701

Attachment #5

PUBLIC

GFL0000534

Revised

US Postal Service
Eastern Area

Standard Operating Procedure

SOP# 05-05-4

March 3, 2005

Processing Netflix Mailings

Objective:

Efficient processing of time sensitive mail requires the identification of additional opportunities to optimize handling of uniquely packaged items.

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GFL0000535

Incoming Pieces

The incoming Netflix piece, the converted original DVD mailer, originating from the customer and destined to Netflix, is **not automation compatible**. The DVD placement is in the **trail end** (back end) of a red, letter-sized envelope with permit imprint designating it as First Class, U.S. Postage PAID to Netflix.

To minimize jams and DVD breakage, 775 Flat tubs (see *Attachment #2*) are to be set up adjacent to every piece of equipment (culling belt, AFCS, Flyer, etc...) which may be used to Processing Netflix Mailings – SOP OS-05-4 Page 2

initially cull Netflix returns. Items in tubs are to be subsequently *riffled* into **sleevable Extended Managed Mail Letter Trays (EMM)** (see *Attachment #3*) to ensure accuracy prior to containerization.

As Netflix believes that stacking weight is also a contributor to damaged DVDs, Mail Handlers will **sleeve the Extended Managed Mail Letter Trays (EMM)** and stack them into General Purpose Mail Containers (GPMCs) as shown in *Attachment #4*. Items in the direct container are to be labeled for direct dispatch to the processing and distribution facility serving the closest Netflix processing center (see *Attachment #5*).

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RESPONSIBILITIES:

Senior Plant Manager/Plant Manager

The Senior Plant Manager/Plant Manager/Postmaster/OIC is responsible for ensuring that this SOP is implemented in their facilities.

Senior Manager, Distribution Operations/Manager, Distribution Operations/Supervisor, Distribution Operations

Managers of Distribution Operations and Supervisors will ensure that sleeveable EMM trays are to be set up adjacent to every piece of equipment which may be used to process Netflix return pieces, and that filled trays are sleeved, containerized and dispatched to the processing and distribution facility serving the closest Netflix processing center, consistent with this SOP. Loose DVDs are to be returned to Netflix daily as outlined.

Processing Netflix Mailings – SOP OS-05-4 Page 3

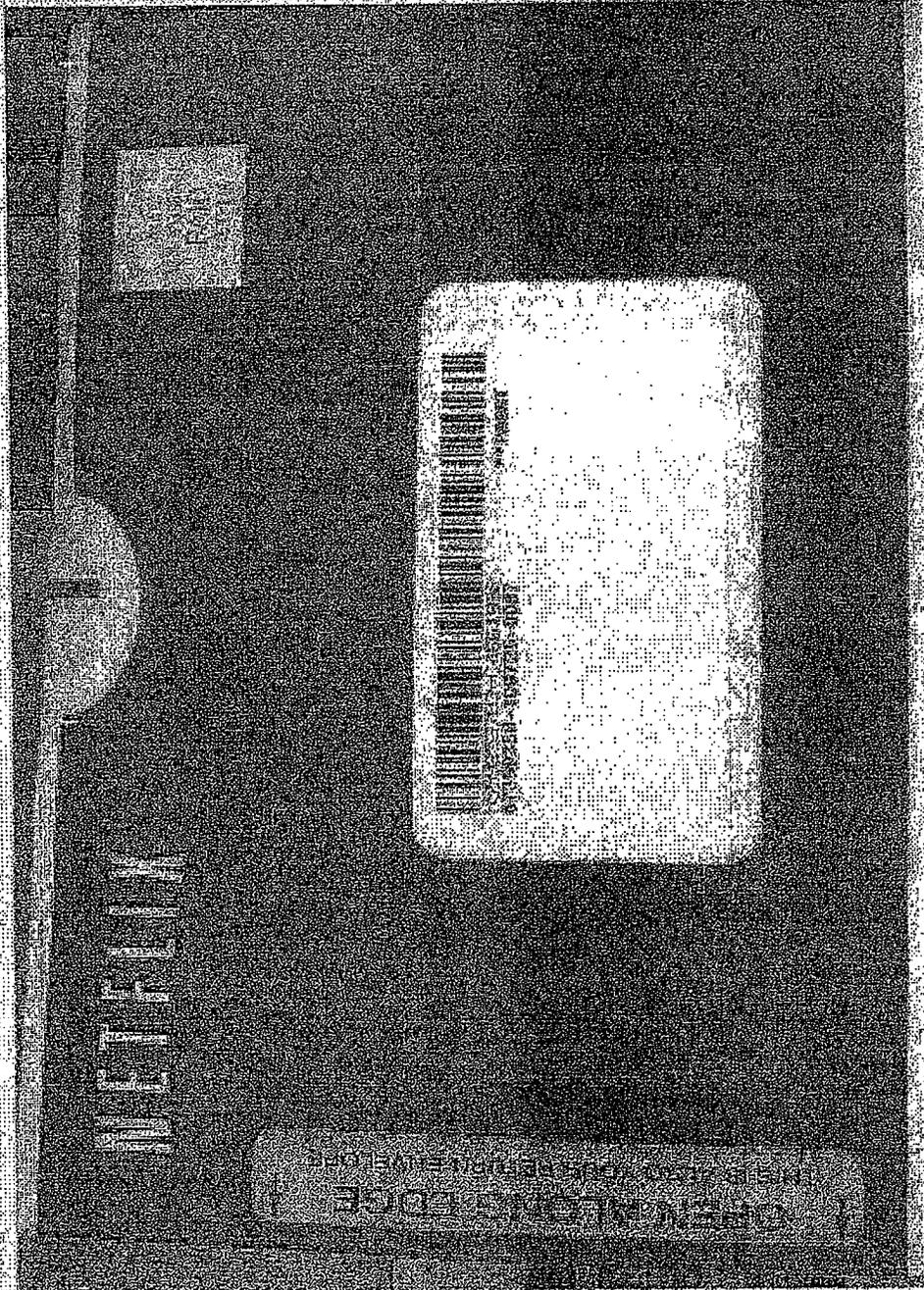
Manager, In-Plant Support

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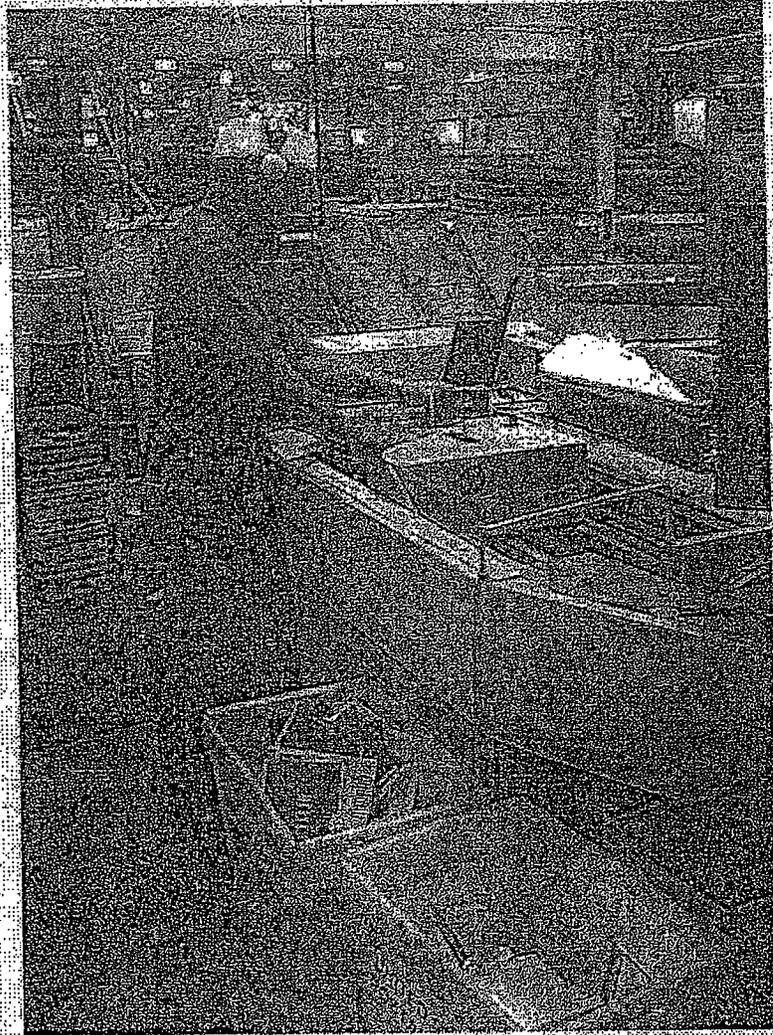
GFL0000537

Processing Netflix Mailings - SOP 09-054



Attachment 1

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Attachment 2

PUBLIC

Processing Netflix Mailings - SOP OS-05-4



Attachment 3

PUBLIC



Attachment 4

PUBLIC

Netflix Processing Centers (Eastern Area)

HUB NAME	GATHERSBURG	CLEVELAND	PHILADELPHIA
HUB	GATHERSBURG, MD	CLEVELAND, OH	PHILADELPHIA, PA
ADDRESS	2 Cloke Cherry Road Rockville, MD 20850-4030	JENNINGS FREEWAY BUSINESS CENTRE VI, 4600 HINCKLEY INDUSTRIAL PARWAY, CLEVELAND, OHIO, 44109	PROVIDENCE BUSINESS PARK, 405 SCHELL LANE, PHOENIXVILLE, PA 19460
MANAGER	[REDACTED]	[REDACTED]	[REDACTED]
EMAIL	NF-011	NF-008	NF-014
MAIN PHONE	301-977-[REDACTED]	216-635-[REDACTED]	610-917-[REDACTED]
FAX NUMBER	301-977-[REDACTED]	216-635-[REDACTED]	610-917-[REDACTED]
CELL PHONE	301-266-[REDACTED]	216-650-[REDACTED]	215-272-[REDACTED]
HUB NAME	GREENSBORO	LOUISVILLE	COLUMBIA
HUB	GREENSBORO, NC	LOUISVILLE, KY	COLUMBIA, SC
ADDRESS	AIRPARK EAST - B, 424 GALLIMORE DAIRY ROAD, SUITE A, GREENSBORO, NORTH CAROLINA, 27409	4735 Poplar Level Road, Suite 6, Louisville, KY 40213	1601 Shop Road, Suite # C, Columbia, SC 29204
MANAGER	NF-009	NF-005	NF-001
EMAIL	[REDACTED]	[REDACTED]	[REDACTED]
MAIN PHONE	336-668-[REDACTED]	502-969-[REDACTED]	803-765-[REDACTED]
FAX NUMBER	336-668-[REDACTED]	502-969-[REDACTED]	803-765-[REDACTED]
CELL PHONE	336-466-[REDACTED]	502-523-[REDACTED]	803-535-[REDACTED]
HUB NAME	COLUMBIA	PITTSBURGH	
HUB	COLUMBIA, SC	PITTSBURGH, PA	
ADDRESS	1601 Shop Road, Suite # C, Columbia, SC 29204	2022 Chateau Street, Pittsburgh, PA 15233-1139	
MANAGER	NF-001	[REDACTED]	NF-012
EMAIL	[REDACTED]	[REDACTED]	[REDACTED]
MAIN PHONE	803-765-[REDACTED]		
FAX NUMBER	803-765-[REDACTED]		
CELL PHONE	803-535-[REDACTED]	412-443-[REDACTED]	

PUBLIC

Subject: FW: Netflix SOP's for processing at NYMA Plants - Blockbuster & Gamefly SOP's ?

From: [redacted] - Bethpage, NY

Sent: Friday, March 14, 2008 5:27 PM

To: [redacted] - Bronx, NY; [redacted] - Newark, NJ; [redacted] - Eatontown, NJ; [redacted] - Kearny, NJ; [redacted] - New York, NY; [redacted] - BETHPAGE, NY; [redacted] - Edison, NJ; [redacted] - Newburgh, NY; [redacted] - Queens, NY; [redacted] - Jamaica, NY; [redacted] - Kearny, NJ; [redacted] - Staten Island, NY; [redacted] - Melville, NY; [redacted] - White Plains, NY; [redacted] - Edison, NJ; [redacted] - Whippany, NJ; [redacted] - Teterboro, NJ; [redacted] - Bronx, NY; [redacted] - Newark, NJ; [redacted] - Flushing, NY; [redacted] - New York, NY; [redacted] - Jersey City, NJ; [redacted] - Jersey City, NJ; [redacted] - San Juan, PR; [redacted] - Carteret, NJ

Cc: [redacted] - New York, NY; [redacted] - New York, NY; [redacted] - Edison, NJ; [redacted] - Jamaica, NY; [redacted] - Brooklyn, NY; [redacted] - Jersey City, NJ; [redacted] - New York, NY; [redacted] - Newark, NJ; [redacted] - Melville, NY; [redacted] - Whippany, NJ; [redacted] - Teterboro, NJ; [redacted] - Eatontown, NJ; [redacted] - Kearny, NJ; [redacted] - New York, NY; [redacted] - White Plains, NY; [redacted] - Newburgh, NY; [redacted] - San Juan, PR; [redacted] - Flushing, NY; [redacted] - Newburgh, NY; [redacted] - Garden City, NY; [redacted] - Staten Island, NY; [redacted] - Trenton, NJ; [redacted] - Edison, NJ

Subject: NEW - Netflix SOP's for processing at NYMA Plants - This supersedes all others

Plant Managers,

This Netflix SOP supersedes all previous ones. Customer service representatives from Netflix, have been visiting our Plants to observe outgoing operations which captures Netflix DVD's being returned from their customers. This is a National account worth well over 300 million dollar annually.

We have issued some simple SOP's over the last few years in order to process Netflix mail and limit damage to their product without having to incur higher costs and give Netflix the same level of service we provide to all of our customers. When Netflix representatives tour your facility they are expecting to observe the basic requirements that we have been outlining for years to prevent damage in processing DVD's in an automation environment.

We have made steady progress in reducing Netflix damage rates and must continue to implement these basic processing procedures. Netflix representatives may offer recommendations but should not try to change processing procedures at your site.

Standard Netflix SOP includes the following simple processing procedures:

1. All Netflix DVD's are automation compatible.
2. Netflix returns are to be swept from programmed bins on the DBCS FIM program into EMM trays and are to be placed onto pie wagons with shelves or post cons with inserts at the DBCS operation.
3. They should then be sent to your dispatch Area to be sleeved with EMM sleeves.
4. Place all EMM sleeved trays onto post cons with center shelves to prevent crushing of trays that occur in webbed post cons. Interweave trays if possible.
5. To the best extent possible, load no more than 24 trays (12 trays top and 12 trays bottom) into the single shelved postcon if possible.
6. Netflix mailings must be kept in the DPS mailstream going to the customer.
7. Netflix DVD's must not be sent to flat sorters for any processing.
8. Any Netflix trays for deck transfer to smaller facilities must remain in post cons with shelves and must not be transferred into webbed post cons to prevent damage.

Post cons with the webbing that does not contain center shelves must not be used. Only post cons with the middle shelf must be used. The use of MMP trays or flat bucket trays will result in extensive damage to the returned mailing. The use of webbed post cons without a center shelf results in extensive damage to Netflix DVD disks. A supply of EMM trays should be available at all AFCS and FIM operations.

Following these basic processing procedures will significantly reduce damage rates to Netflix DVD's being returned to Netflix. Please have your operations staff give service talks to the employees in the affected operations.

Please do not use any webbed post cons. Please continue to comply with these processing procedures.

Let me know if you have any questions,

Thank You

PUBLIC

VS 186
VS 009
VS-070
VS-076
VS-078
VS-080
VS-081
VS-086
VS-091
VS-097
VS-187
VS-106
VS-120
VS-122
VS-126
VS-127
VS-135

VS-065
VS-021; VS-029
VS-032; VS-037
VS-041; VS-043; VS-067; VS-103; VS-140; VS-107; VS-124
VS-016 VS-138; VS-121; VS-108
VS-115
US-022

VS-085
VS-118

VS-149; VS-034; VS-039; VS-050
VS-057;
VS-062;

NS-065
[Redacted]
New York Metro Area
A/Manager Inplant Support
142-02 20th Avenue, Room 331
Flushing, NY 11351-0130
[Redacted]

PUBLIC

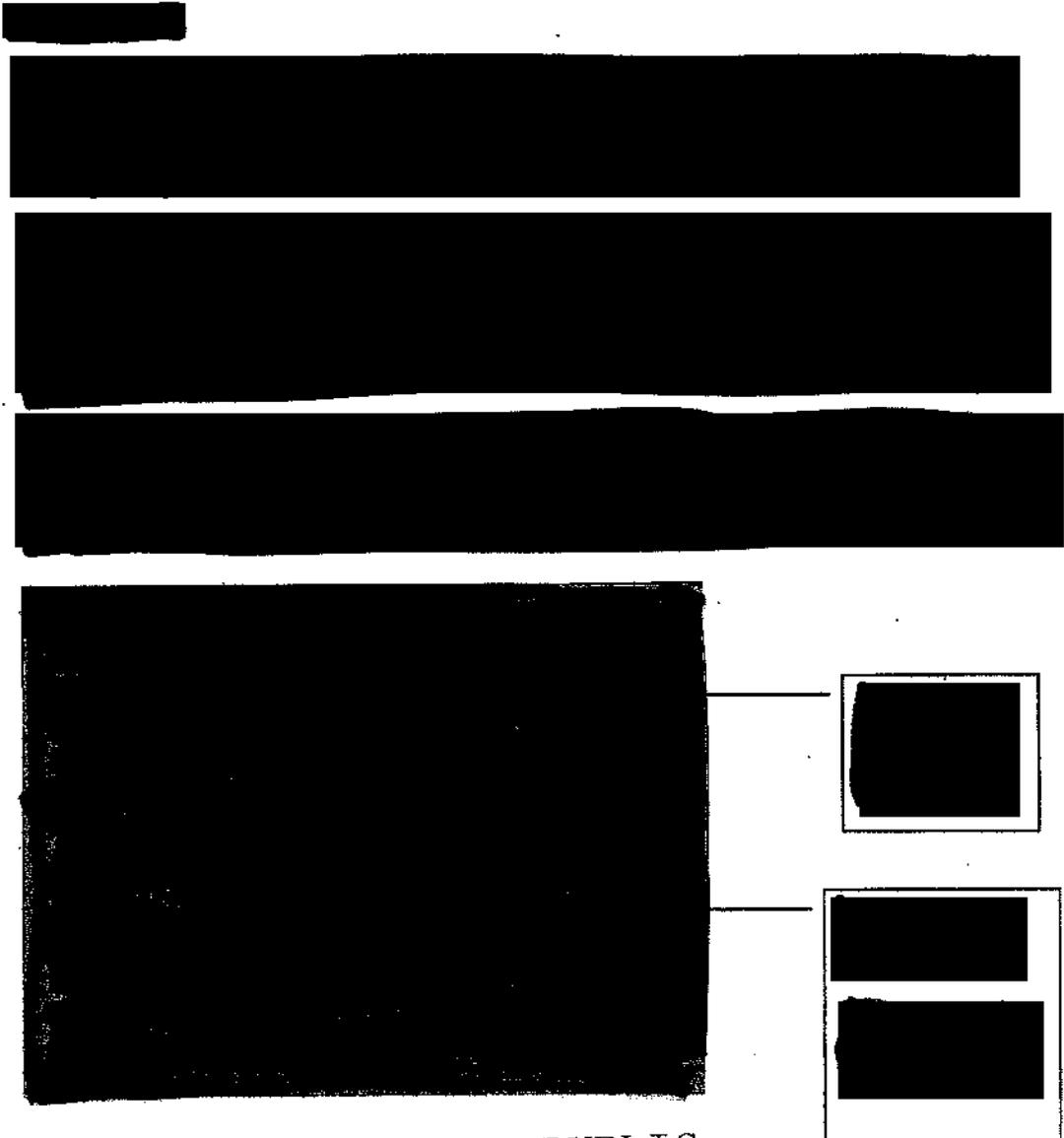
Eastern

U.S.P.S. STANDARD OPERATING PROCEDURE

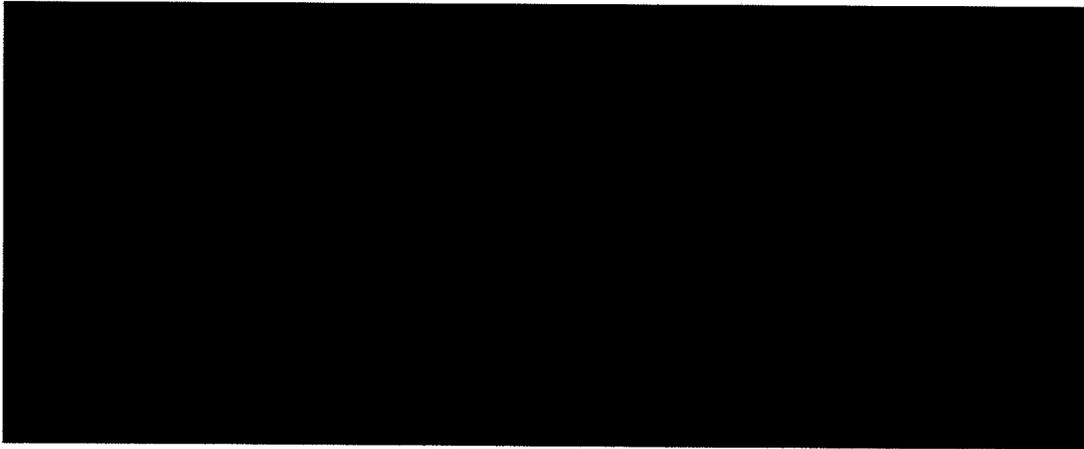
Blockbuster DVD Return Processing

Purpose:

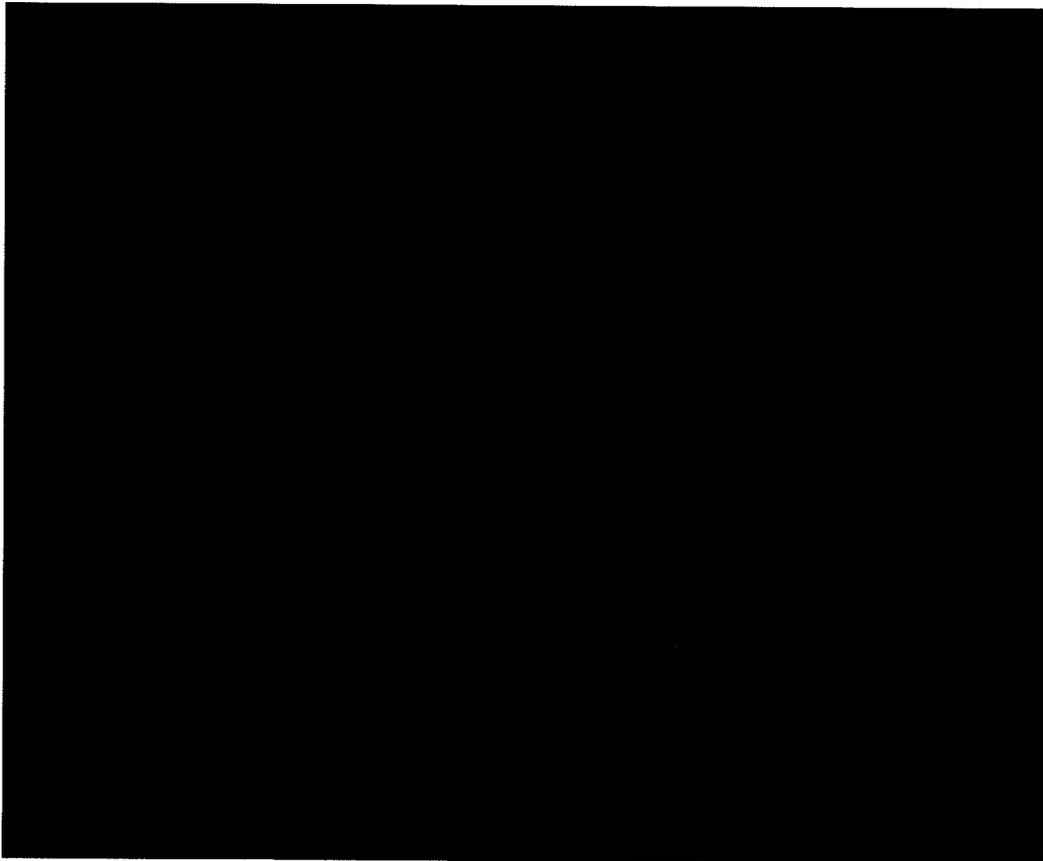
This SOP is to provide instruction for the processing and delivery of Blockbuster return DVD's during the transition period of handling both the prepaid Blockbuster returns and the Quality Business Reply Mail (QBRM) Blockbuster returns.

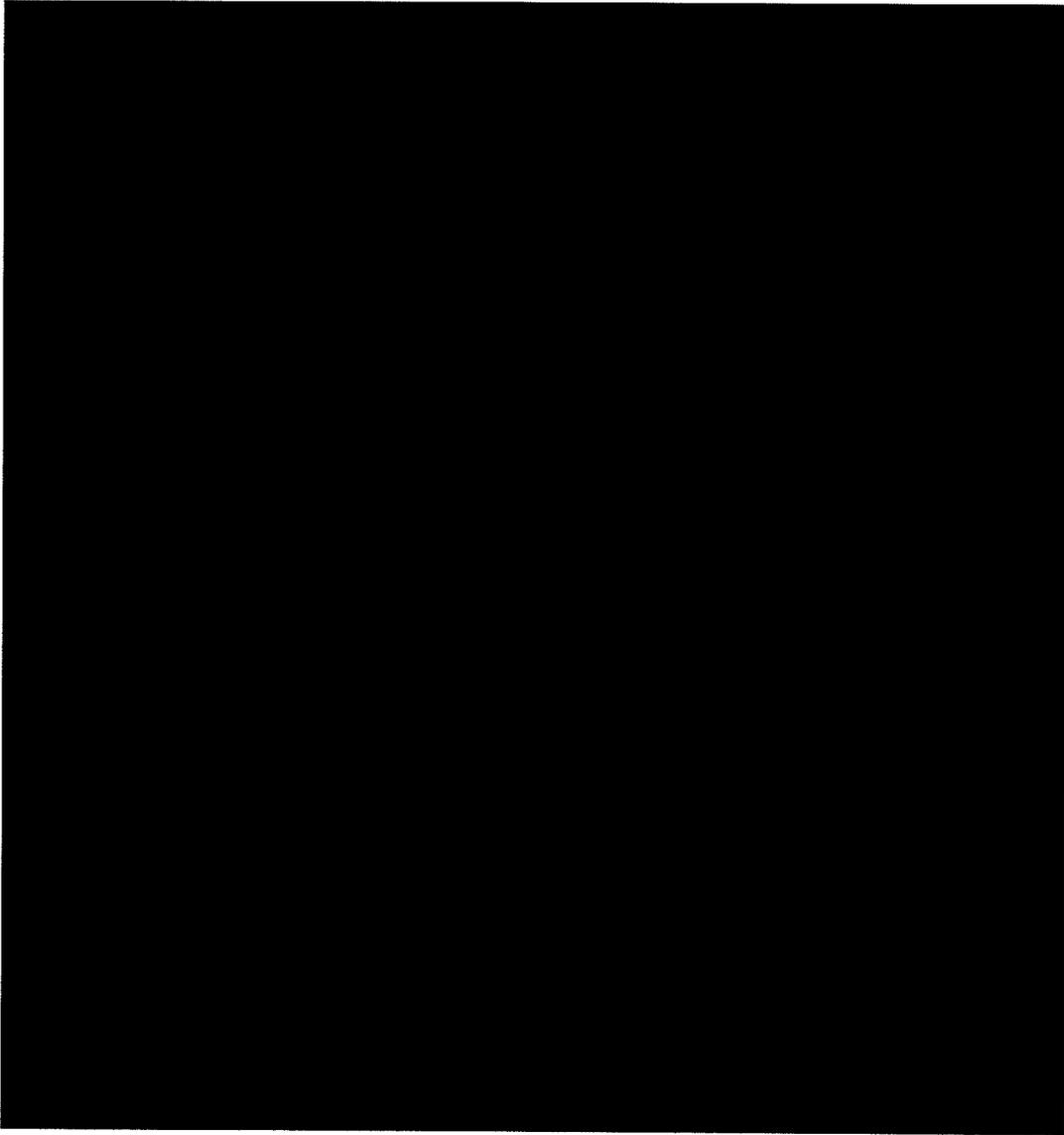


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There will be no special handling of Blockbuster return DVDs in the collection mal. These pieces will flow through culling, AFCS and the FIM sortplan.





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COLORADO/WYOMING PERFORMANCE CLUSTER
UNITED STATES POSTAL SERVICE
STANDARD OPERATING PROCEDURE

NUMBER: 06:01B

DATE ISSUED: 1/30/07
DATE CANCELED: 1/30/09

SUBJECT: **COLLECTION MAIL PREPARATION (800-807)**

This Standard Operating Procedure (SOP) cancels and supersedes Standard Operating Procedure Number 05:001 dated January 20, 2005.

- I. **PURPOSE**
To standardize collection mail preparation, dispatches and separations for the Denver GMF. No mail will arrive at the plant after 2115.
- II. **RESPONSIBILITY**
All Managers/Postmasters/Supervisors are responsible to train clerks, carriers and dispatch employees in their specific areas and for posting this SOP in all dock/dispatch areas.
- III. **PROCEDURE**
- Remove all debris from hampers, gurneys, and GPC's prior to using equipment.
 - Sweep collection points prior to every scheduled dispatch.
 - Dispatch all mail on every scheduled trip that arrives at the plant prior to 2115.
 - Flat tubs should be individually stacked upside down to prevent mail accidentally left in the bottom of the tub.
- A. **Express Mail:**
- All Express Mail must be signed in and the bar code scanned through the POS or the IRT terminals before dispatch at the acceptance facility.
 - All on-line Express Mail labels (International and Domestic) must be signed in and the barcode scanned through the POS or the IRT terminals before dispatch. IF the POS or IRT is closed out for the day, a photocopy of the label must be made and sent to the Express Mail Office for acceptance.
 - MDCD scanners must not be used for the acceptance of Express Mail.
 - Place ALL Express Mail, Global Express Guaranteed, International Express, and Global Priority into Express Mail pouches.
 - Make a separate sack for Global Priority where volume warrants.
 - Label Express Mail pouches with a sack label as to Express Mail or Global Priority (attachment #1).
 - Label each piece of equipment properly as to date, time, and identified originating office. All Express Mail containers must be placarded (attachment #2).
 - Place Express Mail pouches and pieces too large to pouch on top of GPC's, hampers, or gurneys containing collection mail. Place nothing on top of an Express Mail piece or pouch.
 - **DO NOT** place Express Mail within an OTR.
 - Use a separate container for large volumes holding only Express Mail.
 - *Dispatch signed and scanned Express Mail pieces on every trip to the GMF.*
- B. **Priority Mail:**
- *Priority Mail is preferential pieces that weigh more than 13 ounces, has at least \$4.05 in postage, or is identified as Priority regardless of weight.*
 - Make three Separations:
 1. Colorado/Wyoming Priority (can be combined with Colorado/Wyoming FCM SPR's)
 2. States Priority
 3. States Priority Flats
 - Face States Priority Flats and place into flat tubs; dispatch on top of the States Priority container.

ORIGINATOR: OPERATIONS PROGRAMS SUPPORT PAGES: 4 PLUS 17 ATTACHMENTS

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- Make separate containers if volume warrants. **DO NOT** mix other classes of mail inside a Priority container.
 - Label each piece of equipment properly as to type of mail, date, dispatch time, initials, and identified originating office.
 - Level 20 and above offices, stations, and branches in the cities of Denver, Arvada, Aurora, Boulder, Englewood, Ft. Collins, Littleton, Longmont and other 24 offices must make separate containers. Use OTR's, hampers, or GPC's.
 - All level 19 and below offices must maintain Priority separations within a container and may label the container with a mixed placard (attachment #11).
 - Label containers to the MPA using a lime green placard (attachment #8) for States Priority or a hot pink placard (attachment #9) for Colorado/Wyoming Priority.
 - If Colorado/Wyoming Priority and FCM SPR's are combined in the same container, use a hot pink placard (attachment #9) to label the container.
 - Existing placard stock should be used before ordering any new hot pink placard (attachment #9).
 1. Place "Target Mail" in a separate container within the States Priority container and properly identify.
- C. **Letter Mail:**
- Make two separations:
 1. Loose Uncancelled
 - Deposit loose uncancelled letters into a labeled hamper. DO NOT dump trays of metered/cancelled or flimsy and/or open ends trayed into hampers containing loose uncancelled letters. (Attachment #3 shows what an open end is.) Identify trayed flimsy and/or open ends using appropriate WHITE placards (attachment #4).
 - Exception: Trays of stamped uncancelled postcards must be dispatched intact, **NOT DUMPED** with other letter mail.
 2. Metered/Cancelled
 - Use letter trays for letters, rather than flat tubs.
 - **Face** metered/cancelled letters, tray, and place in labeled GPC's.
 - Unband metered bundles, **face**, tray, and place in labeled GPC's.
 - Exception: Metered letter mail from a blue collection box must be put into the hamper with loose uncancelled letters.
 - Label each piece of equipment properly as to type of mail, date, and the originating office. First-Class Mail will be placarded in GREEN (attachment #5).
 1. Note: Prepare Missent, PARS, CFS, Loop, and RTS mail per Standard Operating Procedure #02:027, "Loop, Missent, and Return to Sender Mail Processing Procedures."
 2. Return DVD's (e.g., Netflix, Blockbuster, etc.)
 - All return DVD's should be isolated by individual company and faced in EMM trays. Place these trays of DVD's on top of hampers of loose collection mail.
- D. **Flats:**
- Make two separations:
 1. Metered/Cancelled flats
 2. Uncancelled flats
 - Separate, face, and place in flat tubs. When one GPC of flats is dispatched, stamped flats will be placed on the top shelf of the GPC and metered flats will be placed on the bottom shelf of the GPC.
 - Label each piece of equipment properly as to type of mail, date, and the originating office. Placard First-Class Mail in GREEN (attachment #5).
 - Dispatch Periodical and NEWS flats prepared by mailers in flat tubs under labeling list L201 (Origin Mixed ADC) with metered/cancelled flats.
- E. **FCM Irregular Parcels (SPR's):**
- Preferential pieces that are 13 ounces or less, unless they are identified as Priority Mail via tape, box, label, etc., are FCM.
 - Make two separations:
 1. Colorado and Wyoming FCM SPR's (can be combined with Colorado/Wyoming Priority)
 2. States FCM SPR's

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- Place IPP's in hampers or gurneys. Use false bottoms in all hampers that are not spring loaded.
- Label containers as to type of mail, date, dispatch time, initials, and identified originating office to the MPA.
- Label containers, with *dark blue placards* (attachment #6) for States FCM SPR's and *light blue placards* (attachment #7) for Colorado and Wyoming.
- If Colorado/Wyoming Priority and FCM SPR's are combined in the same container, use a *hot pink placard* (attachment #9) to label the container.

F. BMC:

- Origin ZIP Codes 800-807: Make four separations.
 1. Machinable Parcel Post
 2. Non-Machinable Outside (NMO) Parcel Post
 3. Sacks (Standard & Periodicals)
 4. Standard letter trays/flat tubs
- Label each piece of equipment properly as to type of mail, date, and the originating office. (attachments: 10A, 10B, 10C, or 10D).
- Separate into containers only pure loads of loose machinable parcel post, non-machinable outside (NMO) parcel post, sacks, and standard letter/flat trays. **DO NOT** commingle into the same container.
- Use appropriate container based on volumes.
- Sleeve and strap all trays.
- Strap and keep bundles of Standard A Letters intact. **DO NOT** commingle or send loose pieces of letters, flats, or SPR's to the Denver BMC. Never place originating Priority or FCM into containers labeled for the BMC.

G. Heavy Cancellation Days:

- Deposit collection mail in designated arterial boxes for collection on the days designated "Hub and Spoke" days by the Senior Operating Manager.

H. Exception:

- The only exception to these finalization procedures is the final dispatch from the unit. Make separations as required as much as possible, but do not delay transportation. In order to avoid misuse of this exception, it only applies to units that have received approval from the District Manager or designee. Requests for such approval must be submitted through the Senior Operating Manager to the District Manager.

I. Hazardous Materials (HAZMAT):

- **Priority/ First-Class**
 1. Clinical Specimens
 - Identified clinical specimens should be isolated and labeled to MPA operation 124 for processing. Flat tubs may be used to isolate clinical specimens from normal collection mail. Multiple clinical specimens can be mixed into the same flat tub. Dispatch to the MPA in a separate container, if possible, or tailgate the flat tub(s).
 2. Bio-Hazard Parcels
 - Each Identified HAZMAT or Biohazard piece shipped as Priority or FCM must be isolated and placarded using the national HAZMAT placard (attachment #12). Place each identified HAZMAT piece into a flat tub and place the flat tub in a GPMC. Do not place more than one HAZMAT piece into the same flat tub. Multiple flat tubs containing HAZMAT can be dispatched in the same GPMC. Tail load container(s) of HAZMAT and dispatch to the Denver P&DC or tailgate the flat tub(s).
- **Parcel Post:**
 1. Each identified HAZMAT (including Biohazard) pieces shipped as parcel post must be isolated and placarded using the national HAZMAT placard (attachment #12). Place each identified HAZMAT piece into a flat tub and place the flat tub in a GPMC. Do not place more than one HAZMAT piece into the same flat tub. Multiple flat tubs containing HAZMAT can be dispatched in the same GPMC. Tail load container(s) of HAZMAT and dispatch to the Denver BMC.

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- Dispatching:
 1. Tailgate and notate on the appropriate transportation documents all dispatches.
 2. DO NOT use 1046 equipment (canvas hampers) to dispatch HAZMAT.
 3. DO NOT dispatch HAZMAT that is leaking or damaged. Consult your local Spill and Leak Response SOP for guidance in this situation.



District Manager,
Customer Service and Sales

Attachments

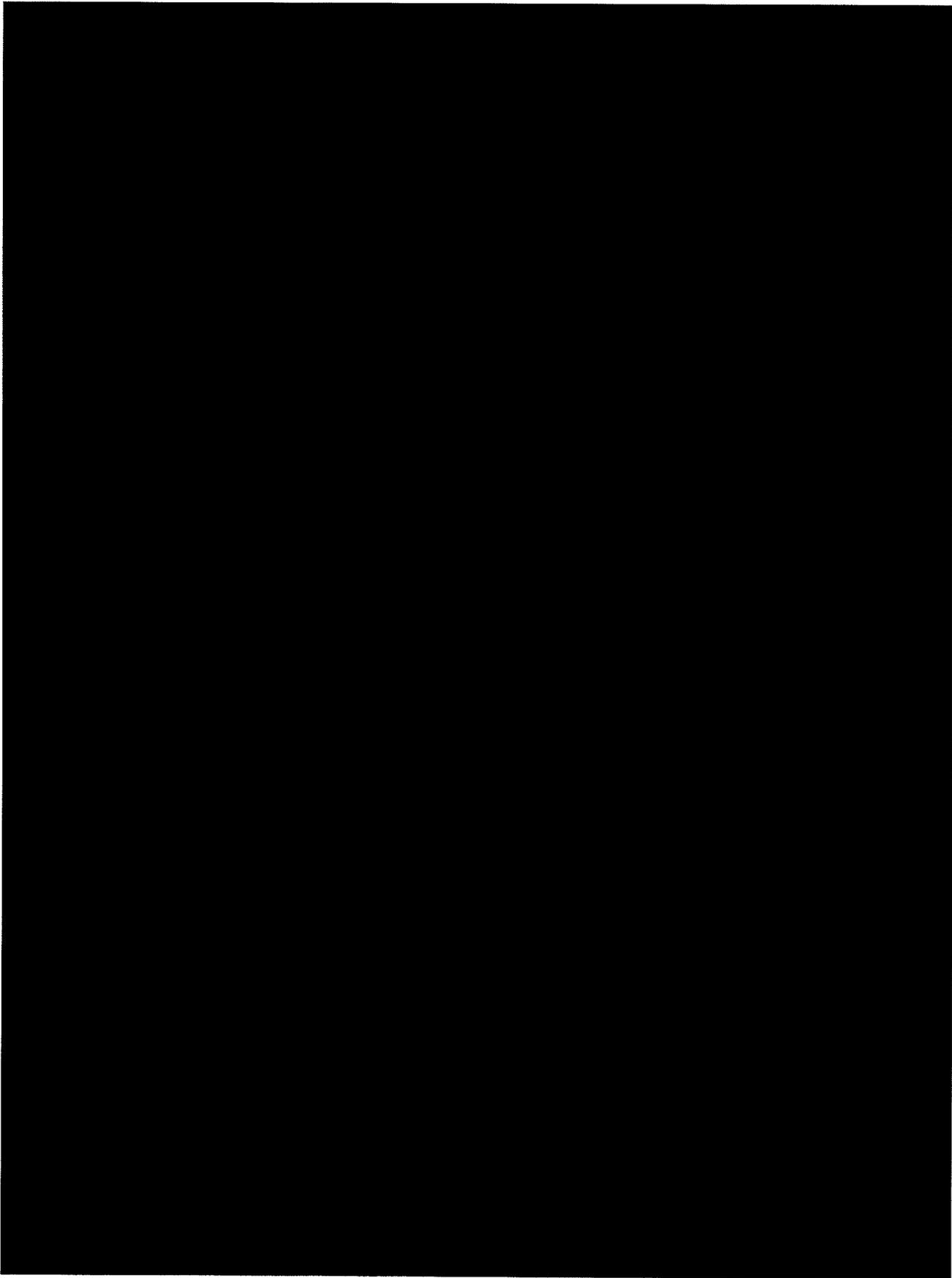


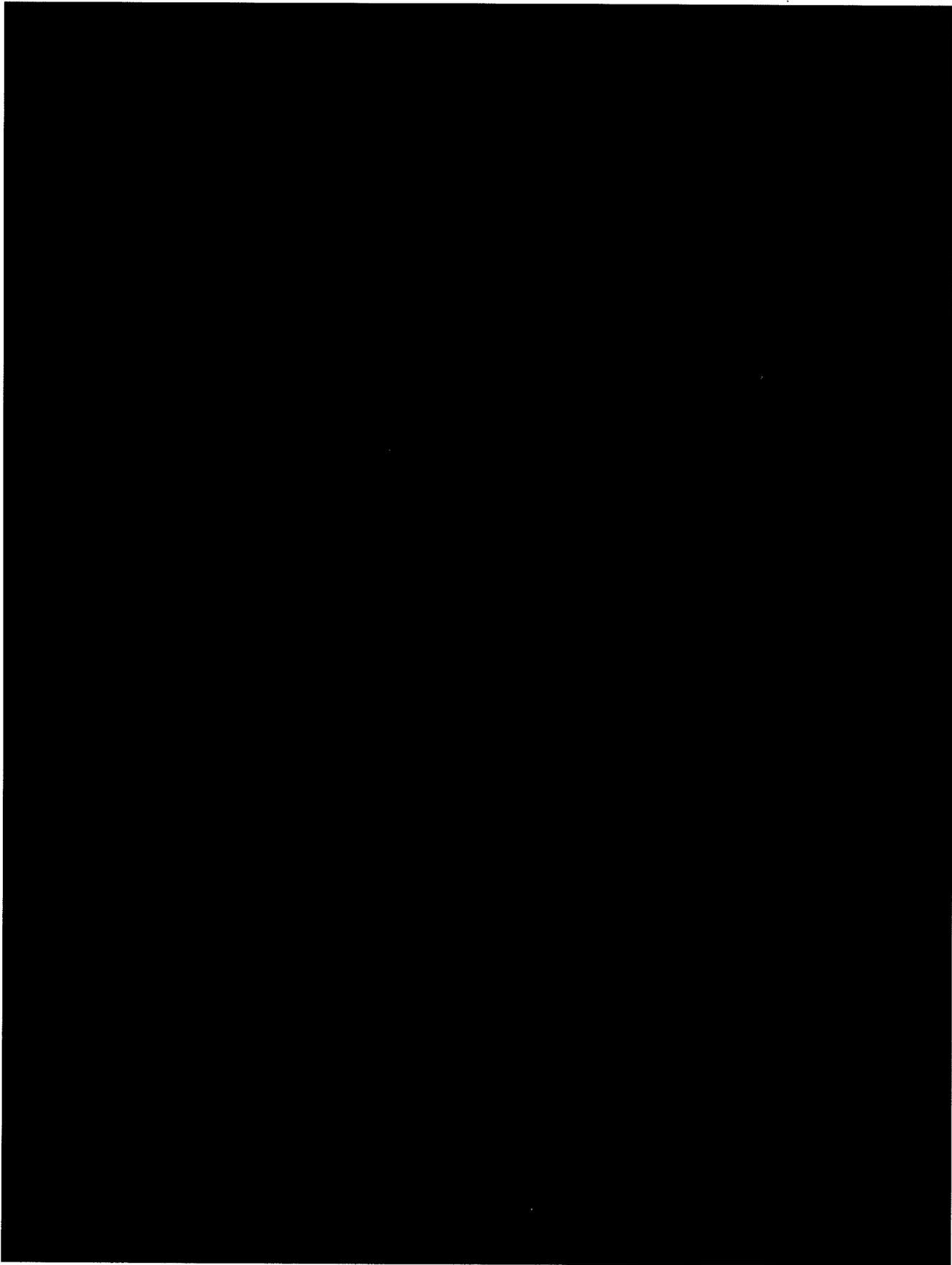
Senior Plant Manager
Processing & Distribution

DISTRIBUTION: A and E

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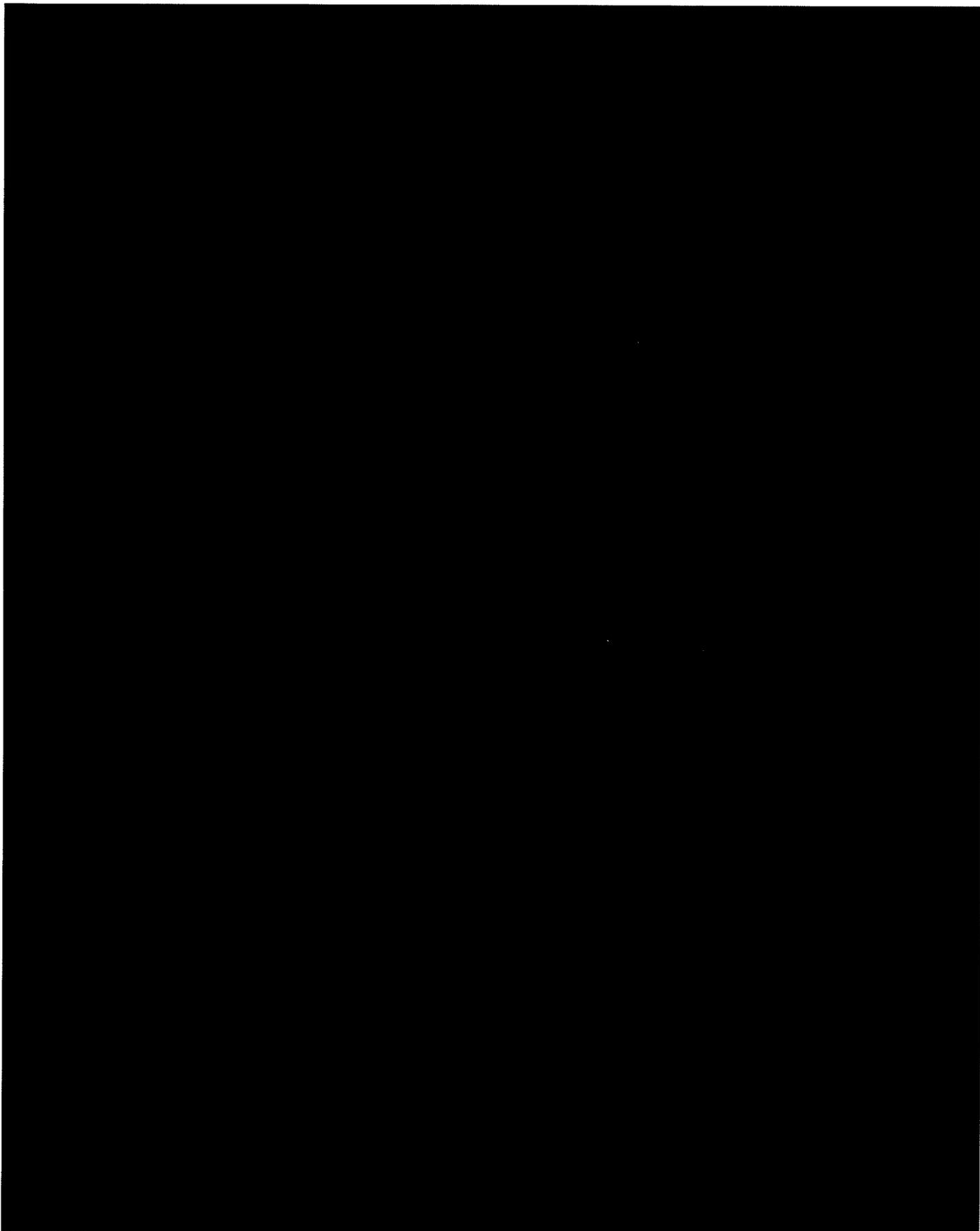
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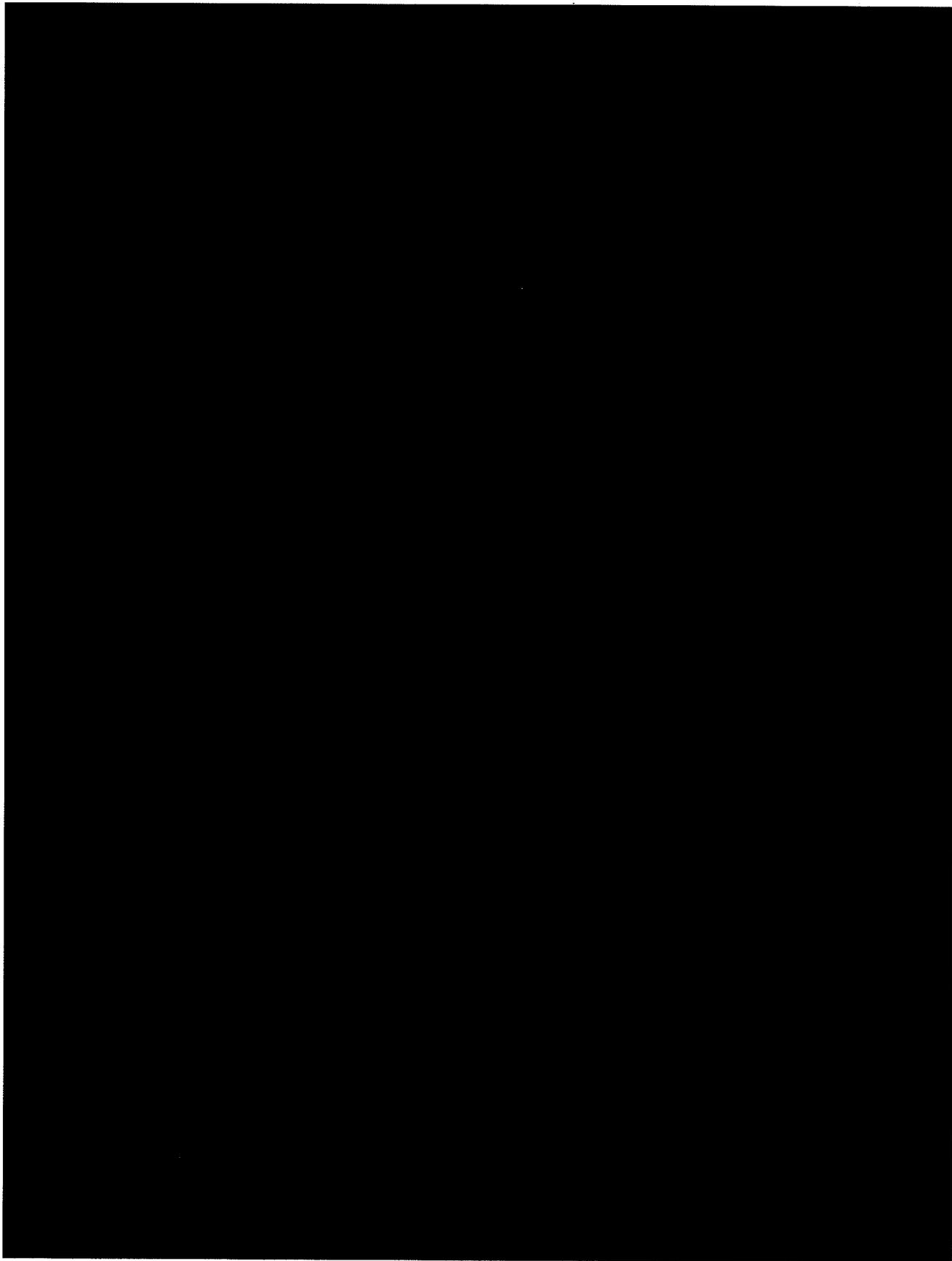




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GFL0000555





FORT WORTH DISTRICT



Document Type:	Standard Operating Procedure (SOP)
Title:	Handling NETFLIX Mail Pieces
Effective Date:	May 13, 2005
Reference Number:	7-68APD
Number of Pages:	2

I. PURPOSE

The purpose of this Standard Operating Procedure (SOP) is to establish policies and procedures for handling and dispatching NETFLIX mail pieces.

II. RESPONSIBILITY

All Managers/Supervisors, Distribution Operations are responsible for maintaining this policy. This includes responsibility for training all appropriate employees in these procedures, ensuring these procedures are followed daily, and taking corrective action whenever there is a failure to follow proper procedures. AFCS operators, culling employees, and DBCS FIM machine operators are responsible for properly isolating, handling, labeling, and dispatching all NETFLIX mail pieces.

III. REFERENCE DOCUMENTS – NETFLIX Service Talk

IV. PROCEDURES

A. Outgoing Operations

1. NETFLIX mail pieces originate in the collection mail stream flowing into the Fort Worth P&DC for processing, canceling, and distribution. These packages contain DVD's rented and presumably viewed by NETFLIX customers who are now returning them to NETFLIX.
2. NETFLIX DVD's are returned in Business Reply Mail (BRM) envelopes having a white front with an FIM mark in the upper right-hand corner and a red back. "NETFLIX" is printed on the red back of the envelope in white letters for easy identification, and the mail pieces are addressed to NETFLIX, Fort Worth, TX 76161.
3. NETFLIX mail pieces should be captured in the 010 culling unit, at the AFCS machines, and at the FIM DBCS machine.
4. Mail pieces must be collected and put in letter trays to be placed in U-carts labeled for NETFLIX. These U-carts are located in front of AFCS machines and next to the DBCS FIM machine.
5. Separate trays have been prepared for NETFLIX Fort Worth and NETFLIX _____. Envelopes should be placed in the appropriate trays. NETFLIX mail pieces arrive in collections for both the Fort Worth and _____ warehouses.

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6. Trays must be identified using the labels available at the NETFLIX U-carts then dispatched to the Fort Worth P&DC or the _____ P&DC using either the label designating "NETFLIX, Fort Worth, TX 76161" or "NETFLIX, _____, TX _____."
7. Supervisors, Distribution Operations at the 010 culling unit and the DBCS FIM machine are responsible for collecting the trays and ensuring they are properly dispatched at the conclusion of the 010 culling operation and the FIM processing operation.

B. Incoming Operations

1. Incoming NETFLIX mail pieces originate in the incoming flat mail stream flowing into the Fort Worth P&DC from other offices and destinating locally from SCF's 760, 761, 762, and 764.
2. NETFLIX mail pieces are Prepaid First-Class Mail having both a red front and back. "NETFLIX" is printed on the back of the envelope in white letters for easy identification. The mail pieces are delivered from a NETFLIX warehouse and are addressed to local customers having subscribed to this service.
3. Supervisors, Distribution Operations **MUST** ensure all destinating inbound NETFLIX mail pieces are processed on AFSM 100 machines, not on DBCS machines.

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DALLAS DISTRICT PROCESSING AND DISTRIBUTION CENTERS



Document Type:	Standard Operating Procedure (SOP)
Title:	NETFLIX Handling (Revised)
Effective Date:	December 31, 2003
Reference Number:	DAL-
Number of Pages:	1

I. Purpose

To establish policy and procedures for Handling of and Dispatching of NETFLIX mail pieces.

II. Responsibility

MDOs, SDOs, AFCS operators, Culling employees, and DBCS FIM machine operators are responsible for the proper isolation, handling and labeling of all NETFLIX mail pieces.

III. Reference Documents

- A. NETFLIX Service Talk

IV. Procedures

Outgoing Operations

- A. NETFLIX pieces will be found in the collection mail stream flowing into the Dallas Plant for canceling and distribution. These pieces contain DVD's that customers have rented from NETFLIX and are now being returned to NETFLIX after viewing.
- B. Pieces are Business Reply Mail envelopes with a FIM mark in the upper right hand corner and have a white front and a red back. The back of the envelopes says, "NETFLIX" in white letters, making them easily identifiable. Pieces are addressed to NETFLIX, Coppell, TX 75019.
- C. NETFLIX pieces should be captured in the 010 culling unit, at the AFCS machines, and at the FIM DBCS machine.
- D. Pieces should be collected and placed in letter trays in U-Carts labeled for NETFLIX. The U-Carts are located in front to the AFCS machines and beside the DBCS FIM machine.
- E. There is a tray for NETFLIX Houston and a tray for NETFLIX Coppell. Pieces should be placed in the correct trays. NETFLIX pieces are coming in collections for both the Houston warehouse and the Coppell warehouse.
- F. Trays should be labeled with the labels available at the NETFLIX U-Carts and dispatched to NTX P&DC and to Houston P&DC. Labels say: "NETFLIX, Coppell, TX 75019" or "NETFLIX, Houston, TX 77210"
- G. SDO's in the 010 culling unit and the DBCS FIM machine are responsible for collecting the trays and ensuring they are dispatched to NTX P&DC and Houston P&DC at the conclusion of the 010 Culling operations and the FIM processing operation.

Incoming Operations

- H. Incoming destinating NETFLIX pieces will be found in the incoming DBCS SCF mail stream flowing into the Dallas Plant from other offices and destinating locally in SCF 751, 752 753.
- I. These pieces are Prepaid First Class Mail envelopes and have both a red front and a red back. The back of the envelopes says, "NETFLIX" in white letters, making them easily identifiable. The pieces are coming from the company warehouse going to customers in the local area who have subscribed to the NETFLIX service.

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NTX-37A-01, Page 1 of 1

GFL0000562



November 8, 2007

[REDACTED] ^{US110}
ACTING VICE PRESIDENT, PRICING AND CLASSIFICATION

[REDACTED] ^{US109}
VICE PRESIDENT, CUSTOMER SERVICE

[REDACTED] ^{US102}
VICE PRESIDENT, ENGINEERING

SUBJECT: Audit Report – Review of Postal Service First-Class Permit Reply Mail
(Report Number MS-AR-08-001)

This report presents the results of our self-initiated audit of the U.S. Postal Service First-Class Permit Reply Mail (PRM) (Project Number 06YG041MS000). We initiated this audit based on concerns raised regarding potential preferential treatment given to a large digital versatile disc (DVD) mailer. Our objective was to determine whether PRM mailers' mailpieces are processed in accordance with their approved classification and pricing.

The Postal Service generally processes PRM mailpieces in accordance with their approved classification and pricing, as outlined in the *Domestic Mail Manual* (DMM). However, employees manually process approximately 70 percent of the approved First-Class two-way DVD return mailpieces from one DVD rental company because these mailpieces sustain damage, jam equipment and cause missorts during automated processing. Nonmachinable mailpieces are subject to a surcharge. However, the DMM does not currently address the characteristics of the mailer's two-way DVD return mailpiece that make it nonmachinable.

Because these mailpieces are not machinable, the Postal Service pays significant additional labor costs to manually process them. We estimate the additional labor costs to process these mailpieces were \$41.9 million during the past 2 years, and will be \$61.5 million over the next 2 years. We will report this monetary impact of \$103.4 million in our *Semiannual Report to Congress* as \$41.9 million in unrecoverable costs and \$61.5 million in funds put to better use.

We recommended management revise the DMM's Nonmachinable Criteria for First-Class letter-size mail to identify additional nonmachinable characteristics and physical

This report has not yet been reviewed for release under FOIA or the Privacy Act. Distribution should be limited to those within the Postal Service with a need to know.

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standards for these mailpieces. We also recommended management notify affected mailers that Postal Service Engineering must test the mailers' two-way DVD return mailpieces against the revised Nonmachinable Criteria to ensure the affected mailpieces are machinable, or be subject to the \$0.17 nonmachinable surcharge. Should a mailer not make its mailpiece machinable, we recommended management ensure Business Mail Entry Unit employees begin collecting the \$0.17 per piece nonmachinable surcharge.

Management was not responsive to the findings and recommendations because, although they indicated agreement with the recommendations, they did not provide actions to address the recommendations nor did management provide action completion dates. Management has no initiatives in progress, completed, or planned to address the issues in this report. Management's comments and our evaluation of these comments are included in the report.

The OIG considers recommendations 1, 2, and 3 significant, and therefore requires concurrence before closure. Consequently, the OIG requests written confirmation when corrective actions are completed. These recommendations should not be closed in the follow-up tracking system until the OIG provides written confirmation the recommendations can be closed.

We appreciate the cooperation and courtesies provided by your staff during the review. If you have any questions or need additional information, please contact [REDACTED] [REDACTED], Director, Sales and Service, or me at (703) 248-[REDACTED].

[REDACTED]

[REDACTED]

Deputy Assistant Inspector General
for Revenue and Systems

Attachments

cc:

[REDACTED]

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GFL0000686

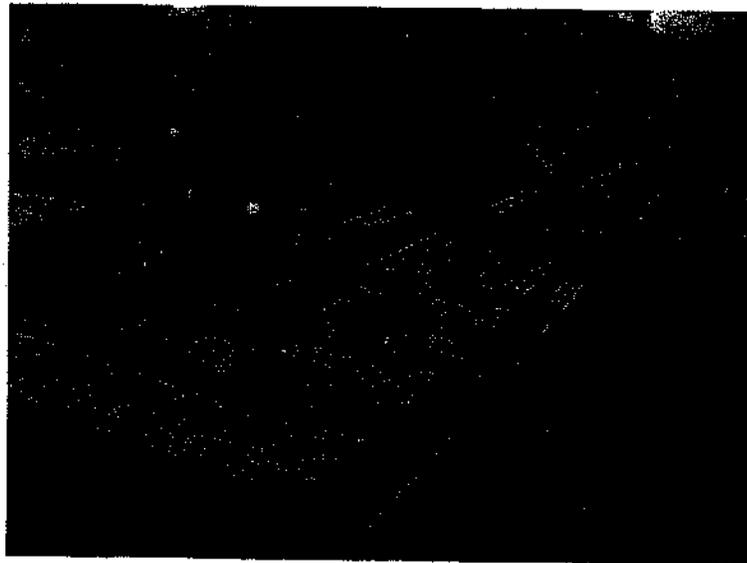
INTRODUCTION

Background

The U.S. Postal Service delivers optical disks, digital versatile discs (DVDs), compact discs (CDs), and minidisks for on-line rental service companies such as Netflix, Inc.[®], Blockbuster Online[®], GameFly[®], and [REDACTED] through the use of prepaid envelopes using the Business Reply Mail (BRM) and Permit Reply Mail (PRM) formats. Subscribers receive the DVDs or CDs through the mail, generally with 1-day delivery.

These companies use the Postal Service for timely delivery of rented DVDs and CDs. For example, one DVD rental company operates more than 100 shipping centers throughout the U.S. and, on average, ships 1.6 million DVDs each day. Another DVD rental company ships DVDs via the Postal Service from 38 distribution centers in the U.S. Other companies have also entered the marketplace with similar product offerings, bringing increased revenue to the Postal Service.

Outbound PRM two-way DVD mailpieces processed with other First-Class Mail[®] at the Houston, Texas, Processing and Distribution Center (P&DC), November 2, 2006.



PRM is a mailer service which enables a permit imprint holder to receive First-Class Mail[®] and Priority Mail[®] back from customers by prepaying postage for reply pieces at the time of mailing. Mailers must distribute PRM pieces as part

of a discount First-Class Mail mailing and not through any other means.¹

On August 3, 2006, the Postal Service launched PRM to replace BRM because DVD mailpieces were not well-suited for the BRM classification. Mailers who use PRM are those who have close to 100 percent returns, such as DVD rental companies.

Most PRM mailers currently use a two-way DVD mailpiece for shipping to and from the customer, where the envelope used to ship the DVD to the customer is converted and used to return the DVD to the rental company (referred to as the two-way DVD return mailpiece). One DVD rental company mailer places the DVD in the front of the envelope on its way to the customer, creating a hard leading edge on the mailpiece. On the return trip back to the rental company, the DVD ends up on the trailing edge when the envelope is converted by the customer. This is because the customer tears off the perforated cover of the envelope to expose the return address. The return address information is printed upside down relative to the original cover, meaning that the envelope must be rotated 180 degrees to be processed upright. After this rotation, the DVD is positioned on the trailing edge of the envelope, creating a leading flap that is referred to as a "floppy leading edge."

Regarding pricing, PRM DVD mailers present their mailings at a business mail entry unit, and most pay First-Class presort automation letter rates for outbound mailpieces. Postage for the return envelopes is prepaid at full First-Class Mail rates and is collected when the outbound pieces are mailed. Mailpieces that fail one or more of the nonmachinable criteria in the Domestic Mail Manual (DMM) are assessed a nonmachinable surcharge of \$0.17 per piece.²

The Postal Service has two ways of granting PRM authorizations. Mailers wishing to obtain individual mail entry site authorizations must apply for PRM through the Manager, Business Mail Entry (MBME) at the district office where the permit imprint account is held, and mailpieces must be approved by the local Mailpiece Design Analyst. Mailers seeking a national authorization must submit a

¹ DMM, Section 507.9.1.1 (updated May 14, 2007).

² DMM, Section 133.1.9 (updated May 14, 2007).

request to the Pricing and Classification Service Center (PCSC).

Locally, if a mailpiece's design cannot be authorized according to the DMM, the MBME informs the mailer in writing that the PCSC will make a determination. The letter sent by the MBME to the mailer should request that the mailer provide additional sample mailpieces to the MBME, along with a letter asking that these mailpieces be tested by Postal Service Engineering (Engineering) for automation letter-size rates. The MBME forwards the mailer's letter and sample mailpieces to the PCSC for a determination. The PCSC then follows its normal authorization procedures (outlined below).

The PCSC receives letter requests directly from mailers seeking a national authorization or from MBMEs seeking clarification for a local authorization. These requests include sample mailpieces to be tested. The PCSC reviews the mailpieces and determines whether to deny authorization or forward the sample mailpieces to Marketing's Mailing Standards group, to Engineering, or to both for further review. Engineering notifies Mailing Standards and the PCSC of test results in writing, and the PCSC or Mailing Standards issues a ruling to the mailer. Marketing announces national authorizations in the *Pricing & Classification Weekly Communication* and any other media that reach the internal postal audience.

To better understand how DVDs are processed, the Postal Service contracted with an outside consultant to study the mail characteristics and processing methods used by postal facilities that process DVD envelopes. This study, titled *United States Postal Service (USPS) Mail Characteristics Study of DVD-by-Mail*, includes cost and volume estimates that reflect the Postal Service's current processing methods. Results of this study are discussed later in this report.

Objective, Scope, and Methodology

See Appendix A.

Prior Audit Coverage

We did not identify any prior audits or reviews related to the objective of this audit.

AUDIT RESULTS

Many Two-Way DVD Return Mailpieces Processed Manually, But Surcharge Not Assessed

The Postal Service generally processes PRM mailpieces in accordance with their approved DMM classification and pricing. However, approximately 70 percent³ of one DVD rental company's approved First-Class two-way return mailpieces⁴ are manually processed. The Postal Service manually processes such a significant number of these mailpieces because of the nonmachinability of the envelope design. This design uses a floppy leading edge, which often sustains damage, causes jams in equipment, and missorts during automated processing.

The Postal Service has specific criteria in the DMM to determine whether letter mail is nonmachinable.⁵ Currently, the envelope design with the floppy leading edge meets these criteria, as none of the negative characteristics listed in the DMM specifically apply to this type of mailpiece.

Additionally, in 2002, Postal Service Marketing's Preparation and Standards⁶ group (Marketing) notified this DVD rental company that their two-way DVD return mailpiece was machinable, although Engineering had determined 2 weeks earlier that the same mailpiece was not automation-compatible. As a result, the mailer was not required to pay either the current \$0.17 or older (prior to May 14, 2007) \$0.13 nonmachinable surcharge.⁷

Manually processing these mailpieces is costly to the Postal Service. We estimated that the costs to the Postal Service for this manual effort for the past 2 years were \$41.9 million. If the Postal Service were to revise the DMM's nonmachinable criteria⁸ to identify additional characteristics and physical standards for First-Class letter mailpieces with the same design and general characteristics as the current mailer, the Postal Service could reduce processing costs

³ The OIG performed a statistical sample of 24 Postal Service sites that handle the DVD rental company's return mailpieces. Based on projections of the sample results, we estimate 70 percent of this company's two-way DVD returned mailpieces were processed manually.

⁴ A return mailpiece is one that a customer is returning to the mailer.

⁵ DMM 101, *Physical Standards*, Section 1.2, *Nonmachinable Criteria*.

⁶ Marketing's Preparation and Standards group has been renamed Mailing Standards and reports to the Vice President, Pricing and Classification.

⁷ On May 14, 2007, the Postal Service announced a rate change. DMM 133, *Rates and Eligibility*, Section 1.9, *Nonmachinable Surcharge*, now requires a \$0.17 surcharge for any nonmachinable mailpiece. Prior to May 14, 2007, the surcharge was \$0.13 per piece (DMM 133.1.6, Footnote 3).

⁸ DMM 101, *Physical Standards*, Section 1.2, *Nonmachinable Criteria*.

and would have funds put to better use of \$61.5 million over the next 2 years. (See Appendix B for details.)

Manual Processing
Observed

In 2005, the Postal Service contracted with an outside consultant to study the mail characteristics and processing methods used by Postal Service facilities that process two-way DVD mailpieces. The outside consultant concluded that the Postal Service manually processed 77 percent of one of the large on-line DVD rental companies' two-way DVD return mailpieces.

Through observation and contact with 24 P&DCs, the U.S. Postal Service Office of Inspector General (OIG) estimates that 70 percent of this DVD rental company's two-way DVD return mailpieces are manually processed, a figure slightly lower than the outside consultant's 77 percent. Both the outside consultant and the OIG observed that the two-way return mailpieces are diverted at various points throughout the mailstream and processed manually rather than being processed by automation, as required by two-way DVD classification and pricing.

At the P&DCs where the OIG observed two-way DVD mail processing, we found operations personnel manually taking two-way DVD return mailpieces from the initial rough cull;⁹ from the Advanced Facer-Canceller System machine; and at other points during processing operations for later facing¹⁰ and placing them in trays at the end of the shift. Western Area management issued a standard operating procedure (SOP) directing delivery and operations employees to isolate all two-way DVD return mailpieces from the mailstream before they enter the plant for processing. At the Denver P&DC, we found that even with an SOP to isolate all two-way DVD return mailpieces before they arrive at the plant, operations personnel still removed PRM mailers to be faced and placed in trays at the end of the shift. At the Queens, NY P&DC, we found a sign instructing operations personnel to pull out one DVD rental

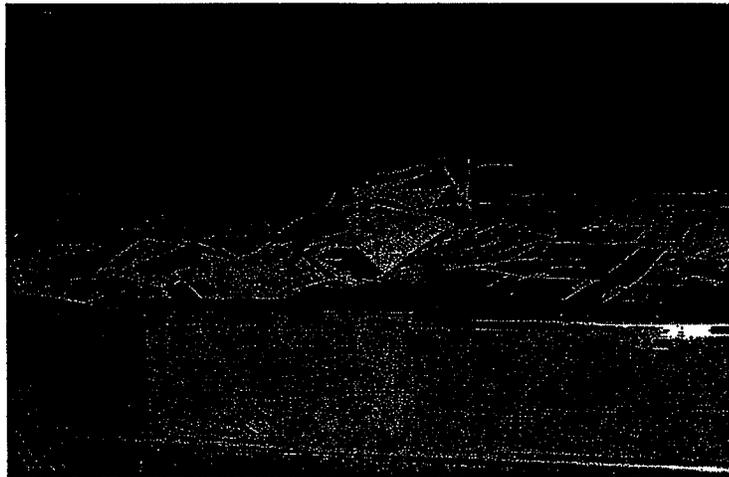
⁹ Culling refers to removing, by hand, nonletter mail (such as small parcels, rolls, and odd-shaped material) from letter mail, and nonmachinable mailpieces from automation rate pieces.

¹⁰ Facing refers to arranging mail in a uniform orientation with the delivery address facing forward and the postage stamp, meter stamp, or permit imprint positioned in the upper right corner.

company's return mailpieces from collection mail. The OIG did not observe any other PRM mailer's two-way DVD return mailpieces being manually processed as much as this specific mailer's pieces were manually processed.

At the P&DCs where the OIG observed Postal Service processing of two-way DVD mailers, operations personnel told the OIG that the return mailpieces were manually pulled to avoid damaging the mailpiece, jamming the mail processing equipment, and missorting during processing.

After being removed from the mailstream, PRM mailpieces at the Denver P&DC await facing and placing in trays, November 8, 2006.



The outside consultant's study also noted:

"Often employees cull the easily identifiable bright colored envelopes from the automated mail stream. Some supervisors in mail processing facilities believe these pieces will not run correctly on automation machinery based on their experiences working with this equipment, or feel that the risk of damage, mis-sorts, or rejects justifies their removal from the automated processing stream. It was not unusual to see containers of separated return DVDs at points throughout the mail processing flow."

Improper Notification
Letter Provided

On June 11, 2002, Engineering issued a letter to the DVD rental company regarding the test results of their two-way DVD mailpiece. Engineering concluded that the return portion of the two-way envelope used by this mailer was not

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automation compatible because "the pieces did not stack correctly" and "many pieces. . . had the flimsy end fold over and covered the address information." The letter did not address machinability.

In response to Engineering's letter, on June 17, 2002, the mailer sent an e-mail questioning Engineering's determination. On June 24, 2002, Marketing responded to the mailer with a letter stating that although their two-way DVD return mailpieces were "not completely automation-compatible, [they] were machinable." The letter also stated, "return pieces tested would not be subject to the nonmachinable surcharge effective June 30, 2002, for mailpieces that must be handled manually."

Marketing's June 24, 2002, letter negated Engineering's determination that the mailpieces were not automation-compatible by stating that this DVD mailer's return mailpieces, "although not completely automation-compatible, were machinable." By adding the phrase "although not completely," Marketing not only changed Engineering's earlier determination that this DVD mailer's return mailpieces sent in for testing "were not automation compatible," but also made a determination on machinability without performing flexibility testing on the mailpiece. The DMM¹¹ states that Engineering, not Marketing, is responsible for advising mailers of its findings (by letter) regarding the results of flexibility testing.

The OIG asked Engineering representatives for all copies of the 2002 testing results, but were told that none existed. Engineering officials told the OIG they did not know of any separate testing that Marketing conducted on the subject mailpieces in order to arrive at their conclusion. We questioned both Marketing and Engineering officials about whether the return mailpieces were machinable. Marketing asserts – and Engineering denies – that Engineering advised Marketing that the return mailpieces were machinable.

In addition, in December 2005, Postal Service Engineering conducted testing on a two-way DVD mailpiece submitted by another DVD rental company that was similar to the one

¹¹ DMM 201, Section 3.11.2 states in part: "A mailer wanting to have mailpieces tested for flexibility must submit at least 50 sample pieces and a written request to USPS Engineering. . . . The request must describe mailpiece contents. . . and Engineering advises the mailer by letter of its findings."

used by the aforementioned DVD rental company. Engineering determined that the return portion of this other company's DVD mailer was nonmachinable. In a December 28, 2005, letter to the company, Engineering noted the similarities between the two companies' DVD mailpieces, stating:

"It should be noted that Engineering tested a similar mailpiece in 2002 and in a letter dated June 11 of that year, informed [a DVD rental company] that the mailpiece was not automation compatible. The samples submitted by [the other company] have not been modified in any way that would significantly improve machinability. . . . In a sense, this mailpiece design is being tested everyday throughout the Postal system with very poor results. Engineering's ongoing experience with the poor machinability of [the DVD rental company's] mailers indicates that the [current] design will sustain damage, cause jams and be mis-sorted during processing. This will lead operations personnel to divert the mailers from the automation mail stream and handle them manually. Based on current experience, the test performed and the tabbing deficiencies noted, Engineering finds [the other company's] two-way DVD mailer is not machinable."

Engineering's determination that the other DVD rental company's mailpiece is nonmachinable is inconsistent with Marketing's determination that the DVD rental company's identical mailpiece is machinable. The Postal Service should give consistent treatment to two mailpieces with the same characteristics. Inconsistent treatment of mailpieces with the same characteristics may lead mailers to perceive that the Postal Service shows favoritism towards some DVD rental service companies.

DMM Nonmachinable
Criteria Needs
Revision

The DMM does not address characteristics that make the DVD rental company's two-way return mailpiece nonmachinable.

DMM, Section 101 gives criteria for identifying mailpieces that are subject to the nonmachinable surcharge. The following guidance was in effect at the time Marketing determined the mailpiece to be machinable:

- DMM, Section 101.6.4.1: Letter-size pieces that weigh 1 ounce or less and meet one or more of the nonmachinable characteristics in section 1.2 are subject to the nonmachinable surcharge (see section 133.1.9).
- DMM, Section 101.1.2: A letter-size piece is nonmachinable if it has one or more of the following characteristics, including:
 - a) An aspect ratio (length divided by height) of less than 1.3 or more than 2.5.
 - b) Is polybagged, polywrapped, or enclosed in any plastic material.
 - c) Has clasps, strings, buttons, or similar closure devices.
 - d) Contains items such as pens, pencils, or loose keys or coins that cause the thickness of the mailpiece to be uneven.
 - e) Is too rigid (does not bend easily when subjected to a transport belt tension of 40 pounds around an 11-inch diameter turn).
 - f) For pieces more than 4-1/4 inches high or 6 inches long, the thickness is less than 0.009 inch.
 - g) Has a delivery address parallel to the shorter dimension of the mailpiece.
 - h) Is a self-mailer with a folded edge perpendicular to the address if the piece is not folded and secured.
 - i) Booklet-type pieces with the bound edge (spine) along the shorter dimension of the piece or at the top.

Although the DVD rental company's two-way DVD return mailpiece adheres to the DMM machinability criteria listed above, Engineering's testing of this and similar mailpieces

has consistently shown that this type of mailpiece is not machinable. Engineering has noted that mailpieces with this design "will sustain damage, cause jams, and be missorted." The OIG, through observations of DVD mailpiece processing conducted at 10 P&DCs, also found this specific two-way DVD mailpiece was likely to become damaged, jam equipment, and be missorted during automated processing.

Based on Engineering's conclusions about the PRM two-way DVD mailpieces, the Postal Service should revise the DMM to identify additional nonmachinable characteristics and physical standards for First-Class letter-size mail. If affected mailers choose not to redesign their two-way DVD mailpiece the Postal Service should impose nonmachinable surcharges of \$0.17 per piece.

Recommendations

We recommend the Acting Vice President, Pricing and Classification:

1. Coordinate with the Vice President, Engineering, on a Domestic Mail Manual (DMM) revision to the Nonmachinable Criteria DMM, Section 101.1.2 in order to identify additional nonmachinable characteristics and physical standards for First-Class letter-size mail with the same design and general characteristics of the mailpiece with the floppy leading edge.
2. Notify affected mailers that their two-way Digital Video Disk return mailpieces must be tested by Postal Service Engineering against the revised Nonmachinable Criteria DMM, Section 101.1.2 to ensure that the affected mailpieces are machinable, or be subject to the \$0.17 nonmachinable surcharge.

We recommend the Vice President, Customer Service:

3. Ensure that Business Mail Entry Unit employees begin collecting the \$0.17 per piece nonmachinable surcharge for all affected mailpieces if mailers do not alter their mailpieces.

**Management's
Comments**

In response to recommendation 1 management stated that in the last year 742 million pieces of Permit Reply Mail comprised only 0.77% of more than 96 billion pieces of First-Class Mail. Management agreed that machinability

standards need to be reexamined periodically, but cautioned that it must also consider how any DMM changes would affect all users of the mail. Additionally, management stated that the specific changes envisioned by this audit could have implications for other customers that are not yet properly understood. In addition to cost, the Postal Service is greatly concerned with the possible negative impact on affected customers if a DMM change results in a substantial price increase.

Concerning recommendation 2, management agreed to test DVD return mailpieces "against DMM standards when and if those standards are altered." In response to recommendation 3, management stated that "customers who mail pieces that do not conform to current DMM standards should pay the nonmachinable surcharge."

Management also had a comment regarding the following statement in Appendix A of our report: "We did not assess the reliability of the Corporate Business Customer Information System (CBCIS) as part of our audit; therefore, we do not base our conclusions or recommendations solely on information in the database." Management believes this statement conflicts with our use of CBCIS volume data in Appendix B.

We have included management's comments, in their entirety, in Appendix C.

**Evaluation of
Management's
Comments**

Although management agreed with our findings, their comments were not responsive to the findings and recommendations. Management did not identify any actions it will take to address the issues raised in this report.

Management's comments misquote our first recommendation as a suggestion that the DMM be revised to "identify additional nonmachinable characteristics and physical standards for First-Class Mail letter-size mail." Management omitted the rest of the recommendation, "*with the same design and general characteristics of the mailpiece with the floppy leading edge,*" and offered no indication that it would act to address the floppy leading edge problem identified in this report. Our recommendation to revise the DMM would not affect all First-Class mailers. It pertains only to mailpieces with a floppy leading edge, which sustain damage, cause jams in equipment, and

missort during automated processing. As for the impact on affected customers, rejecting similar mailpieces from other mailers, while allowing one mailer to continue using this mailpiece creates the appearance of favoring a large mailer over smaller ones.

Agreeing to test DVD return mailpieces against DMM standards "when and if those standards are altered," without having committed to altering the DMM, does not satisfy these recommendations.

Regarding recommendation 3, management stated that customers who mail pieces that do not conform to current DMM standards should pay the nonmachinable surcharge. Our recommendation pertained to "affected mailpieces," (mailpieces affected by the DMM revisions suggested in recommendation 1). In any case, management did not specify any action that it would take to collect the surcharge, under either current or revised DMM criteria.

The OIG disagrees with management's assertion of a conflict between information presented in Appendices A and B. Our statement in Appendix A means we did not conduct a review of data processing controls over the CBCIS. However, we tested the reasonableness of the CBCIS data. To test the reasonableness of projected return volume using CBCIS, we compared it to a separate projection using the mailer's internal forecasted customer base for March 2007 and the mid-point of its forecasted range of its customer base for December 2007.

The results of the two forecasts were nearly identical, giving us reasonable assurance that we could use the data obtained from the CBCIS to support the monetary impact calculation.

Note also that we estimated the unit cost of manual processing at \$0.08146. Management's response indicates that the unit cost is \$0.11291. If management is correct, our monetary impact calculation is very conservative.

**Additional Matter
Needing
Management's
Attention**

The DMM gives the Postal Service's complete mailing standards. Customers and Postal Service employees depend on the DMM for information and guidance about mailing. Further, the DMM attempts to give users all the information they need within a single section without referring users to different sections. Although one of the Postal Service's goals is to reduce the need to refer to another section, in some circumstances, a reference directs a user to a different section.

During our review of PRM guidance, we noted that clarification is needed to Section 9 of the DMM 507, which provides information on the PRM category and elements. Section 9.1.1 states that mailers must distribute PRM pieces as part of a discount First-Class mailing and not through any other means, but does not refer users to the PRM guidelines in DMM 200, *Discount Mail Letters and Cards*, and Section 230, *First-Class Mail*. Although it is the Postal Service's goal to reduce the number of instances a user is referred out of a section, we believe it is important to give users an out-of-section reference to the section on discount First-Class Mail. This reference, when added to Section 9.1.1, would give PRM mailers complete guidelines.

Suggestion

We suggest the Acting Vice President, Pricing and Classification, revise the DMM to include an out-of-section reference from the PRM section at 9.1.1 to DMM, Section 230, *First-Class Mail*.

APPENDIX A

OBJECTIVE, SCOPE AND METHODOLOGY

We initiated this audit based on concerns raised regarding potential preferential treatment given to a large DVD mailer. We determined whether PRM mailers' mailpieces are processed according to their approved classification and pricing.

To accomplish our objective, we performed a walk-through of the PRM process (tracing from permit to authorization to outbound to return of mail to automation compared to manual sorting). We also reviewed applicable regulations, manuals, instructions, and other supporting documentation relating to PRM, and its predecessor BRM, to evaluate internal controls and the reliability and validity of data.

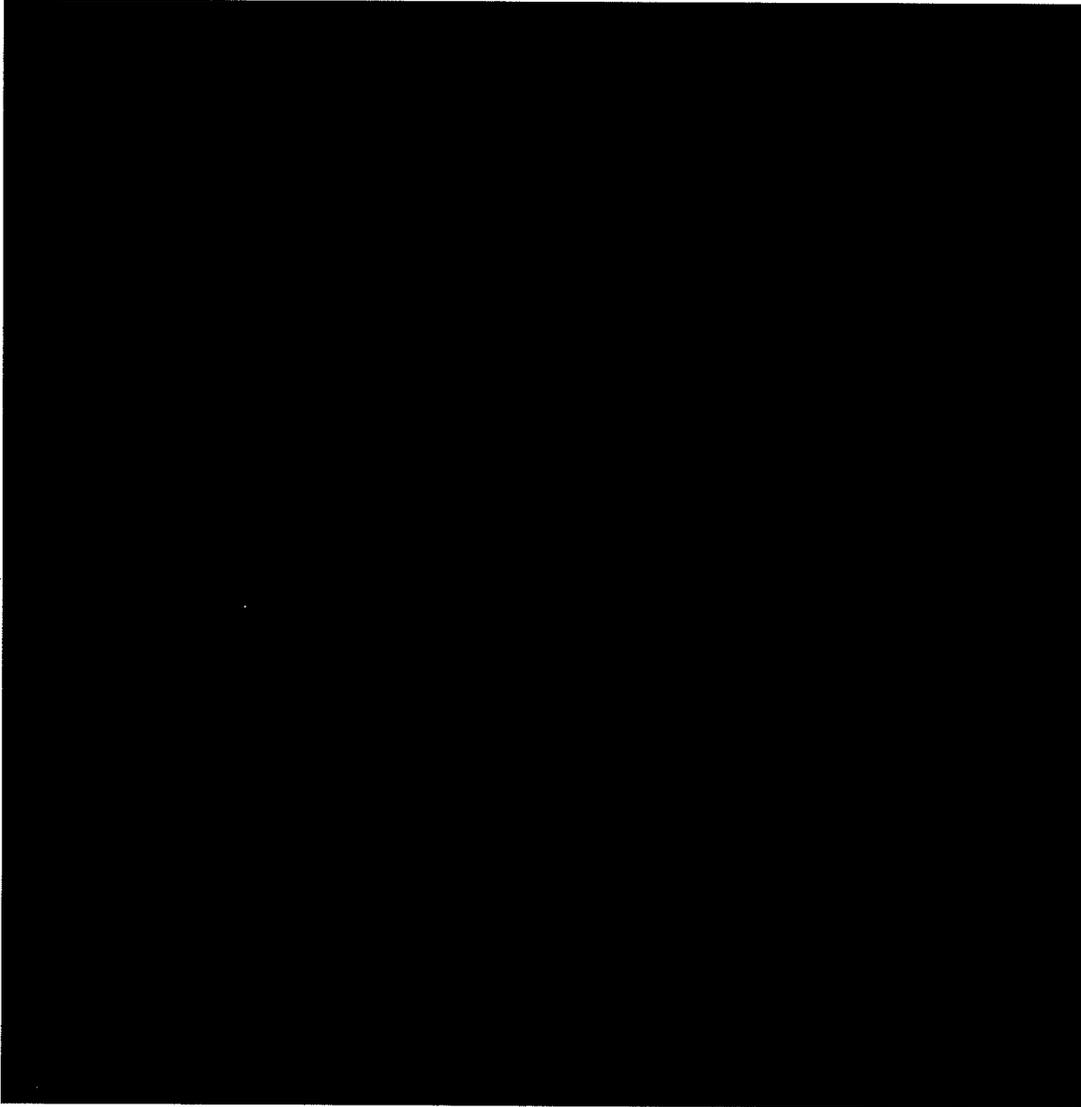
We interviewed Postal Service personnel for background information on DVD mailing approvals and processes. We interviewed Postal Service officials at the PCSC to determine their role in the process for mailers seeking approval to use PRM, especially those who mail automation-compatible DVD and CD mailpieces. We also interviewed industry officials for information on their distribution processes.

We visited 10 Postal Service facilities to observe the mailing of DVDs to determine how they were processed, and contacted an additional 14 Postal Service facilities by telephone to confirm their processing of DVDs.

We reviewed the November 2006 study, *USPS Mail Characteristics Study of DVD-by-Mail*, developed by an outside consultant for the Postal Service, to determine why the study was requested and how the Postal Service used the results.

We conducted this performance audit from September 2006 through November 2007 in accordance with generally accepted government auditing standards and included such tests of internal controls as we considered necessary under the circumstances. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective. We discussed our observations and conclusions with management officials on August 15, 2007, and included their comments where appropriate. We did not assess the reliability of the CBCIS as part of our audit; therefore, we do not base our conclusions or recommendations solely on information in the database.

APPENDIX B



APPENDIX C. MANAGEMENT'S COMMENTS



October 25, 2007

TAMMY L. WHITCOMB
DEPUTY ASSISTANT INSPECTOR GENERAL FOR REVENUE AND SYSTEMS

SUBJECT: Review of Postal Service First-Class Permit Reply Mail
(Report Number MS-AR-07-DRAFT)

This report has been reviewed by management from USPS Engineering, HQ Marketing, and Operations. After a review of the findings, management agrees with some of the recommendations, but disagrees with a number of issues.

Recommendation 1:
Coordinate with Vice President, Engineering on a Domestic Mail Manual (DMM) revision to the Nonmachinable Criteria (DMM Sections 101.1.2 [and 201.2.1]) in order to identify additional nonmachinable characteristics and physical standards for First-Class Mail letter-size mail.

Response:
Management agrees that machinability standards need to be reexamined periodically. However, there are several factors that must be taken into consideration with respect to the instant audit. First, the Postal Service management must consider the magnitude of this decision. In the last year there were more than 95 billion pieces of First-Class Mail. Of this number, only 742 million were Permit Reply Mail which equates to 0.77% of all First-Class Mail. Before changing any criteria in the DMM, the Postal Service must consider how proposed changes would affect all users of the mail. The specific changes envisioned by this audit could have implications for other customers that are not yet properly understood.

Second, the cost is but one factor to consider when setting prices. In addition to cost, the Postal Service is greatly concerned with the possible negative impact on affected customers if a change in mailing standards results in a substantial price increase. Under the Postal Accountability and Enhancement Act (PAEA), it is even more important to consider all aspects of a product to properly price it within the marketplace.

475 L'ENCLAVE PLAZA SW
WASHINGTON DC 20260-6127
202-268-7243
FAX: 202-268-5773

-2-

Recommendation 2:

Notify affected mailers that their two-way [DVD] return mailpieces must be tested by Postal Service Engineering against the revised Nonmachinable Criteria (Domestic Mail Manual Section 104.1.2), in order to ensure the affected mailpieces are machinable, or be subject to the \$0.17 nonmachinable surcharge.

Response:

Management agrees that two-way DVD return mailpieces should be tested against DMM standards when and if those standards are altered. Pricing and Classification will work to ensure all Permit Reply Mail (PRM) customers are treated equally with advance notification in writing concerning any proposed changes in the DMM that will affect their mailpieces.

Recommendation 3:

Ensure Business Mail Entry Unit (BMEU) employees begin collecting the \$0.17 per piece nonmachinable surcharge for all affected mailpieces should mailers not alter their current mailpieces.

Response:

Management agrees with Recommendation 3 that customers who mail pieces that do not conform to current DMM standards should pay the nonmachinable surcharge.

Additional Comments:

Background:

The paragraph above the picture on page 1 describing a PRM customer and its company profile needs to be deleted or redacted from the report. It has no bearing on the report or findings of this report.

All PRM customers must apply for authorization through the district manager overseeing the BMEU where the permit imprint account is held. Permit holders must submit pre-production samples of PRM pieces for USPS approval prior to distribution.

Mailpieces are processed manually:

The Postal Service does handle PRM return pieces inconsistently throughout the entire country. This reflects variations by plant in volume and handling characteristics of diverse PRM return pieces which are produced by different PRM mailers, and in the mix of sorter models present at each plant. Plants use a mix of handling practices, including some automation designed to minimize costs consistent with service given their unique circumstances. Through an outside consultant, the Postal Service learned that all PRM designs contribute positive contribution.

Improve Notification Letter Provided:

Although the course of events is accurately portrayed in this section, it is to be noted that this use of First-Class Mail at the time was relatively new and no Standard Operating Procedures (SOP), were in place to include new customers in this service. Since this use has expanded, an SOP has been put into place.

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Appendix:

In Appendix A, it is stated, "We did not assess the reliability of the Corporate Business Customer Information System (CBCIS) as part of our audit; therefore, we base no conclusions or recommendations solely on the data contained in the database." This completely conflicts with Appendix B, where it states, "To determine Questioned Costs for two years in arrears, we multiplied \$0.08148 by 0.70 by the return volume for each month from the Postal Service's CBCIS for the period covering July 2005 through June 2007. We summed over the months to calculate \$41,080,608." For this reason, the CBCIS reliability statement needs to precede this entire section.

It is also to be noted that under the new law, USPS will only submit PRC cost methodology. Therefore, the difference in labor costs per piece between automated and manual processing for the Outgoing Primary Operation is 11.291 cents.

From PRC-LR-12, FCM Letters Costs Final.xls, Sheet SPINMACH COST

Outgoing Primary:
Automation 0.798 cents
Manual 12.081 cents
Difference 11.281 cents

VS109

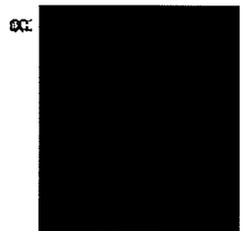


Vice-President, Customer Service



Vice-President, Pricing and Classification

VS110



cc:

- US-173
- US-051
- US-102
- US-003
- US-026
- US-160
- US-082
- US-153
- US-093
- US-117

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DVD Mail
Fastest growing USPS product



US-071
US-110



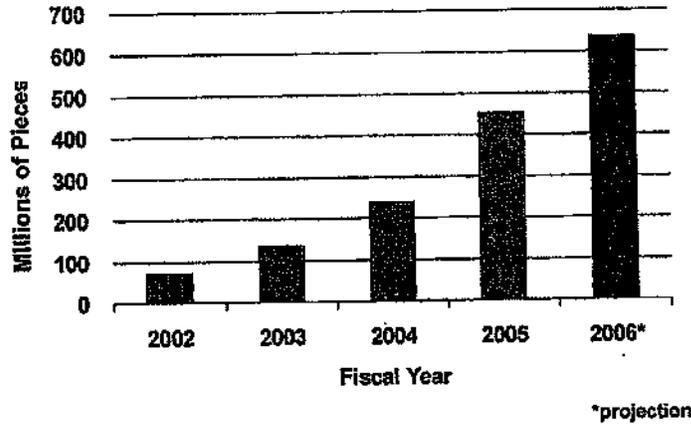
Background

- ▶ **FY05-06 focus on long-term solution to growing DVD volumes**
 - ◆ **Possible classification/price**
 - ◆ **Envelope design specifications**
 - ◆ **Standardization of acceptance procedures**
 - ◆ **Recommendation to study costs to determine the need for intervention**

PUBLIC



DVD mail volume



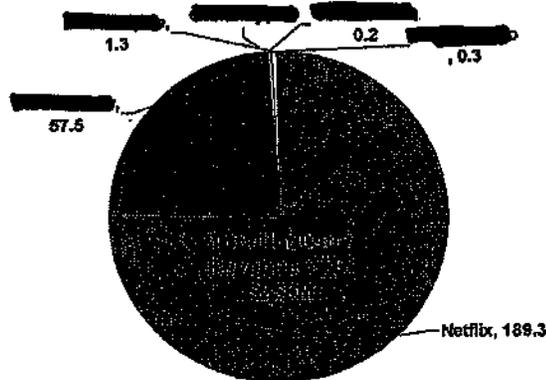
September 5, 2006

Confidential: for internal use only

3



Industry revenue



Top 10 FCM Mailers	
1	[Redacted]
2	[Redacted]
3	[Redacted]
4	[Redacted]
5	Netflix
6	[Redacted]
7	[Redacted]
8	[Redacted]
9	[Redacted]
10	[Redacted]

News items - all mail

September 5, 2006

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4

PUBLIC



Netflix

- ▶ **Among the fastest growing postal customers**
 - ◆ **FY06: 50%; Last 5 years: +75%**
- ▶ **One of the largest USPS account**
 - ◆ **Top 5 in FCM Mailers**
 - ◆ **Ranked 12th in overall USPS revenue**
- ▶ **Still using informal combination of classifications and rates**
 - ◆ **Bypassed BRM call-out**
 - ◆ **Allowed pre-payment of return BRM piece**
 - ◆ **Previously waived BRM per piece fee**
- ▶ **Tendency to ignore/bypass USPS rules and regulations**
 - ◆ **Change to envelope design**
 - ◆ **Request of manual handling**

September 5, 2006

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5



Recent postal activity

- ▶ **Instituted SOP for BMEUs integrating new DVD mailers**
- ▶ **Introduced Permit Reply Mail**
 - ◆ **Codifies pre-payment of round trip**
 - ◆ **New mail markings allow better measurement**
- ▶ **Completed mail characteristic study**
 - ◆ **Survey of plant practices**
 - » **Online survey of 300 plants**
 - ◆ **Direct observation of mail processing at select locations**
 - » **25 site visits**

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6

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3

GFL0000734



What the mail characteristics study shows

- ▶ **Lack of consistency throughout country**
 - ◆ Substantial variation in handling practices
 - ◆ Culling occurs throughout mail processing
 - ◆ Concerted effort to manually separate return pieces by company
- ▶ **Blockbuster envelopes appear to be superior**
- ▶ **Local SOPs are in place or are being developed**
- ▶ **Number of return envelopes are not counted**
 - ◆ Measuring true productivity is difficult

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7



Mail characteristic study warrants follow-up

- ▶ **Lack of standardization makes normal costing approaches problematic**
 - ◆ Average variability assumptions
 - ◆ Delivery costs may be affected by scale
- ▶ **Effects on other mail difficult to assess without more rigorous observation**
- ▶ **Preliminary cost estimates**
 - ◆ Illustrate the need to standardize around best practices
 - ◆ Suggest that revenues exceed cost, but with a cost coverage substantially less than typical FCM
 - ◆ Probably understate "true" costs

mail processing

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4

GFL0000735



Other mail characteristic study findings

▶ "Magic Machines"

- ◆ Tampa processes 100% of DVD mail on automation including AFCS
- ◆ Low breakage rate – 1.9%
- ◆ Contradicts Netflix's claims
- ◆ Replication on other equipment difficult
- ▶ El Paso has the most costly process with a higher breakage rate of 2%

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Recommendations - Short term

- ▶ [REDACTED]

*Extreme
Variation in
costs (pt. to pt.)*

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Recommendations - Long term

Same thing

[REDACTED]

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11

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Netflix Issues

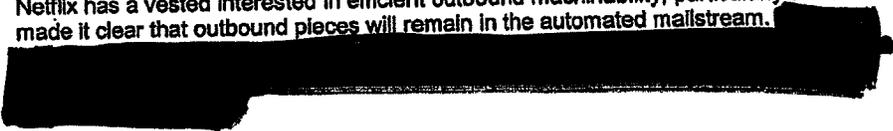
Single Return Address

- Netflix has requested a national single return address for all Netflix return DVDs throughout the country.
- How the piece is addressed will have handling implications – will it have a city, state?
- The pieces would have to be held out at origin plants based on the unique ZIP Code for caller service pick-up by Netflix or dispatched to one of the nearby plants at which they do pick up mail.
- This would require a hold out on every outgoing sort program / manual operation at each origin point in order to either prevent the pieces from rejecting as out-of-sort program or being shipped to the destination plant responsible for the ZIP Code.
- Dispatch operations at every origin plant would require a Netflix container in order to prevent trays from being shipped to the destination plant responsible for the ZIP Code – tray labeling and placarding requirements would be unique to Netflix.

Disk Failure Damage Test

- Netflix has hired an engineering company (ATR) to investigate disk fatigue (damage) by building a "model" of our processing equipment.
- ATR recently conducted a test at the Baltimore P&DC and ran about 2,000 Netflix disks through one of our AFCS sorters.
- ATR has designed and built a DVD fatigue testing device that Engineering has been using in-house to investigate different modes of failure.
- The fatigue machine is producing failures which seem to correlate with the historical breakage data that Netflix supplied for the same titles.

Reports of Outbound Mailing Problems

- Western Area has recently reported increasing problems with Netflix outbound volumes.
 - Plants are reporting that outbound volume (from Netflix to customers) are causing an increasing degradation in performance within automated letter operations including DPS (e.g., higher instances of jams, rejects) since they first started processing the pieces in large numbers back in 2002 and 2003.
 - This issue may have surfaced due to the focus of reducing Percentage of DPS Out-of-Sequence and "Percent At Risk Defects"
 - Netflix has a vested interest in efficient outbound machinability, particularly since we've made it clear that outbound pieces will remain in the automated mailstream.
- 

PUBLIC

GFL0000738

The September 12 meeting began at 2 p.m. in Headquarters Conference Room 1P619.
 Next meeting: Monday, September 26, 2 p.m., Headquarters Conference Room 1P439.

Present	Members	Phone	Office
X	VS-152	202-268-	Pricing and Pricing Strategy
X	VS-012	202-268-	Mailing Standards
X	VS-023	703-292-	Enterprise Sales Solutions
X		202-268-	Finance, Business Evaluation
X		202-268-	Pricing Strategy
X		202-268-	Pricing Strategy
X		202-268-	Implementation and Outreach
X		202-268-	Operational Requirements and Integration
X		202-268-	Pricing Strategy
X		202-268-	Field Operations Standard Implementation
X		202-268-	Pricing
X		202-268-	P&DC Operations
X		202-268-	Business Mail Acceptance
		202-268-	Mailing Standards
		202-268-	Legal Policy and Rates
		202-268-	Legal Policy and Rates
		202-268-	Product Management
X		703-280-	Letter Mail Technology (Engineering)
		202-268-	Pricing
		703-280-	Flats Mail Technology (Engineering)
X		212-613-	Pricing and Classification Service Center
		202-268-	Operational Requirements and Integration
X		202-268-	Operational Requirements and Integration
Guests			
X		202-268-	Manager, Pricing Strategy

VS-156
 VS-027
 VS-030
 VS-033
 VS-063
 VS-066
 VS-068
 VS-074
 VS-154
 VS-084
 VS-077
 VS-112
 VS-157
 VS-125
 VS-159
 VS-131
 VS-136
 VS-137
 VS-155
 VS-151
 VS-110

Agenda

1. **Pricing, Product, and Mailing Standards Updates**
 - (a) Classification Strategy [redacted] - VS-110
 - (b) Postage Statement Workaround for Prepaid Returns [redacted] VS-023
2. **Engineering and Operations Update**
 - (a) Test of 60-Pound Stock DVD Envelopes [redacted] - VS-159
 - (b) Stiffness Detector Test [redacted] and [redacted] VS-151; VS-154
3. **Open Discussion Items**
 - (a) Barcode Readability
 - (b) Confirm
 - (c) Tabbing and Perforations

VS-023
In the interim, [REDACTED] plans to work with the Account Managers of the four authorized mailers to determine whether these mailers can update their presort software before new rates take effect next year.

► **Task: Postage Statement Software.** Coordinate work with the USPS Account Managers and the RDM mailers on voluntary addition of two line items for repaid returns.
Lead: [REDACTED]; **Due:** provide update at 9/26/2005 meeting.

Engineering and Operations Update

(a) Test of 60-Pound Stock DVD Envelopes

VS-159 [REDACTED] reported receiving last week the 5,000 sample prototypes with a modified paperweight of 60 pounds (offset) and slightly shortened length and height requirements of 7-1/2 by 5-1/4 inches. These prototype pieces weigh 1 ounce on the outbound and 0.93 ounce on the inbound.

VS-159 [REDACTED] ran 1,285 of those pieces (about 6 full letter trays) using the same first test protocol established for the extensive test completed this past April with five different envelope designs. This protocol requires running the pieces through the delivery point barcode sorter (DBCS) three times to simulate the outbound trip of RDM. [REDACTED] reported that the prototype pieces ran well with only five flyouts.

VS-159 For the second protocol, *VS-159* [REDACTED] ran 674 pieces converted from the 1,285 pieces into the return design and ran them through the Advanced Facer Canceler System (AFCS). Again the pieces ran well with only three pieces rejected during the cull. He held out 10% of the pieces for damage analysis. When *VS-159* [REDACTED] ran a portion of the remaining 600 pieces on the DBCS, there were numerous gate jams that forced the test to be suspended. The test will be continued on another DBCS.

VS-159 [REDACTED] estimated that completion of the machinability portion of this second test will occur by the end of September. Complete disc damage data should be available later in October.

VS-159 [REDACTED] also reported that he has not received the promised samples from the two large RDM mailers based on the modified new specifications of smaller size and lighter paperweight.

Based on some comments from the field about needing to test RDM envelopes on the Carrier Sequence Barcode Sorter (CSBCS), [REDACTED] plans to include some test runs on that equipment too. The CSBCS is found in small delivery units and has only a limited number of bins (a smaller "footprint" than that on the DBCSCs). The mail for the CSBCS must first be sorted to the carrier by a delivery point barcode sorter before being passed off to the delivery unit or small post office for processing on the CSBCS. Once this has taken place, the CSBCS can sort the carrier route mail into carrier route sequence, generally with three passes. As a result, RDM could actually be sorted at least three more times before delivery, increasing the exposure to repetitive stress to the optical discs contained within the mailpieces.

► **Task: New Envelope Testing.** Provide update on test.
Lead: [REDACTED]; **Due:** provide update at 9/26/2005 meeting.

(b) Stiffness Detector Test

VS-151 [REDACTED] reported that a group from Operations reviewed the AFCS operation at the Merrifield VA plant and distribution center (P&DC) at the end of August to run informal tests using two different AFCS machines: AFCS 1 (with a single-pass reject rate of 2 percent) and AFCS 5 (with a single-pass reject rate of 4 percent). Unlike AFCS 1, AFCS 5 tends to reject all envelopes containing CDs and DVDs.

VS-151 [REDACTED] mentioned that many of the rejects are typically machinable pieces rejected for reasons other than nonmachinability. The rejected pieces often are pieces riding too high in the belts or arriving as doubles (two pieces at the same time). Plants cull through the rejected mail for flats, thick pieces, and rigid pieces, then dump the remaining pieces back into the feed system to attempt to process those pieces again through the AFCS.

VS-151 [REDACTED] noted that some plants have semi-automated systems for transporting the recycled rejected mail back to the AFCS. This may be a source of additional damage to the optical discs as they could pass

Round-Trip Disc Mail (RDM) Work Group Minutes: 12 September 2005

around on this transport belt to the AFCS and back several times. Some plants are also working the rejected mail on older Mark II facer-canceler machines, another potential source of additional damage.

The group collected about 320 accumulated rejects from the AFCS 5, representing about a 4% reject rate out of 8,000 pieces processed on that machine. The rejects were recycled twice on the AFCS 5 to reduce the number of rejects to pieces that truly would be rejected by the AFCS 5 based on the characteristics of the pieces themselves rather than other processing factors.

From the 320 pieces, 20 pieces (including 17 pieces containing DVDs) were culled manually to avoid damage to the pieces. Of the remaining 300 rejects, the AFCS 5 processed all but 35 (the true rejects) after the initial pass and the two recycling passes. These 35 pieces were then run on the more tolerant AFCS 1, resulting in only 14 rejected pieces.



►Task: No further action at this point.

Open Discussion Items

(a) Barcode Readability

VS-154

confirmed that the wide field of view cameras now installed on letter-sorting machines provide more tolerance for positional barcode skew on letters, whether POSTNET delivery barcodes or PLANET Code barcodes for Confirm. As a result, the hand-applied outgoing mailing labels used by the RDM mailers no longer seem to create readability problems now processed on the upgraded equipment.

►Task: No further action at this point.

(b) Confirm

Because Confirm relies on passive scanning, its usage would not add appreciably to Postal Service costs during the experiment. is currently exploring how to combine mailer and Postal Service requirements if the mailer wished to pay the subscription fee for Confirm. If the mailer did not wish to pay the subscription fee, the Postal Service would not share detailed data with the mailer.

VS-030

►Task: Confirm. Continue research on application of Confirm to the RDM experiment.
Lead: ; Due: provide update at 9/26/2005 meeting.

(c) Tabbing and Perforations

Because of the added expense of tabbing, one of the large RDM mailers would like the Postal Service to revisit the tabbing requirement in the proposed RDM envelope specifications. The same mailer has also asked that the Postal Service propose standards for perforation strength on envelope design.

USPS Engineering has limited expertise in perforation specifications or requirements. Perforations represent a compromise between strength and ease of use. Envelope manufacturers should assume responsibility for perforation design. Testing would expose inadequate perforations. Proposed RMD mailpieces with perforated features incapable to handle the rigors of automation processing would not be approved.

►Task: Tabbing and Perforations. Research existing industry standards on perforation and review tabbing rule.
Lead: and ; Due: provide update at 9/26/2005 meeting.

Respectfully submitted,
Pricing Strategy

VS
152

VS-154

The September 26 meeting began at 2 p.m. in Headquarters Conference Room 1P439.
 Next meeting: Monday, October 17, 2 p.m. Headquarters Conference Room 1P439.

	Present	Members	Phone	Office
US-152	X		202-268-	Pricing and Pricing Strategy
US-012	X		202-268-	Mailing Standards
US-023			703-292-	Enterprise Sales Solutions
US-156			202-268-	Finance, Business Evaluation
US-027	X		202-268-	Pricing Strategy
US-030			202-268-	Pricing Strategy
US-033			202-268-	Implementation and Outreach
US-063			202-268-	Operational Requirements and Integration
US-066	X		202-268-	Pricing Strategy
US-068			202-268-	Field Operations Standard Implementation
US-074	X		202-268-	Pricing
US-154	X		202-268-	P&DC Operations
US-084			202-268-	Business Mail Acceptance
US-077			202-268-	Mailing Standards
US-112			202-268-	Legal Policy and Rates
US-157	X		202-268-	Legal Policy and Rates
US-126	X		202-268-	Product Management
US-159	X		703-280-	Letter Mail Technology (Engineering)
US-131			202-268-	Pricing
US-136			703-280-	Flats Mail Technology (Engineering)
US-137	X		212-330-	Pricing and Classification Service Center
US-155	X		202-268-	Operational Requirements and Integration
US-151	X		202-268-	Operational Requirements and Integration
Guests				

Agenda

1. Pricing, Product, and Mailing Standards Updates
 - (a) Teleconferences with RDM Mailers
 - (b) Postage Statement Workaround

2. Engineering and Operations Update
 - (a) Test of 60-Pound Stock DVD Envelopes

Discussion Points and Tasks

VS-027

VS-066

Pricing, Product, and Mailing Standards Update

(a) Teleconferences with RDM Mailers

VS152

_____, _____, and _____ reported on the series of teleconferences that Pricing Strategy conducted from September 21 through September 26 with Netflix, Blockbuster, _____, the _____, and _____.

_____, who also participated, coordinated the schedules for the associated account managers or sales specialists: _____ (for Blockbuster), _____ (for Netflix), and _____.

NF-010

GF-001

Other Postal Service participants included _____ and _____. We are including notes from those teleconferences for reference.

BB-009

VS-151

Netflix

VS-110

VS-157

VS-153

September 21 Teleconference

Netflix participants:

- _____, Chief Operating Officer - NF-013
- _____, Senior Director, Postal Operations - NF-016
- _____, Attorney
- _____, Attorney

VS-110

_____ manager of Pricing Strategy, opened the teleconference by presenting the proposal, including the pricing and classification, for a three-year experimental classification for Round-trip Disc Mail (RDM). He explained that the experiment would allow the Postal Service and the mailing industry—including envelope manufacturers and disc manufacturers—to determine and assess design criteria that could possibly lead to a fully automation-compatible envelope for two-way mailing that weighed 1 ounce or less and protected the disc. With extensive testing and experimentation, we would be in a better position to conclude whether such a design with a 1-ounce ceiling were economically and physically feasible.

The experiment would also allow the Postal Service to collect sufficient processing data through the use of Confirm for costing analysis and subsequent pricing design based on the unique mailpiece characteristics of RDM and how the mail is handled in a more automated mailstream. _____ then detailed the major pricing and classification requirements including the testing and certification of participating mailpieces.

VS-110

_____ from Netflix responded that this proposal was a good start but that he did not see how it would solve the situation for Netflix in regard to costly disc damage and breakage. He presented these points:

NF 013

NF 013

- Automation. _____ pointed out that the Netflix outbound pieces were prepared and handled as automation letters, with few processing problems either at the Netflix fulfillment sites or at the Postal Service processing and distribution centers (P&DCs).

We agreed that the outgoing pieces machined well but our concern revolved around the return pieces with the floppy leading edge. These pieces jam processing equipment and therefore often require manual handling. For efficiency and cost avoidance, we believe that modifying the current Netflix envelope would allow better processing. The experiment would give us, Netflix, and others in the mailing industry the option to explore various design configurations and paper weights and types for their individual mailpieces.

NF013

- 1-Ounce Hurdle and Temporary Classification. [REDACTED] expressed concern that the 1.3-ounce ceiling proposed for the experiment might not become permanent, returning everyone to the current struggle with constructing efficient First-Class Mail envelopes that weigh 1 ounce or less. He believed that we would simply be deferring the "additional ounce" issue for three years but only on a temporary basis. He added that even permitting the additional weight did not protect the disc from exposure to damage by the Advanced Facer-Canceler System (AFCS). Both he and [REDACTED] attributed the processing of return RDM pieces on the AFCS as the major source of disc breakage.

NF-016

We mentioned that we also shared concerns about disc damage. Again, we emphasized that the experimental classification would provide not only a window of opportunity for testing envelope designs and developing workable specifications but that it also gave us a methodical way to collect data for overcoming the damage issue as well as developing an equitable pricing structure for this type of mail that continues to grow in volume and diversity.

NF013

- Machinability Regulations. [REDACTED] voiced concern about the proposed machinability criteria and regulations that letter mail containing discs must meet in order to avoid the payment of the nonmachinable surcharge for letters. He did not believe that these proposed criteria were sufficiently flexible to allow mailers whose designs did not meet those criteria to be tested for machinability. He also stated that publishing new regulations would force Netflix and all other two-way DVD and CD mailers to participate in the experiment. He also reminded us that in reality two mailers represent 98% of the current RDM mailstream.

We responded that machinability of such mail was becoming a more serious operational issue as more mailers began adopting the two-way mailing concept and other mailers began designing one-way advertising letter mail containing discs. Machinability is no longer an issue just for two-way DVD or CD envelopes; it is turning into an issue for all letter envelopes containing discs.

We stated that finding machinable designs is becoming a long-term situation. Our research, for example, has revealed that the DVD as a viable medium will not peak until 2013. Finding a customer and operational solution is critical. Mailers and mailpiece designers are seeking guidance on designing machinable disc pieces. We maintained that establishing clear machinability regulations now represents a responsible way to guide those mailers in designing appropriate mailpieces.

We also replied that Netflix had several other options to consider such as using letter-size Standard Mail for outgoing pieces or considering using flat-size pieces for both outgoing and incoming return mail. We did not intend or foresee forcing anyone to participate in the experimental classification. We assured Netflix that participation would be a voluntary choice.

We acknowledged that currently two mailers dominate the DVD mail-order rental market. Even so, with low financial barriers for entry into this market and, as viewed by others, appealing profit margins from the business model Netflix pioneered, we predicted that more mailers will launch similar DVD and CD rental businesses. As a point of reference, we noted that our Sales organization has already identified 20 new mailers actively engaged in similar mail-order enterprises.

- Planet Codes and Special Rate Markings. Tom believed that using Confirm was a beneficial idea as long as the envelope designs worked on automation equipment. Provided that the marking requirements were similar to the current markings, Netflix did not object to the need and value of clearly identifying the pieces during the experiment.

NF013

We assured [REDACTED] that the markings were simple: changing the wording on the Business Reply Mail (BRM)-formatted envelope and adding the classification marking in the indicia on the outgoing pieces.

Round-Trip Disc Mail (RDM) Work Group Minutes: 26 September 2005

NF-013

then enumerated several other points critical to Netflix (all of which focused in some way on costs):

NF-013

NF-013

- Breakage. again emphasized that the ultimate solution that would meet the business needs of Netflix would entail devising a system—such as the Netflix proposal several months ago presented to senior postal operational executives—to reject the return pieces before they entered into the AFCS. mentioned that in the Netflix proposal, the Postal Service would install cameras in the opening operations that would detect a special barcode on Netflix pieces and then shunt the specially barcoded pieces aside. He noted that even the postal processing system counted 1,000 AFCS units nationwide, Netflix would be willing to fund part of the installation costs. Netflix also reported privately testing envelope prototypes with Siemens as that corporation develops upgrades for the AFCS.

We mentioned that the Postal Service had already conducted an informal test for modifying the stiffness detector on the AFCS so that it could reject letter mail containing discs. We pointed out, however, that employing such processes, while eliminating part of the source of damage, did not eliminate other sources of damage such as the delivery point barcode sorters (DBCSs). We affirmed that we are also striving to find an economical and customer-focused solution within our current operational environment.

NF013

- New Envelope Designs. stated that it was not economically viable for Netflix or any other mailer to convert to a series of ever-evolving envelope designs. Netflix has spent millions of dollars updating its fulfillment operations using its current envelope design. Making extensive changes to that envelope design would thus require costly retooling of its automated systems. We replied that Netflix would not need to modify extensively its current envelope design other than using a stiffer paper and repositioning the disc. In fact, we mentioned that Engineering had tested some stiffer Netflix designs weighing 1.2 and 1.3 ounces last year that machined well on our letter-sorting equipment.

At the conclusion of the teleconference, Netflix requested a second teleconference for the following Monday, September 26, to discuss further the proposed experimental classification.

September 26 Teleconference (Follow-Up)

Netflix participants:

- Chief Operating Officer NF 013
- Senior Director, Postal Operations NF-016
- , Attorney
- , Attorney

Before we started the discussion on the proposed experimental classification, we mentioned that the Postal Service was working with Netflix to update the postage statement data to reflect the new May 2005 edition of Form 3601-R for First-Class Mail. We explained that using this new edition would help us account for the return mail in a consistent way and benefit Netflix by correctly reporting its actual volumes and postage costs.

NF-013

AFCS Number 1 Issue. repeated the same message from the previous teleconference: the overriding issue for Netflix concerned disc damage on the AFCS. The experimental classification with its machinability criteria would not help Netflix overcome this issue. If Netflix mail were to be processed on the AFCS as proposed in the experiment, he estimated that it would adversely affect postal revenue and compel Netflix to transfer nearly two-thirds of its marketing funds to the purchase of replacement discs. At the same time, breakage rates under a fully automated environment could cost Netflix a million dollars over the next five years. By transferring projected marketing funds to disc replacement, Netflix might possibly lower postal revenue by \$1.3 to \$1.4 billion over the same five-year period because of slower growth in subscriber enrollments and associated mail volumes.

NF 013

Testing conducted by Netflix tends to indicate that the breakage rate on the AFCS is nearly four times as much as damage on the DBCSs. pointed out the number of bullwheels on the AFCS around which the mail must pass exceeds the number on the DBCS and that the severity of the turn angles on the AFCS diverter gates tends to be more severe than those on the DBCS. He believed that part of the solution lay in automating the culling process or modifying the current AFCS upgrade. also

NF 013

mentioned that Netflix had been testing mail with [REDACTED] for possible suggestions on modifying the equipment.

We mentioned that one possible solution was designing pieces that traveled out as letter-size pieces, but were then reconfigured for the return as flat-size pieces, bypassing the AFCS. Although Netflix expressed interest in this novel concept that offered an automated handling process, Netflix did not want to pay the additional \$0.12 surcharge for First-Class Mail flat-size pieces weighing 1 ounce and less. Under the experiment, however, the pieces would weigh more than 1 ounce and therefore would not be subject to the surcharge. We also mentioned that, as other RDM mailers had recommended, perhaps only part of a participating mailer's mail be part of the experiment. Even though Netflix had questioned us about this very concept before, we replied that several other mailers felt that only partially participating might be prudent for their business.

US-153 [REDACTED] and [REDACTED] stated that there were many more steps involved than simply pulling the mail at the AFCS operations. Each of these steps adds certain labor costs. [REDACTED] said that what the Postal Service needed was a machinable piece that was handled on all letter-sorting equipment and that would be easily sorted into bins on the DBCS and then collected for delivery to the customer. US-153

Netflix responded that the Postal Service had tested and approved the machinability of their return current mailpiece in 2002. [A letter was issued from Mailing Standards stating that the pieces were not completely automation-compatible but that they were not subject to the nonmachinable surcharge under existing *Domestic Mail Manual* standards.]

We responded that we believe that minor changes have been made to the original envelope design; the return portion does not process well on equipment because of the floppy leading edge. We also added that all machinability criteria need to be reviewed and revised, possibly in conjunction with the next omnibus rate case as done with the R2000-1 rate case.

NF013 NSA and Volume Discounts. [REDACTED] the external lawyer engaged by Netflix, suggested an NSA in which Netflix would not receive postage discounts as such, but simply continue to receive the special handling in our opening operations for the return mail. [REDACTED] added that Netflix might consider a small additional charge for the special handling. The Netflix attorney [REDACTED] then added that perhaps Netflix would be willing to pay a higher rate of \$0.01 per piece for the manually culled return pieces. [REDACTED] then mentioned the idea of volume discounts, stating that the Postal Service Governors had the authority to grant volume discounts. NF013

NF013 [REDACTED] mentioned that the Postal Service should see how much Netflix is saving the company by using caller service and managing a large number of expedited plant loads via Netflix transportation. He believed that those savings should be considered in allowing the special service that the Postal Service provides in culling Netflix mail before it reaches the AFCS. He also recommended our looking at a niche classification that was volume sensitive. Once a mailer reached a certain volume level, the mailer could then have special handling.

We replied that an NSA could certainly be reconsidered. Any changes in pricing, however, would need to be filed with the Postal Rate Commission. It was not something we could unilaterally do. However, we reminded Netflix again that it is not unique in the use of caller service or providing transportation. We mentioned that other companies, particularly large banks and other financial institutions, have been long time users of caller service and lock box drop shipments. In fact, we reminded Netflix that those companies willingly paid for those services for the value of receiving return mail more rapidly.

We also explained that Netflix was looking at bottom-up costing based on current processes that could change over the course of time. In regard to a niche classification that was volume sensitive, we replied that the issue is not volume but machinability. For example, if a small-volume mailer produced nonmachinable pieces that jammed and damaged equipment because that mailer did not receive special handling, then we have accomplished nothing. In fact, mail from the small-volume mailers could become more problematic because it is not readily identifiable. A jam is a jam, regardless of the mail owner. In addition, we explained that the Postal Service had the responsibility of working with all mailers, large-volume or small-volume.

NF-013 [REDACTED] appreciated the ongoing work by the Postal Service to find a workable solution, but he felt the ball was back in our court. We explained that we would relay the information to Mike for further discussion and development.

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

GameFly

September 22 Teleconference

GF-002

[REDACTED]

GF-002

We updated GameFly about the proposed experimental classification. Although GameFly prepares and mails its pieces as flats, [REDACTED] stated that GameFly would be willing to participate in the experiment for part of its mail. He said that doing this would allow GameFly to validate the viability of letter-size mail for its product.

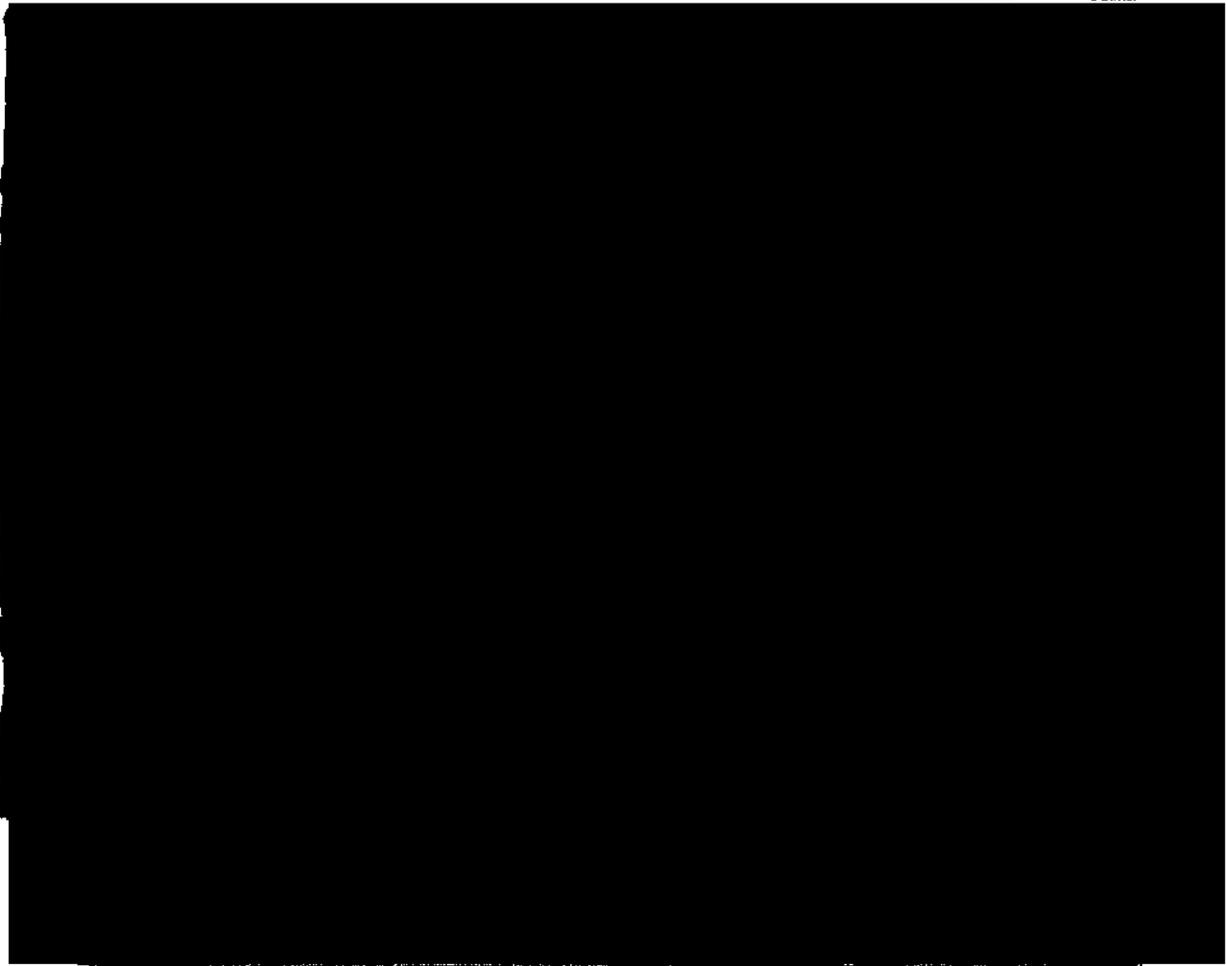
We explained that, because an experimental classification would require data collection, we would need to reserve one or two numbers available on the PLANET Code used on the Confirm system for both the outgoing and the incoming return pieces. GameFly already uses Confirm for order fulfillment because it has only the one distribution hub in Los Angeles. [REDACTED] mentioned that he continued to have some problems with the proper scanning of the PLANET Codes on the return pieces. We agreed to help GameFly isolate ZIP Codes with poor scanning performance and work with the various P&DCs to provide direction on how GameFly pieces are to be processed on flat-sorting equipment.

► **Task:** Confirm Scanning. Analyze pattern of scans and issue a standard operating procedure (SOP) to the field explaining how to process GameFly pieces.
Lead: [REDACTED] **Due:** update at 10/17/05 meeting.

VS-154

Discussion Points and Tasks

Pricing, Product, and Mailing Standards Update



(b) **Postage Statement Workaround for Prepaid Returns**

PO-001

VS-023

er worked with (PostalOne! team) to draft and issue instructions to the business mail entry units and field acceptance personnel on procedures for correctly entering the prepaid returns part of the RDM mailings presented by the four authorized companies. Operations Integrations Specialists and the Account Managers for the RDM mailers will also receive the information. The final instructions was issued on September 14 through the electronic Newsletter.

Currently, use of the May 2005 edition of the postage statement PS Form 3600-R remains optional for RDM mailings, creating several problems for proper data collection and volume and revenue reconciliation. Until new postage rates and fees are adopted in early 2006, firms that develop presort software (which also generates postage payment documentation) are not inclined to update their programs used by these mailers.

Blockbuster

September 23 Teleconference

BB-016

Blockbuster participant: [REDACTED]

BB-016

We updated Blockbuster about the proposed experimental classification. [REDACTED] responded that Blockbuster agreed with trying to find an automated solution to the round-trip mail. He said that Blockbuster would want to include its retail store mail in the experiment along with the mail from the distribution centers. He stated that Blockbuster was still seeking a simple postage payment system for the retail stores.

BB-016

Disc Damage. [REDACTED] expressed concern about damage to the discs in the current Blockbuster design. He reported an overall damage rate of 3% with the newer envelope designs, with about a 2.8% rate for pieces mailed from the distribution centers compared with 5% for pieces mailed from the retail stores.

We replied that mail from the retail stores goes through the culling operations twice, on the outbound and on the inbound. Mail presented from the distribution centers goes through those operations only once, on the inbound. We also conjectured that mail deposited into collection boxes could be subject to damaged from heavier mailpieces also being deposited into the boxes.

BB-016

Confirm. [REDACTED] mentioned that Blockbuster was currently experimenting with using Confirm on the return pieces.

We stated that we were pleased that Blockbuster saw the business value in Confirm. We explained, however, that because Confirm would be a required feature of the experimental classification for data collection, that we would need to claim one or two numbers available in the PLANET Code for identifying envelope designs.

Postage Payment. The Blockbuster business model leverages inventory in its distribution centers with inventory in its chain of franchised retail stores. This combination of distribution centers and retail stores has now created an urgent need to find a centralized postage payment system. About 1,000 of the 4,500 stores nationwide currently handle online orders received from the order center in Dallas, and that number continues to climb weekly as more stores are added to the online program.

BB-016

[REDACTED] reported that the retail stores process 30 to 120 orders a day, affixing First-Class Mail postage to the outgoing and the incoming return pieces. We mentioned to [REDACTED] that our Business Service Network (BSN) records indicate many start-up problems with Blockbuster mailpieces not bearing postage found in collection boxes.

BB-016

BB-016

[REDACTED] hoped that the Postal Service could devise a satisfactory postage payment system to streamline payment processes for Blockbuster and allow the retail pieces to participate in the proposed experimental classification.

We replied that we would form an ad-hoc group to revisit the issue and work through the national account manager to keep Blockbuster updated. After we completed a list of requirements, we would then present them to Blockbuster for review and comment.

► **Task:** Centralized Imprint Postage Payment. Form ad-hoc team to restudy and develop requirements for establishing a centralized imprint postage payment system for retail mail.
Lead: [REDACTED] **Due:** update at 10/17/05 meeting.

US-152

September 23 Teleconference

Butler participant: [REDACTED]

We updated [REDACTED] about the proposed experimental classification. We reminded [REDACTED] that, because nothing has been approved at this stage by our executive committee or the board of governors, everything we discussed was subject to change and, at the same time, confidential. [REDACTED] responded that he agreed with the general direction and purpose of the proposed experimental classification but had concerns about the following features:

- Weight. [REDACTED] recommended that the ceiling should be 1.5 ounces, not 1.3 ounces. He believed that two-tenths of an ounce could be critical in achieving the optimal machinable piece that machined well and protected the disc from damage on either the DBCS or the AFCS. He said that during the experiment that we might find that 1.3 ounces do not suffice to reach our goal of the ideal piece, creating a similar situation now found with the 1-ounce hurdle. We responded that we would review this comment. One solution would be the elimination of the weight criteria as long as dimensional criteria were in place to restrict overall possible weight.
- Letter Dimensions. [REDACTED] recommended that we revisit the dimensional requirements and start with the maximums for length and height now permitted for automation letters, while maintaining the 1/8-inch maximum thickness. Different dimensions would require different paper weights to achieve the stiffness and machinability required for these pieces. [REDACTED] also said we need to revisit the concept of a letter outbound piece with a flat-size inbound piece. That recommendation should be included with our experiment.
- Testing and Certification. [REDACTED] agreed that the Postal Service should institute a testing and certification regimen. He believed that we should offer mailers three options: (1) prepare mailpieces according to printed requirements (those requirements should guarantee that a disc mailpiece would travel through all automated equipment easily and with minimal damage; those requirements however, should not be construed to guarantee creating a piece weighing 1 ounce or less); (2) purchase commercial envelopes already tested and certified by the Postal Service; or (3) request testing of pieces that do not meet printed requirements, at least for pieces designed under the experimental classification. We replied that such a three-option arrangement would provide flexibility, but that we believed all pieces not already certified should require testing and certification until we had accumulated sufficient testing and design data to ensure that published standards would always lead to an automation-compatible piece.
- Printed Customer Instructions. [REDACTED] believed that, in addition to the disc and protective sleeve, we should permit a separate slip containing printed customer instructions for reconfiguring the return piece. We responded that instructions could be printed on part of the envelope.
- We mentioned that we were concerned about the addition of material that could lead to pressure to include advertising material to offset the damage to discs.
- Confirm. [REDACTED] believed that requiring Confirm would place an unnecessary financial burden on smaller mailers. We replied that participants would not pay for Confirm unless they wanted the data.
- Barcoding. [REDACTED] firmly insisted that all pieces, whether nonpresorted or presorted, should bear the appropriate barcode. He believed that we could make that requirement under an experimental classification. We replied that such a requirement had been previously discussed; under the experiment, we believed that we could impose it.
- Caller Service. [REDACTED] believed that we should provide flexibility in this requirement for small-volume mailers.

We replied that although the cost of caller service might seem burdensome, that its use eliminated delivery and some transportation costs for the return pieces. This elimination of costs represented a compromise on allowing pieces over 1 ounce.

► **Task:** [redacted] Recommendations. Discuss issues with RDM team.
Lead: [redacted] **Due:** discuss at 10/17/2005 meeting.

US-152

(b) Postage Statement Workaround for Prepaid Returns

US-023

NF-010

[redacted] contacted all the account managers handling RDM mailers. So far the largest RDM mailer has begun the process of modifying its software and output to accommodate the new data items on PS Form 3600-R. A letter will be sent from Business Mail Support advising RDM mailers of the availability of the new form and how the Postal Service will work with them. [redacted] from PostalOne! is now working with [redacted] the national account manager for Netflix, on getting the software used by that company updated to reflect the new data items.

PO-001

► **Task:** Postage Statement Software. Continue coordinating work with the USPS Account Managers and the RDM mailers on voluntary addition of two line items for repaid returns.
Lead: [redacted] **Due:** provide update at 10/17/2005 meeting.

PO-001

Engineering and Operations Update

(a) Test of 60-Pound Stock DVD Envelopes

US-159

[redacted] updated the work group on his ongoing testing of the prototypes with a modified paperweight of 60 pounds (offset) and slightly shortened length and height of 7-1/2 by 5-1/4 inches. These prototype pieces weigh 1 ounce on the outbound and 0.93 ounce on the inbound.

US-159

US-159

So far, [redacted] has tested nearly 2,000 of the 5,000-piece sample lot, running the pieces through the full cycle and extracting 10% samples after various individual machine runs. [redacted] has also provided Siemens with 300 pieces for testing on the MLR (Multi-Line Replacement) of the Advanced Facer-Canceler System (AFCS). The Siemens test could reveal some additional insights into damage caused by the belts and the deflector gates on the AFCS. Approximately 100 sample were returned by Siemens to Engineering through the mail. [redacted] plans to complete his tests by the end of next week and begin tabulating the damage.

US-159

US-159

[redacted] reported that the shorter pieces are producing more flyouts on our processing equipment and the lighter paper is degrading more rapidly in processing, leading to more paper breakdowns and "foldovers." The number of "doublefeeds" and jams is also increasing over the previous heavier weight prototypes tested at the beginning of the year. Mailpiece length appears to be a critical variable in designing two-way DVD letter pieces for successful processing. Paperweight and paper characteristics still require more analysis.

Disc damage is now becoming the number one issue with RDM mailers as more mail is processed on equipment. For our purposes, a damaged disc is one that is either broken (separated into pieces) or shows any crack that would prevent proper operation, radiating from the hub (center) of the piece toward these edges.

► **Task:** New Envelope Testing. Continue testing and analysis.
Lead: [redacted] **Due:** provide update at 10/17/2005 meeting.

US-159

Respectfully submitted,
Pricing Strategy

- Pricing to pay contractors to do cost study.
- Reasonable study in short amount of time

Complaint Case - Blockbuster or [REDACTED]

- Surcharge / Breakage → all mailers will be slightly worse off.

Blockbuster response →

↳ Can't do it! But very anxious for response

[REDACTED] → Netflix style envelopes

RCSE ppt.

PUBLIC

\$200 million opportunity
15 cents

Netflix ⇒ 6 month conversion to PRM

UNITED STATES POSTAL SERVICE

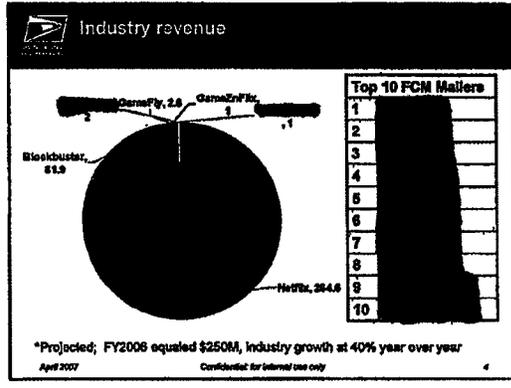
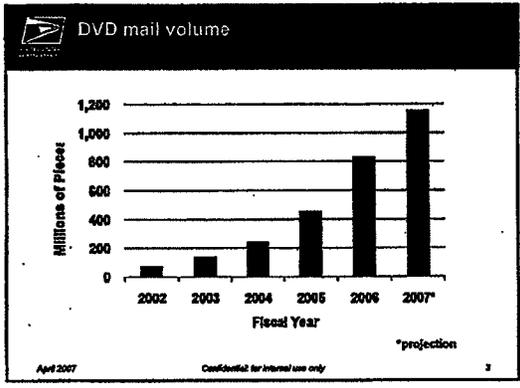
DVD Mail
Fastest growing USPS product

Mike Plunkett, A/VP Pricing and Classification

Background

- FY07-08 focus on long-term solution to growing DVD volumes
- Possible classification/price
- Envelope design specifications
- Standardization of acceptance procedures
- Recommendation to study costs to determine the need for intervention

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Netflix

- Fastest growing
 - FY07: 43%; FY08: 50%; Last 5 years: +75%
- One of the largest USPS accounts
 - Top 5 in FCM Mailers
 - Ranked 10th in overall USPS revenue
- Unique classification - Permit Reply Mail (PRM)
 - Allowed pre-payment of return piece at entry
- Make changes as they see fit
 - Change to envelope design
 - Request of manual handling

April 2007 Confidential for internal use only 5

Blockbuster

- Fast growing
 - FY07: 40%; FY08: 45%
- One of the largest USPS accounts
 - Top 10 in FCM Mailers
- Using combination of postal services for fulfillment
 - Central distribution centers
 - Unique classification - Permit Reply Mail (PRM)
 - Retail locations
 - FCM Stamps
- Make changes as they see fit
 - Change to envelope design
 - Request of manual handling

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Fluts Summit

- Use final rate case
- Christensen study may force PRM to lock up price

GFL0000844

 Recent postal activity

- ▶ Instituted SOP for BMEUs integrating new DVD mailers
 - Codifies pre-payment of round trip
 - New mail markings allow better measurement
- ▶ Introduced Permit Reply Mail
 - Codifies pre-payment of round trip
 - New mail markings allow better measurement
- ▶ Completed mail characteristic study
 - Survey of plant practices
 - ▶ Online survey of 300 plants
 - Direct observation of mail processing at select locations
 - ▶ 25 site visits

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 What the mail characteristics study shows

- ▶ Lack of consistency throughout country
 - Substantial variation in handling practices
 - Culling occurs throughout mail processing
 - Concerted effort to manually separate return pieces by company
- ▶ Blockbuster envelopes appear to be superior
- ▶ Local SOPs are in place or are being developed
- ▶ Number of return envelopes are not counted
 - Measuring true productivity is difficult

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 Mail characteristic study warrants follow-up

- ▶ Lack of standardization makes normal costing approaches problematic
 - Average variability assumptions
 - Delivery costs may be affected by scale
- ▶ Effects on other mail difficult to assess without more rigorous observation
- ▶ Preliminary cost estimates
 - Illustrate the need to standardize around best practices
 - Suggest that revenues exceed cost, but with a cost coverage substantially less than typical FCM
 - Probably understate "true" costs

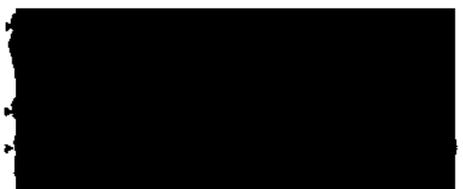
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 Other mail characteristic study findings

- ▶ "Magic Machines"
 - Tampa processes 100% of DVD mail on automation including AFCS
 - Low breakage rate - 1.9%
 - Contradicts Netflix's claims
 - Replication on other equipment difficult
- ▶ El Paso has the most costly process with a higher breakage rate of 2%

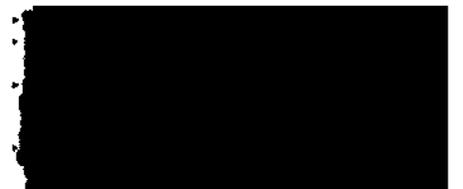
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 Recommendations - Short term



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 Recommendations - Long term



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PUBLIC

**Status Report and Recommendation on
Filing an Experimental Classification for
Round-trip Disc Mail**

**Individual Teleconferences with
Mailers and Envelope Manufacturers
21-23 September 2005**

PUBLIC

GFL0000849

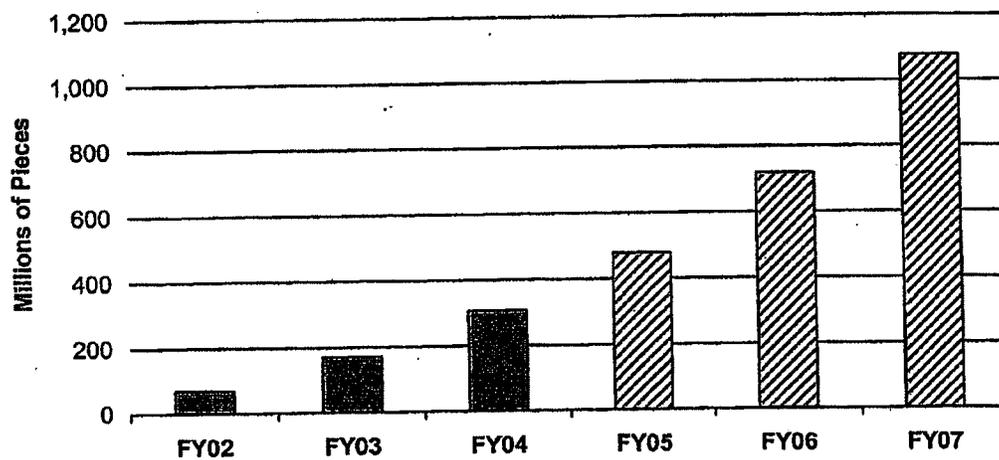
Section 1: Current Status

Volume and Revenue

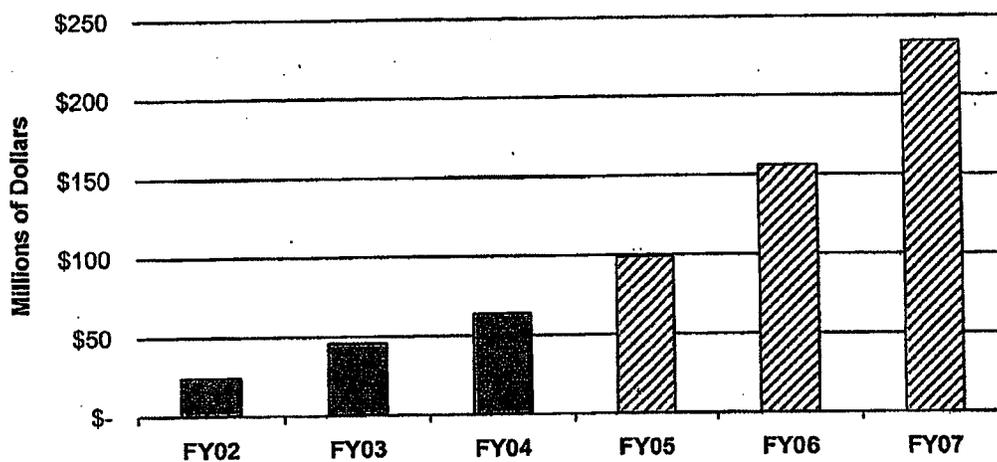
According to data from CBCIS, this mailing segment showed average annual volume growth of 75% between fiscal years 2002 and 2004. Estimated annual growth of 50% to 55% is expected through fiscal year 2007.

In fiscal year 2004, mail volumes for this segment approached 300 million pieces and revenue topped \$63 million. Projected volumes and revenue for fiscal year 2005 are 480 million pieces and \$90 million.

Round-Trip Disc Mail Volume



Round-Trip Disc Mail Revenue



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Pricing and Classification

GFL0000850

Section 1: Current Status

Operational Issues

Industry growth is highlighting operational challenges in processing the two-way envelopes on their return trip. In their return configuration, most of the current envelope designs do not process effectively on letter-sorting equipment. Many of the envelopes are:

- Not machinable in letter automation: inadequate design features and construction cause jams and damage mail.
- Not automation-compatible: some unreadable barcodes and addresses lower productivity.

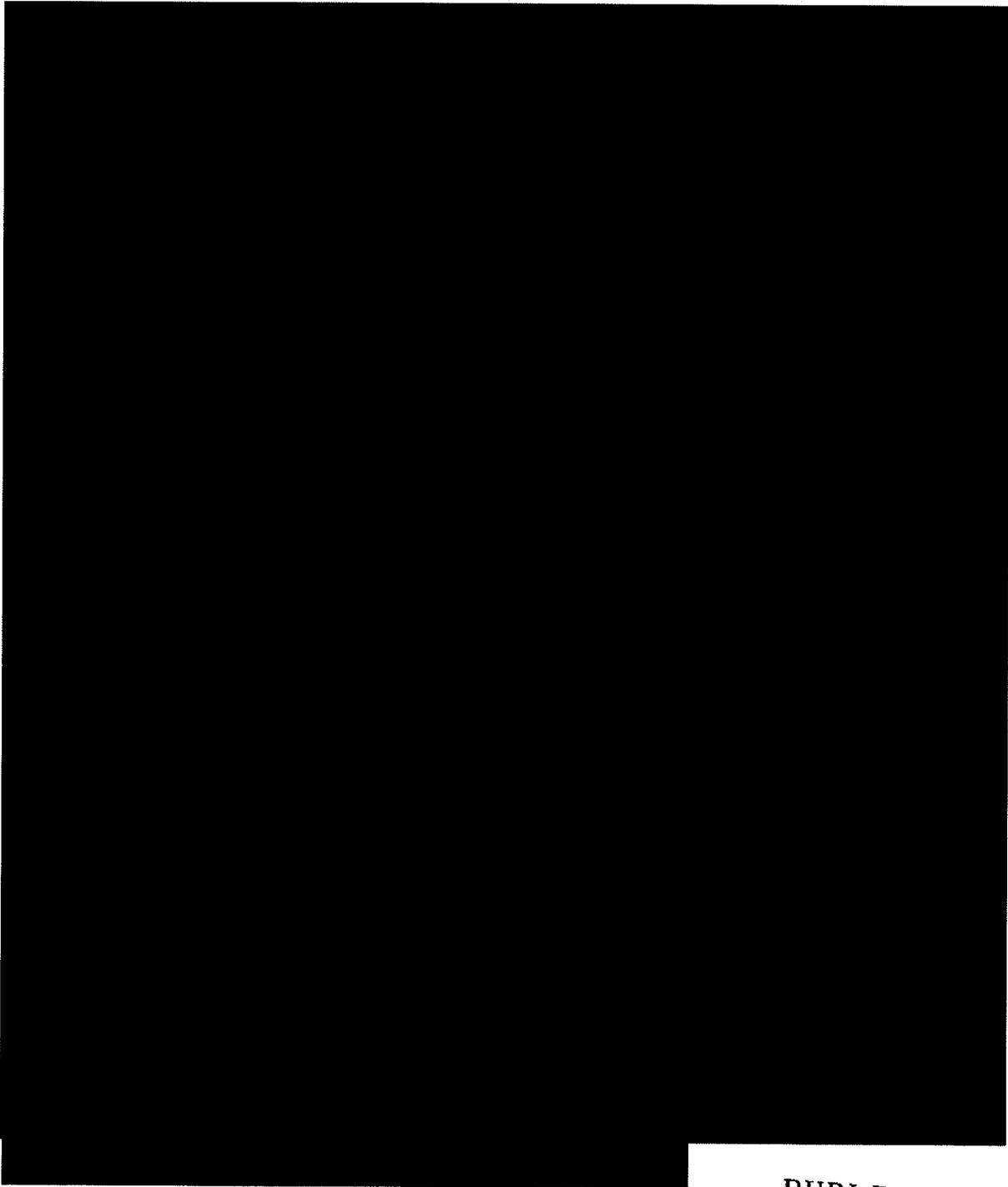
Handling Instructions

Headquarters instructed the field in December 2003 to run outgoing RDM letters on automation equipment. No processing instructions have been issued to the field describing how to handle the return pieces, although the field has been instructed to dispatch this mail in sleeved EMM trays.

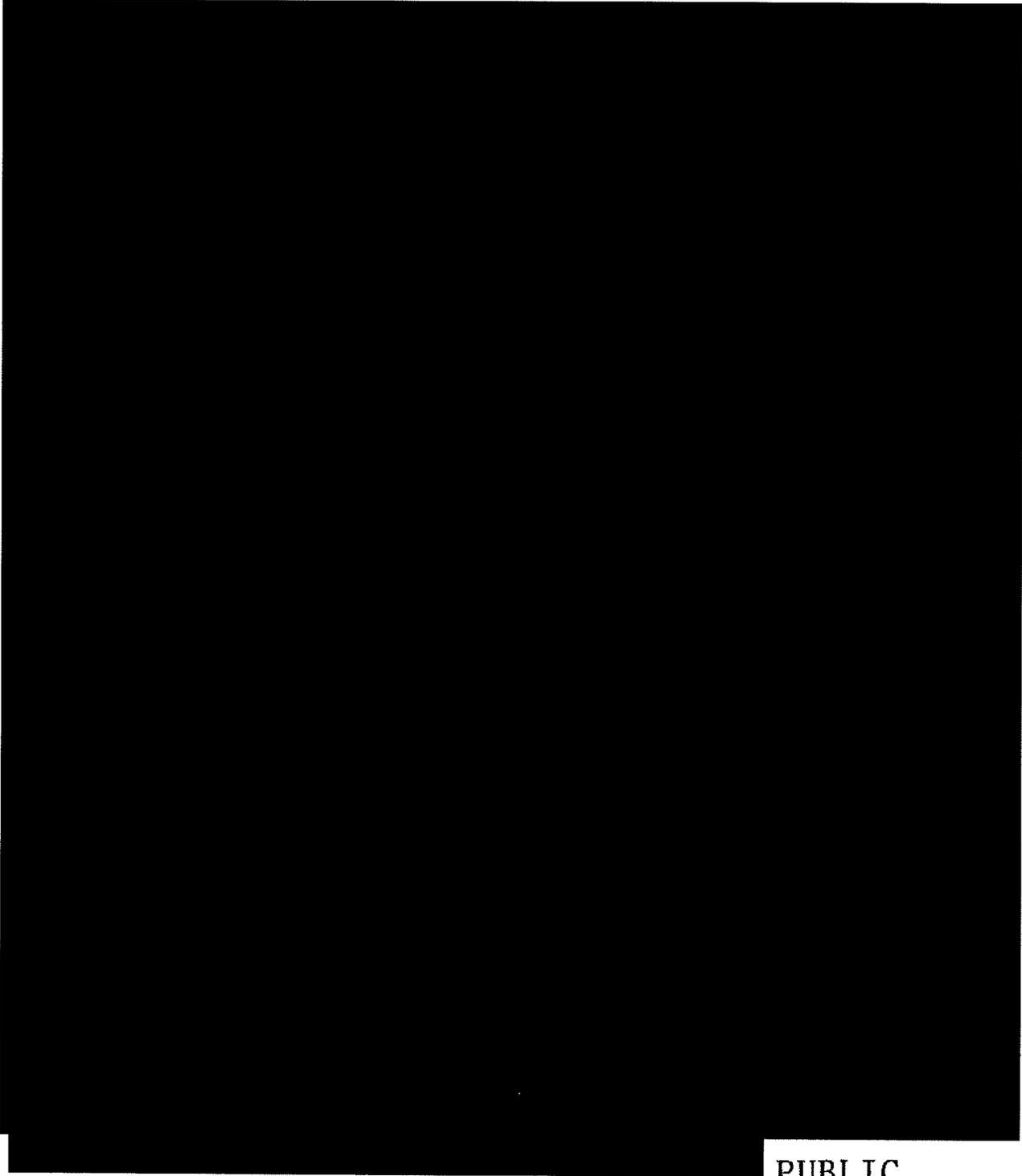
Headquarters Operations conducted plant visits and interviews in early 2005 and learned that local offices have developed a variety of ways to handle the return pieces. Some plants pull all identifiable mail in the opening operations and handle it either manually or in flats processing

Manual handling of these nonmachinable envelopes reduces contribution by an estimated \$2 million each month at current volumes.

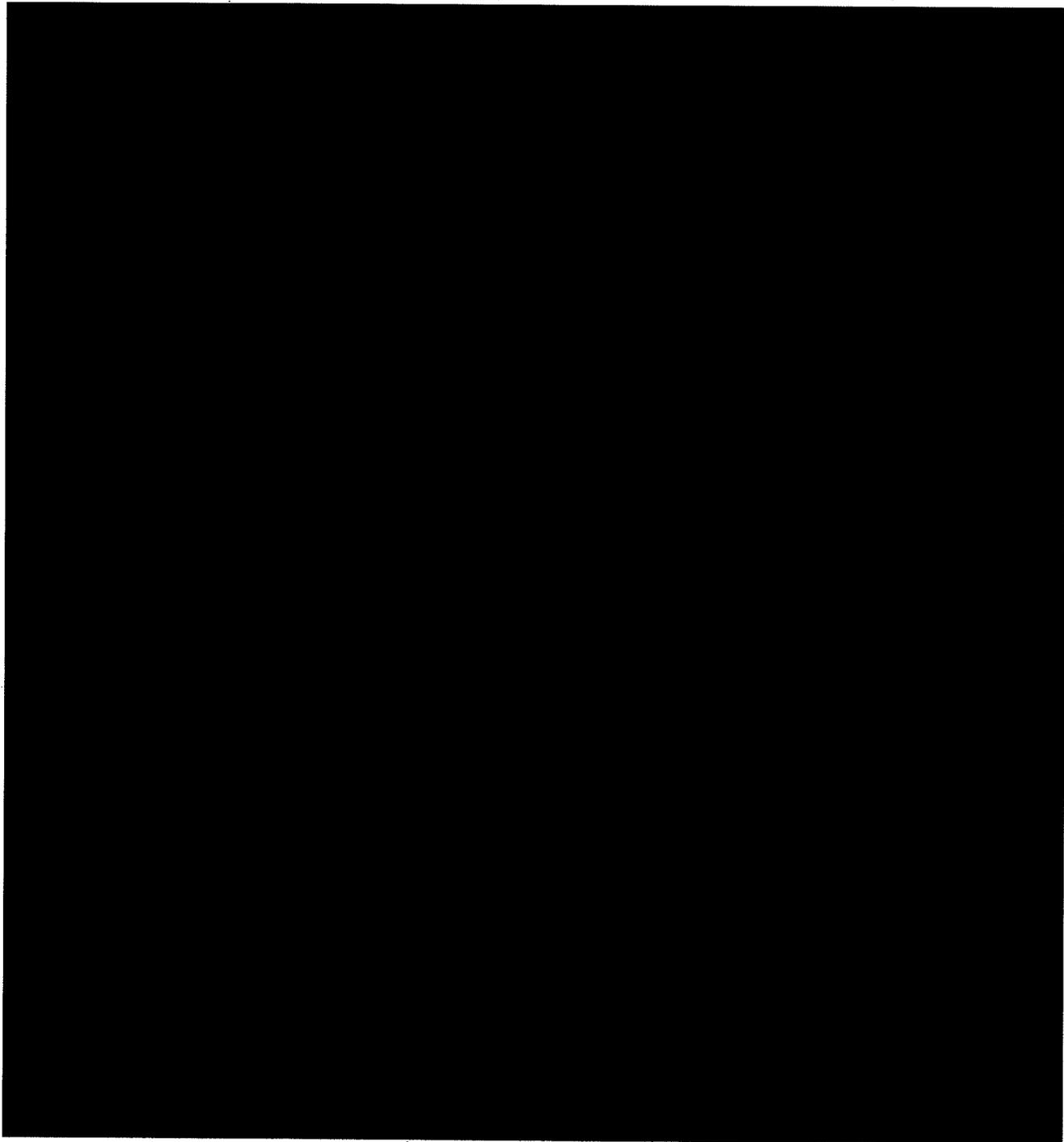
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PUBLIC

Pricing and Classification: 09-20-2005

5

GFL0000854

mail pieces also indicates that this mail is not entirely processed on card and letter automation (see Attachment 8).

- E. The BRM mail pieces processed at some plants are destined for multiple Netflix addresses. For example, at the Cincinnati P&DC this mail was destined for either Lansing, MI or St. Louis, MO, while at the Tampa P&DC, this mail was destined for either Duluth, GA or Fort Lauderdale, FL. Is it possible that plant personnel are not aware of this fact and the mail is being mixed together, given that the mail pieces all look the same? In addition, there is always the possibility that Netflix customers drop this mail in collection boxes outside their normal service area. How do we address this issue?
- F. In recent field observations, this mail has been observed in card/letter, flats, and even parcel (SPBS) processing operations. Where should this mail really be processed and/or where do we want it to be processed?
- G. Netflix processing is not solely a plant issue. At some plants, it was observed that Netflix mail arrived from some DUs prepped with the SPRs, not the collection cards and letters.

IV. RATE-RELATED ISSUES

- A. Are Netflix competitors being assessed/waived the same postage and fees in a "fair and equitable" manner?
- B. Witness Kinsley's Docket No. R2001-1 testimony (see Attachment 9) was the basis for the expansion of the nonmachinable surcharge to include mail pieces containing "rigid or odd-shaped items." Where did the "40 pounds around an 11 inch turn" requirement now specified in DMM 58 Section C050.2.2e come from, as it was not discussed in that docket? Is it possible this requirement is not strict enough?

D.



PUBLIC

US-001

Washington D.C.

From: [redacted] NF-016
 Sent: Wednesday, September 13, 2006 8:45 PM
 To: [redacted] - Washington, DC - US-161
 Cc: [redacted] - Washington, DC; [redacted] - Washington, DC
 Subject: Initial Analysis US-051 US-173 US-NF-020

US-051

We've finished our initial analysis, attached, and feel very good that we are on solid ground to proceed to implementing a single address for our return pieces pending your similar analysis.

What you'll find is a spread sheet for each 3 digit ZIP for each day we shipped in August. Bottom-line is that only 1.47% of our August shipments would be at risk of not being processed by a P&DC/F, because of the 250 piece density we discussed, where we do not have a presence. I've also added a tab for just those ZIPs that are in jeopardy. This is certainly a risk we are willing to take based on the upside of going to a single return address.

Let me know if you have any question or if I can provide any other data.

[redacted] NF-016
 Director, Operations Support
 NETFLIX, Inc.
 Office: [redacted]
 Cell: [redacted]
 Fax: [redacted]

call [redacted] US-214
 [redacted] 016

QBR
 Redesign

US-051
 [redacted] has reports showing out of sequence DPS mail

meet in
 mail quality
 PUBLIC
 - max ability to save on PKR
 - all glue piece - not at
 not omnibus rate case

09/13/06

USPS Mail Characteristics Study of DVD-by-Mail

Final Report and Recommendations

*Christensen Associates
August 2006*

PUBLIC

GFL0000921

1.0 INTRODUCTION

1.1 Purpose

A growing number of movie viewers and gaming enthusiasts have turned to online DVD rental companies in recent years. These companies have incorporated the Postal Service into their business models as a means of providing timely delivery of rented DVDs. DVD mailers send the DVDs to customers using single piece or presort First-Class Mail. The rental companies prepay return postage at single piece First-Class Mail rates, providing their customers with a self-contained return envelope. The Postal Service has asked Christensen Associates to study the mail characteristics and processing methods utilized by postal facilities that process these DVD envelopes, and to recommend best practices for future handling of these growing volumes. The volume estimates, analysis, and recommendations for processing methods developed during this DVD-by-mail study are contained in this report.

1.2 Background

Netflix, based in Los Gatos, CA; Blockbuster, based in Dallas, TX; and Gamefly, based in Los Angeles, CA; account for the vast majority of DVD-by-mail volumes. Taken together, these three companies were responsible for an estimated 571 million pieces of mail and just under \$200 million of Postal Service revenue in FY 2005.¹ The online DVD rental business model involves monthly subscribers maintaining online lists of DVDs they wish to receive. The rental company provides the customer with a DVD from the customer's list via the Postal Service. When finished with the DVD, the customer returns it through the mail in the envelope provided by the rental company. Upon receipt of the returned DVD from the customer, the rental company mails another DVD from the customer's list. When sufficient volumes are presented, the rental company pays presort First-Class Mail rates for the outbound trip to the viewer, and single piece First-Class Mail rates for the return trip from the viewer. The return piece carries a Business Reply Mail marking, for ease of sorting, even though postage has been prepaid.

Netflix serves nearly five million subscribers, utilizing a network of 39 distribution centers spread across the country and conveniently located near Postal Service mail processing facilities.² Blockbuster has far fewer dedicated shipping centers, but it also uses its large network of retail stores to fill the DVD needs of subscribers.

While the enormous growth in DVD-by-mail subscribers has been a boon to Postal Service First-Class Mail volume and revenue, the DVD envelopes do present challenges at mail processing facilities. The mixture of automation equipment at postal plants and the rigid, but at the same time fragile, DVDs can lead to difficulties. Both the Netflix and Blockbuster envelopes are designed to be letter automation-compatible, for the outbound trip to the subscriber and the return trip from the subscriber. Gamefly envelopes are designed to run on flat automation, and are AFSM 100 compatible.

¹ Source: FY 2005 *PostalOne!* (these data do not include Blockbuster's stamped pieces).

² Source: www.netflix.com.

Table of Contents

1.0 INTRODUCTION..... 1
 1.1 Purpose 1
 1.2 Background 1
 2.0 PRELIMINARY SITE VISITS..... 2
 3.0 STUDY PHASE ONE: WEB-BASED SURVEY 3
 3.1 Universe and Compliance..... 3
 3.2 Survey Instrument 3
 3.3 Data Cleaning..... 4
 3.4 Survey Results 4
 3.4.1 Responses to Introductory Questions 4
 3.4.2 Responses to Outbound Trip Questions 5
 3.4.3 Responses to Return Trip Questions 5
 3.4.4 Additional Comments Provided 5
 4.0 STUDY PHASE TWO: ON-SITE DATA COLLECTION..... 7
 4.1 Sample Selection..... 7
 4.2 Survey Instrument 8
 4.3 Data Collection Teams 8
 4.3.1 Machine Statistics 8
 4.3.2 Processing Flow Counts 9
 4.3.3 Wrap-up 10
 5.0 VOLUME ESTIMATES..... 10
 5.1 Outbound Trip Volumes by Processing Method 10
 5.1.1 Estimation Procedure..... 10
 5.1.2 Results 11
 5.2 Return Trip Volumes by Processing Method 11
 5.2.1 Estimation Procedure..... 11
 5.2.2 Results 12
 6.0 BEST PRACTICE RECOMMENDATIONS..... 12
 6.1 Envelope Design 12
 6.2 Envelope Recommendation..... 14
 6.3 Current Processing Methods 14
 6.4 Processing Recommendations 15
 6.4.1 Outbound DVD Processing 15
 6.4.2 Return DVD Processing 15
 Appendix A: Web-Based Survey Questionnaire A-1
 Appendix B: Web-Based Survey Results B-1
 Appendix C: On-Site Data Collection Forms C-1

Index of Tables

Table 1: Summary of Responses to Introductory Questions on DVD-by-Mail Web Survey..... B-1
 Table 2: Summary of Responses to Outbound (Rental Company to Viewer) DVD Questions on Web Survey..... B-2
 Table 3: Summary of Responses to Return (Viewer to Rental Company) DVD Questions on Web Survey..... B-4
 Table 4: Selected Sites for On-Site Data Collection..... 7
 Table 5: Estimate of FY 2005 Outbound Volumes by Processing Method..... 11
 Table 6: Estimate of FY 2005 Return Volumes by Processing Method..... 12

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Netflix and Blockbuster have complained of damage to DVD envelopes caused by postal automation equipment. In response, Postal Service personnel contend that envelope design is the primary reason for damage.

2.0 PRELIMINARY SITE VISITS

In preparation for the data collection effort, investigative site visits were made to mail processing facilities in Madison, WI; Milwaukee, WI; Chicago, IL; and Palatine, IL. The purpose for these preliminary site visits was to:

- Become familiar with the design of DVD envelopes
- Develop a list of the methods used to process both outbound and return DVDs
- Examine the extent of damage, rejects, and missorts on automation equipment
- Talk with machine operators and mail handlers about DVD-by-mail processing
- Determine the feasibility of collecting volume information on DVD envelopes

During these visits, it became evident that most mail handlers are aware of the issues involved in processing DVD envelopes. Often, mail handlers cull the easily identifiable bright red (Netflix) and yellow (Blockbuster) envelopes from the automated mail stream. Some personnel in mail processing facilities simply assume these pieces will not run correctly on automation machinery, or feel that the risk of damage, missorts, or rejects justifies their removal from the automated processing stream. It was not unusual to see containers of separated returning DVDs at each point in the mail processing flow.

Mail handlers and machine operators were more than willing to talk about the issues with processing DVDs. They expressed frustration with each type of Blockbuster and Netflix DVD envelope they handled, whether designed for the outbound trip to the viewer or the return trip to the rental company, but the complaint heard more than any other was over the long flap on the lead edge of the Netflix return envelope. The Netflix envelope is much larger than the Blockbuster envelope (which is just slightly larger than the size of a DVD). While the Netflix DVD is on the lead edge of the mail piece on its way to the customer, the DVD ends up on the trailing edge on the return trip to the rental company. On the return trip the leading flap has often become bent, causing damage, rejects, and missorts on automation equipment. Non-DVD mail pieces can get caught in this large flap and missorted as well.

To demonstrate the problem, one site ran two trays of collection mail with the return Netflix envelopes mixed in on their DBCS for us (the operator normally culled all these pieces). Of the 93 Netflix DVD envelopes in the two trays:

- 53 were sorted correctly into a dedicated Netflix bin
- 35 were missorted
- 5 were rejected
- 11 non-Netflix pieces were also found in the Netflix bin

It was difficult to determine the extent of damage to DVDs caused by automation equipment during these preliminary visits because we observed so little being run. We saw several exposed DVDs and torn envelopes. Despite being caller service locations for either Netflix or Blockbuster,