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COMPLAINT OF GAMEFLY, INC.	)	Docket No. C2009-1
	)	

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

PART 2 OF 2

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none of these sites kept records of the number of returning DVDs that passed through their facilities. One site indicated that once the volumes began to grow, they stopped counting.

In addition to providing an understanding of the scope of the issue of DVD-by-mail processing, these preliminary visits were instrumental in designing both the web survey questionnaire and on-site data collection forms. It became clear that it would be difficult to classify plants into clearly-defined methods of processing. It was determined that both the web-based survey and on-site collection forms needed to be flexible enough to account for the numerous methods of processing that existed.

As a follow-up to these preliminary visits, a dozen phone calls were placed to processing plants in different regions of the country. Through these phone calls it was determined that the DVD-related issues observed during the investigative site visits to Midwest plants also exist at plants across the country. One plant said that it processes the Netflix return envelopes, with the problematic flap, by running the pieces upside-down on the DBCS machinery. By processing the DVD envelopes in this way, the DVD is on the lead edge of the mail piece and problems with jams, damage, and missorts are avoided. Anecdotes such as these illustrate the extent to which plants go to avoid the processing problems inherent in DVD envelopes.

3.0 STUDY PHASE ONE: WEB-BASED SURVEY

The first phase of the DVD-by-Mail Study was an online questionnaire directed at personnel with particular knowledge of the processing of DVD envelopes at each processing plant. The questionnaire was designed to solicate information related to the methods used to process DVD-by-mail volumes in each plant.

3.1 Universe and Compliance

The Sectional Center Facilities (SCFs) appearing in the Domestic Mail Manual (DMM) labeling list L002 formed the universe for the web-based questionnaire. Site coordinators with specific knowledge about the processing of DVD-by-mail volumes were requested from each SCF in the list. First through contact with the district offices, and finally through individual requests to the processing plants themselves, approximately 400 site coordinators provided contact information and were emailed a link to the online survey questionnaire. Personnel selected as site coordinators tended to be in-plant support managers or tour supervisors. In the end, individuals from just under 350 facilities completed the web-based survey.

3.2 Survey Instrument

The text of the web-based survey can be found in *Appendix* A. The survey is divided into sections related to the outbound trip of the DVD envelope from the online rental company to the viewer, and the return trip of the DVD envelope from the viewer to the rental company. Mailer-specific (Netflix, Blockbuster, Gamefly) questions were asked about:

- Preparation levels at arrival and departure (containerization, sleeving, etc.)
- Methods of processing

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- Problems with sorting DVD envelopes on machinery (damage, missorts, etc.)
- Cross-docking facilities
- Types of damage and methods of repair
- Refund policies
- Existence of manual preparation units for DVDs
- Points of manual separation

Respondents were asked to provide any additional comments that helped describe how they process DVD-by-mail volumes. If at any point during the web survey a site coordinator needed to confer with other plant personnel on a response to a given question, they could simply close their web browser and return later to complete the survey.

3.3 Data Cleaning

Christensen Associates staff carefully scrutinized the responses to the web-based survey for inconsistencies or unclear responses. Where "other" was listed as a reply to a question, site coordinators were asked for specifics in a text box. The text box comments were examined and, where clearly appropriate, adjustments made to corresponding answers. For instance, if a respondent who was asked how they process *the majority* of DVDs being sent by Netflix to its subscribers, marked "other" and wrote "most are run on the DBCS, but some are processed manually," their answer was changed to "DBCS." Also, if a respondent was asked to "select all that apply," but instead selected "other" and wrote "all of the above," the database was changed to indicate that each item was selected.

In a handful of cases, respondents called (unsolicated) to request that answers they had previously provided to the web survey be changed due to new information they had received. Most of these calls were received while the survey was still available online. Respondents either completed a new survey or, if the change that needed to be made was relatively minor, corrections were made directly to the survey database.

In the event the responses to a given survey question indicated confusion about the question's intent, respondents were contacted for follow-up inquiries via email. Approximately 100 emails were sent seeking follow-up information. Where necessary, edits were made to the survey database as a result of new information that was received through these follow-ups. Finally, any discrepanies between the web survey responses and on-site observations made by Christensen Associates staff, either during preliminary site visits or on-site data collection efforts (see Section 4.0 below on the on-site data collection), were also corrected.

3.4 Survey Results

3.4.1 Responses to Introductory Questions

Summary totals of the responses to the introductory questions of the web-based survey are presented in *Table 1* of *Appendix B*. A small percentage of the respondents indicated that they either do not process originating mail (i.e., wouldn't encounter DVD envelopes on the outbound trip from the rental company to the viewer) or destinating mail (i.e., don't process DVD envelopes on the return trip from the viewer to the rental company) at their facilities. These respondents

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were only asked questions related to the type of DVD-by-mail volumes that they process. Just under 30 percent of respondents who indicated that they do process originating mail also indicated that a manual unit dedicated to the preparation of trays of DVD envelopes exists at their facilities.

3.4.2 Responses to Outbound Trip Questions

Table 2 of *Appendix B* shows a summary of the non-textual responses to the web survey questions related to the outbound trip of the DVD-by-mail volumes from rental company to viewer. The responses to Netflix or Blockbuster-focused questions in this section of the web survey were relatively uniform. The majority of respondents indicated that they process both Netflix and Blockbuster outbound DVDs on DBCS equipment. The vast majority of these respondents also indicated that their facilities Delivery Point Sequence (DPS) the Netflix and Blockbuster DVDs on their way to the viewer. Facilities that tend to process outbound DVDs in manual operations do so because of issues with jams or damage on machinery (or in a few cases don't have machinery). Torn envelopes are the most prevalent form of damage plants encounter when processing DVDs making their way from the rental company to the subscriber.

3.4.3 Responses to Return Trip Questions

Table 3 of *Appendix* B shows a summary of the non-textual responses to the questions in the section of the web survey related to the return trip of the DVD envelope from the viewer back to the rental company. There is more disparity between the Netflix and Blockbuster responses in this section of the survey. While just 28 percent of respondents indicated that Netflix return DVDs are processed on automation equipment, 59 percent indicated that Blockbuster return DVDs are processed on automation equipment. Of those respondents who indicated that they process return DVDs on automation equipment, the vast majority again responded that these pieces are run on DBCS equipment. Thirty-two percent of respondents who manually process Netflix return DVDs indicated that Netflix has asked them to manually process its return DVD envelopes. Respondents again indicated that torn envelopes were the most prevalent form of damage to DVD-by-mail pieces on the return trip from the subscriber to the rental company.

3.4.4 Additional Comments Provided

Respondents were asked to provide any additional comments about DVD-by-mail processing at the end of each section of the web survey. A sample of the comments provided at the end of the section of questions related to the processing of DVDs on the outbound trip to the viewer include:

- "Usually the DVDs have been machine processed once before reaching [this facility]. We can usually run them through another time through the SCF sortation safely. We have found that we can not risk a 3rd or 4th run through DPS. The DVD covers cannot withstand it. We now handthrow those DVDs going to our CRRT zones."
- "Blockbuster DVDs envelopes are a better automation compatible mail piece than Netflix."

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- "We receive Netflix from [another facility] containerized in large letter trays. We then sort these manually to the surrounding Post Offices. There seems to be some jams and some damage if we process these in automation. To protect all customers involved from damage to the DVD manual sorting seems to be the best option."
- "The outbound DVD[s] for the most part are excellent and process through our DPS procedure, we have very little damage to these DVDs."
- "We have few problems with the outbound envelopes. Most of the damage is on the in-bound side."
- "Very few damaged Blockbuster envelopes - the envelopes are designed more effectively than Netflix."
- "Outbound damage is minimal when processed on AFSM."
- "These need to be kept out of the letter machine mail stream and be routed to the flat sorting operation in order to avoid damage and delays."
- "Blockbuster's mailpiece design is far superior when compared to Netflix. Since the envelope size is the same size as the DVD, damage is not an issue."

More respondents provided comments in the section of the web survey related to the processing of DVDs returning from the viewer than in the section on outbound DVD processing. A sample of the comments received at the end of the section of questions on processing returning DVDs include:

- "Netflix return envelopes sort poorly due to design. The leading edge of the mailpiece lacks any rigidity, and therefore can be easily missorted by the DBCS."
- "The incoming DVDs are for the most part captured at the AFCS Operations and are manually extracted from the mail stream; a very labor intensive operation."
- "[Blockbuster] envelopes have a sturdy firmer edge, more compacted--sort better on automation machine. Do not see as many damaged (if any) pieces as NetFlix which get damaged due to floppy edge getting caught in machinery."
- "[Netflix] DVDs are culled out before they go through the AFCS's and placed in EMM trays and given to the courier when they arrive with the outbound DVDs that do run through automation."
- "Blockbuster DVDs are sent to manual letter operations and are sorted to the proper destinating address."
- "Netflix return DVDs are 'pulled' from the mail at any/all points in the processing cycle. In other words, for the most part, we make a concerted effort to manually separate these return mail pieces."
- "As with Netflix Return DVDs, some of the Blockbuster DVDs are culled in our 010 operation and processed on our UFSM 1000 (in addition to our DBCS's). It depends on how the DVD is situated in the envelope, since it doesn't take up the entire space of the envelope. If the DVD is situated toward the "feed end" of the envelope, it is run on a DBCS. Otherwise, it is sent to our UFSM 1000 and processed there."
- "Each [delivery] unit holds out any Netflix mail and trays up this mail,it is then collected and placed in a container for the caller to pick up the mail."
- "Blockbuster DVDs are sorted on the DBCS, unlike Netflix [which] is pulled out before going through the machine. Blockbuster's return envelope is much better than Netflix's."

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- "We give floor talks so employees know what to do with the DVD. Incoming they are processed into DPS. Outgoing, they are isolated from all areas and sent to the manual processing."
- "Blockbuster DVDs have an envelope which is a better design than Netflix so very few are damaged. Blockbuster DVDs run well on automation."
- "All the DVDs are sent to the Box section where they are faced and placed into EMM letter trays."
- "At this time we are pulling return Netflix out of the automated mail stream to manual operations. Packaging is too large for the DVD inside. Blockbuster, for instance, has an envelope appropriately sized to fit the DVD inside. Therefore, the envelopes run well in automation."

4.0 STUDY PHASE TWO: ON-SITE DATA COLLECTION

The purpose of the second phase of the DVD-by-mail study was to collect information that was not attainable using a web-based survey. The following on-site data were collected:

- DVD damage, jam, reject, and missort rates on each type of automation equipment
- Damage to non-DVD pieces caused by DVD jams
- Amount of time spent clearing DVD and non-DVD jams on automation equipment
- Amount of time spent clearing DVD and non-DVD jams on the facer-cancellor
- Proportions of volumes passing through each point of the mail processing stream

4.1 Sample Selection

The sample of sites for on-site data collection was randomly drawn from the universe of SCFs used for the web-based survey.[3] The probability of an SCF being selected was proportional to an estimate of the volume of returning DVDs processed at each SCF (see *Section 5.0* for more information on the development of the volume estimates). To maximize sample size given resource constraints, five locations were randomly selected first. Then for each of these five locations, two neighboring SCFs were randomly selected. The neighboring sites were sampled without additional flights. *Table 4* below shows the list of sampled sites and the dates they were visited. The main or initial draw is in bold letters within each group.

Table 4
Selected Survey Sites for On-Site Data Collection

Site	Date (2006)
Santa Barbara CA	June 26
Oxnard CA	June 27
Los Angeles CA	June 28
Kilmer NJ	June 27
Southeastern PA	June 28
Baltimore MD	June 29

[3] Sites that indicated during the web survey that they don't process originating mail were excluded from the universe.

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Abilene TX	July 10
Midland TX	July 11
El Paso TX	July 12
Tampa FL	July 11
Orlando FL	July 12
Lake Mary FL	July 13
Chicago IL	July 11
Carol Stream IL	July 12
Palatine IL	July 13

The first site drawn within each group is shown in bold.

4.2 Survey Instrument

The data collection forms used for the second phase of the DVD-by-mail study can be found in *Appendix B*. The *Machine Statistics* form was used to collect data on damage, jams, rejects, and missorts, as well as information on machine downtime. The total volume of each mailer's DVDs run on the machinery, for the duration of the observation, was recorded on this form as well. The *Processing Flow Counts* form was used to measure the returning DVDs being separated at each point in the mail processing stream. Data collectors used separate forms for Netflix, Blockbuster, and Gamefly. Where the volume of return DVDs was high, data collectors measured DVDs in inches. These inch measurements were later converted to pieces using a conversion rate calculated at each site.

4.3 Data Collection Teams

Five teams of two data collectors each from Christensen Associates visited the fifteen sampled SCFs (each team sampled at three plants). All arrangements were made through the site coordinators identified via the web-based survey. Data collectors arrived at the plants at least 30 minutes prior to the processing of collection mail. Upon arrival, data collectors toured the facility, with the site coordinator or some other knowledgeable plant employee, and familiarized themselves with the locations of automation equipment and DVD envelope culling points. Plant personnel were expressly asked not to deviate from their normal methods of processing DVD envelopes.

4.3.1 Machine Statistics

The data collector responsible for recording machine statistics took both outbound and return observations throughout the evening at each piece of machinery where DVD envelopes were actively being run. When mail processing stopped on a given machine due to employee breaks, low mail volume, or the need for maintenance on the machinery, the data collector concluded the observation and moved on to the next piece of equipment (if the machinery ran constantly, the data collector began and ended each observation at a pre-determined time). Observations were typically taken on the AFCS equipment first, until enough mail had been cancelled that other automation equipment (DBCS, OCR, etc.) were actively sorting.

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While training for the on-site data collection effort during the preliminary site visits, the following two special cases impacting the machine statistics recording were observed:

1) *Un-cancelled rejects* - Data collectors observed un-cancelled mail pieces being rejected by facer-cancellors. In some plants these pieces were redirected to another machine or manual operation. In other plants these pieces were dumped back onto the culling belts for another pass through the machines. Operators continued to dump these hampers until they ran out of collection mail at the end of the evening. For the purposes of this study, any DVD envelopes redirected in this way were recorded as rejected pieces.

2) *"Soft" jams* - When recording jam statistics, data collectors became familiar with what machine operators termed a "soft" jam. Mainly observed on the DBCS, operators attempted to dislodge a soft jam by simply switching the machine on and off. Both DVD and non-DVD mail pieces caused soft jams. Data collectors only recorded information on jams when an operator physically opened a machine and worked on clearing a jam.

Data collectors generally used two methods to count the number of DVD envelopes that were processed on the automation equipment. Some data collectors found it most effective to count the pieces as they were fed into the machines. Others counted the envelopes in the machine runouts. In cases where the data collector was able to observe a complete run of either the presort DVDs from the mailer or returning DVDs from the subscribers, the DVD piece counts were obtained from end-of-run bin counts or drop-ship manifests.

4.3.2 Processing Flow Counts

The second team member was responsible for counting all the DVD envelopes returning from subscribers at each point in the mail processing stream. At times it was necessary that both data collectors observe nodes in the mail stream. Coordination with plant personnel was necessary to obtain accurate processing flow counts. The goal was to count any DVD envelopes returning from subscribers that were either manually separated or successfully run on the machinery. This count was taken for each of the three main DVD mailers. Data collectors also noted any other DVD rental companies' envelopes.

Data collectors observed the processing flow at several different locations in each plant. For plants that were caller service locations for the DVD mailers, it was possible to work next to the manual preparation station where the envelopes were being trayed for pickup. In order to track where the envelopes were coming from, data collectors marked containers at the various separation points with different colored stickers. Where this method was employed, mail handlers were instructed not to mix the containers from the various processing points. As a container arrived at caller service with a specific sticker color, the data collector counted the DVDs and recorded the total in the appropriate section of the *Processing Flow Counts* form.

In other plants, data collectors identified the mail handler responsible for gathering the containers of DVD envelopes from the various separation points in the mail processing stream. As the mail handler gathered the containers, the data collector counted the DVDs in them. In plants where DVD envelopes were commingled with other First-Class Mail throughout, recording the piece counts was more difficult. Data collectors often found it most effective to count the DVD

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envelopes in the FIM and reject trays coming off the facer-cancellors. This method only worked in plants where the DVD processing stream was very clearly defined.

4.3.3 Wrap-up

Aside from recording machine statistics and processing flow counts, the on-site data collectors were also responsible for:

- Completing a web-based survey questionnaire for each plant visited
- Creating a detailed flow chart of the return DVD-by-mail processing flow for each mailer
- Collecting any necessary manifests and end-of-run reports

5.0 VOLUME ESTIMATES

Another purpose of the DVD-by-mail study was to develop an estimate of DVD volumes by mail processing method. The goal was to develop these estimates for both the outbound DVDs being mailed to the subscriber and the return DVDs being mailed back to the rental company. The methods employed to develop volume estimates are described below.

5.1 Outbound Trip Volumes by Processing Method

5.1.1 Estimation Procedure

In order to calculate an estimate of outbound (rental company to subscriber) DVD volumes by processing method, the total number of outbound DVD envelopes processed by each plant was needed. These plant-specific volumes could then be attributed to the processing method identified by each plant in the outbound section of the web-based survey. The total number of DVD pieces mailed by Netflix, Blockbuster (excluding stamped pieces), and Gamefly in FY2005 was obtained from the *PostalOne!* system.

These postage statement data indicated the points at which the DVD envelopes were entered, but not the plants where they were processed. The first step in distributing the *PostalOne!* volumes to the plants was to determine which destinating three-digit ZIP codes each plant processed. This information was obtained from the list of destinating SCFs found in Column C of the DMM labeling list L002. Next, the *PostalOne!* volumes were distributed to the appropriate three-digit ZIP codes. To accomplish this, distribution keys were developed for each mailer.

For Netflix, its own "On-Time Survey" information was used as a distribution key. Once or twice each year, Netflix asks its subscribers to complete a short on-line survey about the arrival dates and condition of the DVDs that they receive. The total number of respondents to this survey over a four-week period (by three-digit ZIP code) was used to distribute the *PostalOne!* volumes for Netflix. For Blockbuster and Gamefly, total delivery points by three-digit ZIP code were used to

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distribute their *PostalOne!* volumes. Finally, the volumes by three-digit ZIP code were attributed to the destination plant, and the method used to process these volumes determined by the plant's responses to the web-based survey.

5.1.2 Results

Table 5 below shows the estimate of FY2005 outbound DVD volumes by processing method for Netflix, Blockbuster, and Gamefly. The vast majority of the outbound Netflix and Blockbuster DVD-by-mail volumes are processed on some form of BCS equipment. Even though the Gamefly envelopes were designed to be run in the flat automation stream, many of these pieces are processed on BCS equipment as well. Other than the fact that a higher percentage of Netflix outbound DVDs are processed on AFSM 100 equipment, the processing methods used for the initial trip of Netflix and Blockbuster DVDs are similar.

Table 5
Estimate of FY 2005 Outbound Volumes by Processing Method (000s)

Processing Method	Netflix (%)	Blockbuster (%)	Gamefly (%)
DBCS/BCS/CSBCS	[redacted]		
MLOCR			
AFSM 100			
UFSM 1000			
SPBS/LIPS/APPS			
Manual			
Other			

5.2 Return Trip Volumes by Processing Method

5.2.1 Estimation Procedure

As mentioned earlier, very few, if any, plants have records of the number of returning DVD envelopes that are processed. Even caller service locations for the larger DVD rental companies do not keep track of this information. Because the DVDs mailed by these rental companies to their subscribers must be returned, the same *PostalOne!* volumes used in the outbound estimate were used to develop the estimate of return DVD volumes by processing method.

The list of originating facilities from the DMM labeling list L201 was used to determine which originating plant processed each three-digit ZIP code. For Netflix, its number of on-time survey respondents by three-digit ZIP code was again used to distribute the *PostalOne!* volumes. Total delivery points were again used as distribution keys for Blockbuster and Gamefly. The distributed DVD volumes by three-digit ZIP code were summed by originating plant, and attributed to the method of return processing the plants identified while completing the web-based survey.

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5.2.2 Results

Table 6 below presents the estimate of FY2005 return DVD volumes by processing method for Netflix, Blockbuster, and Gamefly. In stark contrast to the uniform outbound estimates, 77 percent of the Netflix return DVD envelopes are processed manually compared to Blockbuster's 36 percent. Just over 58 percent of Blockbuster's return DVDs are processed on some form of BCS equipment. The vast majority of Gamefly's return DVDs are processed on the AFSM 100.

Table 6
Estimate of FY 2005 Return Volumes by Processing Method (000s)

Processing Method	Netflix (%)	Blockbuster (%)	Gamefly (%)
DBCS/BCS/CSBCS	[redacted]		
MLOCR			
AFSM 100			
UFSM 1000			
Manual			
Other			

6.0 BEST PRACTICE RECOMMENDATIONS

A final goal of the DVD-by-mail study was to compile a set of recommendations for best practice handling of DVD-by-mail pieces. Whether during the preliminary site visits or on-site data collection, Christensen Associates staff closely observed the processing of DVD envelopes to determine what worked well and what didn't. Mail handlers and machine operators offered many different solutions to the processing problems that they encountered. Based on all the observations made and notes taken during the USPS Study of DVD-by-Mail, the sections that follow summarize the current processing environment and provide recommendations for future handling of DVD-by-mail volumes.

6.1 Envelope Design

Before examining the current processing environment, it is important to emphasize that some major issues exist in DVD envelope design. Possibly due to lower volumes than its counterparts, Gamefly was the only one of the three major DVD mailers that mail handlers and machine operators didn't take issue with when it came to envelope design. It is also the only one mailed at flat rates. Precedents are being set in the current design of Netflix (and to some extent Blockbuster) envelopes that other companies should not be encouraged to follow. Issues related to the design of Netflix and Blockbuster DVD envelopes are described below.

Netflix
The oversized Netflix envelope does not cause as many problems on the initial trip to the subscriber as it does on the return trip. The two design issues of the outbound envelope that came up most were:

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1) *The slot* – The outbound Netflix envelopes have a skinny slot at the top that allows Netflix to scan the contents. Operators have complained that the slot allows air into the piece, causing the envelope to inflate and jam the machines.
2) *The sticker* – A small, round sticker is placed on the top of each Netflix outbound envelope to secure the front of the piece. This sticker is folded in half (half over the front of the piece, and half over the back), and often loosens prior to or during mail processing. The loosened stickers cause mail pieces to clump together and jam the feeders. Machine operators were often observed reattaching these stickers on each piece at induction. When the subscriber receives the DVD, the sticker and front sheet are removed revealing the return mail piece.

Already during the preliminary site visits, Christensen Associates staff were made aware of the deficiencies in the design of the Netflix return envelope. Many more complaints were heard in plants about the Netflix return envelope than the issues with the slot and sticker on the outbound envelope. By the time the Netflix envelope has made its way to the subscriber and back to the plant, the envelope has aged to the point that a flap has developed on the lead edge of the piece (due to the fact that the DVD is on the trailing edge). This flap tends to fold over when processed on the machinery, causing damage, jams, missorts, and rejects. Often other mail is caught in this flap on the machinery and missorted or damaged as well.

[redacted]

Blockbuster

Fewer complaints were heard in processing plants about the Blockbuster DVD envelope than the Netflix envelope. Some mail handlers contended that the Blockbuster envelope is too square for automation, but appreciated the fact that Blockbuster designed an envelope that wouldn't fold over during processing. Still, two main issues with the design of the Blockbuster return envelope were witnessed during the study.

1) *Lack of barcode causes loop mail* – Blockbuster often presents non-barcoded DVD envelopes to be mailed to its subscribers (mail pieces sent from its retail locations). The Postal Service sprays a fluorescent ID tag on the back of these mail pieces during processing. When the subscriber removes the front of the envelope to reveal the return piece, the postal-applied ID tag on the back remains. When the subscriber attempts to mail the DVD back to Blockbuster, the postal machinery reads the original ID tag and accesses its stored address information, as opposed to the mailer-applied barcode, and the piece is sorted once again to the subscriber's address.
2) *Envelope color causes mechanical rejects* – The bright yellow color of the Blockbuster envelope causes high reject rates on DBCSs in Output Sub System (OSS) mode. The yellow color on the back of the envelope matches closely with the fluorescent orange ID tag applied at the facer-cancellor. A DBCS in OSS mode can not read the fluorescent code and rejects the mail piece.

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6.2 Envelope Recommendation

[redacted]

6.3 Current Processing Methods

As evidenced by the web survey results and volume estimates, the treatment of outbound DVD envelopes headed to subscribers is more uniform among plants than the treatment of the returning DVDs. Though concerns about damage in automated processing of the fragile disks have led to manual handling in a small segment of plants, the majority of postal facilities still reap the cost benefits of running these pieces on machinery. In some locations, flat sorters and OCRs are employed and the outbound envelopes are handled with other "bulky" mail. Unfortunately, the delivery units bear the increased handling costs associated with the plants that are processing these volumes on the flat sorters. While issues in envelope design, such as the Netflix stickers, have introduced the need for special attention by operators at induction in automated operations, most plants are willing to take the extra steps to keep these unique mail pieces in the automated processing stream.

DVD envelopes returning from subscribers have introduced a wider array of issues in Postal Service processing. Larger design issues, such as the flap on the lead edge of the Netflix envelopes, have led many plants to abandon automated processing of DVDs due to the increased risk of jams, missorts, rejects, and damage. Disjointed DVD culling efforts were observed during the study at plants across the country. Machine operators within a plant often differ in their opinion of whether Netflix or Blockbuster return pieces can run successfully on the equipment. An AFCS operator culling return DVDs is often stationed next to another AFCS operator who is letting them run. [redacted]

Even in plants that successfully run returning DVDs, machine operators often have difficulty explaining the reasons for their success. Christensen Associates staff observed Netflix return DVDs being sorted with surprising success on two DBCS machines in one plant during the on-site phase of the survey. Operators within that same plant demonstrated what happens when they run the DVD envelopes on any other DBCS machine. The majority of the pieces run on the other DBCS were jammed, rejected, or missorted. The three machines were the same model, and maintenance contended that each machine was adjusted the same.

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6.4 Processing Recommendations

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USPS Mail Characteristics Study of DVD-by-Mail

Survey Instruments, Methodologies, and Results

Christensen Associates
November 2006

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Table B-3: Summary of Responses to Return (Viewer to Rental Company) DVD Questions on Web Survey.....B-4

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1.0 INTRODUCTION

1.1 Purpose

A growing number of movie viewers and video game 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. This report contains a description of the survey methods and results. The results include cost and volume estimates that reflect the Postal Service's current processing methods.

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 pieces. 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 subscriber, and single piece First-Class Mail rates for the return trip from the subscriber. The return piece carries a Permit Reply Mail marking, for ease of sorting, and 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.

The enormous growth in DVD-by-mail subscribers has been a benefit to Postal Service First-Class Mail volume and revenue. The mixture of automation equipment at postal plants and the rigid, but at the same time fragile, DVDs can lead to difficulties. The Netflix and Blockbuster envelopes are designed to be letter automation-compatible both 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.

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[1] Source: FY 2005 *PostalOne!* which does not include Blockbuster's stamped pieces.

[2] Source: www.netflix.com.

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2.0 PRELIMINARY SITE VISITS

In preparation for the data collection effort, investigative site visits, near Christensen's office in Wisconsin, 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 other personnel about DVD-by-mail processing
- Determine the feasibility of collecting volume information on DVD envelopes

During these visits, it became evident that most mail processing employees are aware of the issues involved in processing DVD envelopes. Often, employees cull the easily identifiable the 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, missorts, 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.

Mail processing employees and machine operators were more than willing to talk about the issues with processing DVDs. They expressed frustration with each type of envelope they handled, whether designed for the outbound trip to the subscriber 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 subscriber, the DVD ends up on the trailing edge on the return trip to the rental company.[3] On the return trip the leading flap often becomes bent, causing damage, rejects, and missorts on automation equipment. Non-DVD mail can get caught in this large flap and end up being missorted as well.

To demonstrate the problem, personnel at one site processed two trays of collection mail with the return Netflix envelopes mixed in on their DBCS (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, or if the automation equipment caused damage during these preliminary visits. Many sites we visited

[3] This is due to the design of the Netflix envelope. To return a Netflix DVD, a subscriber 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 envelope must be rotated 180 degrees to be processed upright. After this rotation, the DVD is positioned on the trailing edge of the envelope.

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didn't run these pieces on the automation equipment. Although we were told that one of the reasons these pieces were not run on automation equipment was because the pieces were often damaged, we could not measure damage rates without having the facility alter their processing methods. Of those pieces that we observed being run on automation equipment, we saw several exposed DVDs and torn envelopes. However, we could not verify that the automation caused the damage. Despite being caller service locations for both Netflix and Blockbuster, none of these sites kept records of the number of returning DVDs that passed through their facilities. One site indicated that once the volumes began to grow, they stopped counting.

In addition to providing an understanding of the scope of the issue of DVD-by-mail processing, these preliminary visits were instrumental in designing both the web survey questionnaire and on-site data collection forms. It became evident that it would be difficult to classify plants into clearly defined methods of processing. It was determined that both the web-based survey and on-site collection forms needed to be flexible enough to account for the numerous methods of processing that exist.

As a follow-up to these preliminary visits, a dozen phone calls were placed to processing plants in different regions of the country. From these phone calls it was determined that the issues observed during the preliminary site visits to Midwest plants also exist at plants across the country. One plant said that it processes the Netflix return envelopes, with the problematic flap, by running the pieces upside-down on the DBCS machinery. In this way, the DVD is on the lead edge of the mail piece and problems with jams, damage, and missorts are avoided. Anecdotes such as these illustrate the extent to which plants go to avoid the processing problems inherent in some types of DVD envelopes.

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3.0 STUDY PHASE ONE: WEB-BASED SURVEY

The first phase of this survey effort was an online questionnaire directed at personnel with particular knowledge of the processing of DVD envelopes at each processing plant. The questionnaire was designed to solicit information related to the methods used to process DVD-by-mail volumes in each plant.

3.1 Universe and Compliance

The Sectional Center Facilities (SCFs) appearing in the Domestic Mail Manual (DMM) labeling list L002 formed the universe for the web-based questionnaire. Site coordinators from each SCF in the list with specific knowledge about the processing of DVD-by-mail volumes were asked to participate in the survey. Site coordinators provided contact information for 405 facilities. Each coordinator was emailed a link to the online survey questionnaire. Site coordinators tended to be in-plant support managers or tour supervisors. In the end, coordinators from 348 facilities completed the web-based survey. Fifty-seven facilities were contacted but did not complete the survey.

3.2 Survey Instrument

The text of the web-based survey can be found in *Appendix* A. The survey is divided into sections related to the outbound trip of the DVD envelope from the online rental company to the subscriber, and the return trip of the DVD envelope from the subscriber to the rental company. Company-specific (Netflix, Blockbuster, Gamefly) questions were asked about:

- Preparation at arrival and departure (containerization, sleeving, etc.)
- Methods of processing
- Problems with sorting DVD envelopes on machinery (damage, missorts, etc.)
- Cross-docking facilities
- Types of damage and methods of repair
- Refund policies
- Existence of manual preparation units for DVDs
- Points of manual separation

Respondents were asked to provide any additional comments that helped describe how their plant processes DVD-by-mail pieces. If at any point during the web survey a site coordinator needed to confer with other plant personnel on a response to a given question, they could close their web browser and return later to complete the survey.

3.3 Data Cleaning

Christensen Associates staff carefully scrutinized the responses to the web-based survey for inconsistencies or unclear responses. Where "other" was listed as a reply to a question, site

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coordinators were asked for specifics in a text box. The text box comments were examined and, where clearly appropriate, adjustments were made to corresponding answers. For instance, if a respondent who was asked how they process *the majority* of DVDs being sent by Netflix to its subscribers marked "other" and wrote "most are run on the DBCS, but some are processed manually," their answer was changed to "DBCS." Also, if a respondent was asked to "select all that apply," but instead selected "other" and wrote "all of the above," the database was changed to indicate that each item was selected.

In a handful of cases, respondents called (unsolicited) to request that answers they had previously provided to the web survey be changed due to new information they had received. Most of these calls were received while the survey was still available online. Respondents either completed a new survey or, if the change that needed to be made was relatively minor, corrections were made directly to the survey database by Christensen Associates staff.

In the event the responses to a given survey question indicated confusion about the question's intent, respondents were contacted for follow-up inquiries via email. Approximately 100 emails were sent seeking follow-up information. Where necessary, edits were made to the survey database as a result of new information that was received through these follow-ups. Finally, any discrepancies between the web survey responses and on-site observations made by Christensen Associates staff, either during preliminary site visits or on-site data collection efforts (see Section 4.0 below concerning on-site data collection), were also corrected.

3.4 Survey Results

3.4.1 Responses *to* Introductory Questions

Summary totals of the responses to the introductory questions of the web-based survey are presented in *Table B-1* of *Appendix B*. A small percentage of the respondents indicated that they either do not process originating mail (i.e., would not encounter DVD envelopes on the outbound trip from the rental company to the subscriber) or destinating mail (i.e., do not process DVD envelopes on the return trip from the subscriber to the rental company) at their facilities. These respondents were only asked questions related to the type of DVD-by-mail pieces that they process. Just under 30 percent of respondents who indicated that they do process originating mail also indicated that a manual unit dedicated to the preparation of trays of DVD envelopes exists at their facilities.

3.4.2 Responses to Outbound Trip Questions

Table B-2 of *Appendix B* shows a summary of the non-textual responses to the web survey questions related to the outbound trip of the DVD-by-mail volumes from rental company to subscriber. The responses to Netflix- or Blockbuster-focused questions in this section of the web survey were relatively uniform. The majority of respondents indicated that they process both Netflix and Blockbuster outbound DVDs on DBCS equipment. The vast majority of these respondents also indicated that their facilities Delivery Point Sequence (DPS) the Netflix and Blockbuster DVDs on their way to the subscriber. Facilities that tend to process outbound DVDs in manual operations do so because of issues with jams or damage on machinery. In some cases there facilities did not have the machinery. Torn envelopes are the most prevalent form of

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damage plants encounter when processing DVDs making their way from the rental company to the subscriber.

3.4.3 Responses to Return Trip Questions

Table B-3 of *Appendix* B shows a summary of the non-textual responses to the questions in the section of the web survey related to the return trip of the DVD envelope from the subscriber back to the rental company. There is more disparity between the Netflix and Blockbuster responses in this section of the survey. While just 28 percent of respondents indicated that Netflix return DVDs are processed on automation equipment, 59 percent indicated that Blockbuster return DVDs are processed on automation equipment. Of those respondents who indicated that they process return DVDs on automation equipment, the vast majority again responded that these pieces are run on DBCS equipment. Thirty-two percent of respondents who manually process Netflix return DVDs indicated that Netflix has asked them to manually process its return DVD envelopes. Respondents again indicated that torn envelopes are the most prevalent form of damage to DVD-by-mail pieces on the return trip from the subscriber to the rental company.

3.4.4 Additional Comments Provided

Respondents were asked to provide any additional comments about DVD-by-mail processing at the end of each section of the web survey. Sample comments about outbound DVDs include:

- "Usually the DVDs have been machine processed once before reaching [this facility]. We can usually run them through another time through the SCF sortation safely. We have found that we can not risk a 3rd or 4th run through DPS. The DVD covers cannot withstand it. We now handthrow those DVDs going to our CRRT zones."
- "Blockbuster DVDs envelopes are a better automation compatible mail piece than Netflix."
- "We receive Netflix from [another facility] containerized in large letter trays. We then sort these manually to the surrounding Post Offices. There seems to be some jams and some damage if we process these in automation. To protect all customers involved from damage to the DVD manual sorting seems to be the best option."
- "The outbound DVD[s] for the most part are excellent and process through our DPS procedure, we have very little damage to these DVDs."
- "We have few problems with the outbound envelopes. Most of the damage is on the in-bound side."
- "Very few damaged Blockbuster envelopes - the envelopes are designed more effectively than Netflix."
- "Outbound damage is minimal when processed on AFSM."
- "These need to be kept out of the letter machine mail stream and be routed to the flat sorting operation in order to avoid damage and delays."
- "Blockbuster's mailpiece design is far superior when compared to Netflix. Since the envelope size is the same size as the DVD, damage is not an issue."

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More respondents provided comments in the section of the web survey related to the processing of DVDs returning from the subscriber than in the section on outbound DVD processing. Sample comments about returning DVDs include:

- "Netflix return envelopes sort poorly due to design. The leading edge of the mailpiece lacks any rigidity, and therefore can be easily missorted by the DBCS."
- "The incoming DVDs are for the most part captured at the AFCS Operations and are manually extracted from the mail stream; a very labor intensive operation."
- "[Blockbuster] envelopes have a sturdy firmer edge, more compacted--sort better on automation machine. Do not see as many damaged (if any) pieces as NetFlix which get damaged due to floppy-edge getting caught in machinery."
- "[Netflix] DVDs are culled out before they go through the AFCS's and placed in EMM trays and given to the courier when they arrive with the outbound DVDs that do run through automation."
- "Blockbuster DVDs are sent to manual letter operations and are sorted to the proper destinating address."
- "Netflix return DVDs are 'pulled' from the mail at any/all points in the processing cycle. In other words, for the most part, we make a concerted effort to manually separate these return mail pieces."
- "As with Netflix Return DVDs, some of the Blockbuster DVDs are culled in our 010 operation and processed on our UFSM 1000 (in addition to our DBCS's). It depends on how the DVD is situated in the envelope, since it doesn't take up the entire space of the envelope. If the DVD is situated toward the "feed end" of the envelope, it is run on a DBCS. Otherwise, it is sent to our UFSM 1000 and processed there."
- "Each [delivery] unit holds out any Netflix mail and trays up this mail, it is then collected and placed in a container for the caller to pick up the mail."
- "Blockbuster DVDs are sorted on the DBCS, unlike Netflix [which] is pulled out before going through the machine. Blockbuster's return envelope is much better than Netflix's."
- "We give floor talks so employees know what to do with the DVD. Incoming they are processed into DPS. Outgoing, they are isolated from all areas and sent to the manual processing."
- "Blockbuster DVDs have an envelope which is a better design than Netflix so very few are damaged. Blockbuster DVDs run well on automation."
- "All the DVDs are sent to the Box section where they are faced and placed into EMM letter trays."
- "At this time we are pulling return Netflix out of the automated mail stream to manual operations. Packaging is too large for the DVD inside. Blockbuster, for instance, has an envelope appropriately sized to fit the DVD inside. Therefore, the envelopes run well in automation."

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4.0 STUDY PHASE TWO: ON-SITE DATA COLLECTION

The purpose of the second phase of the DVD-by-mail study was to collect information that was not attainable using a web-based survey. The following on-site data were collected:

- DVD damage, jam, reject, and missort rates on each type of automation equipment
- Damage to non-DVD pieces caused by DVD jams
- Amount of time spent clearing DVD and non-DVD jams on automation equipment
- Amount of time spent clearing DVD and non-DVD jams on the Advanced Facer Canceller System (AFCS)
- Proportions of DVD volumes passing through each point of the mail processing stream

4.1 Sample Selection

The sample of sites for on-site data collection was randomly drawn from the universe of SCFs used for the web-based survey.[4] The probability of an SCF being selected was proportional to an estimate of the volume of returning DVDs processed at each SCF (see *Section 5.0* for more information on the development of the volume estimates). To maximize sample size given resource constraints, five locations were randomly selected first. Then, for each of these five locations, two neighboring SCFs (within 200 miles of the initially selected plant) were randomly selected. *Table 1* below shows the list of sampled sites and the dates they were visited. The initially drawn site is in bold letters within each group.

[4] Sites that indicated during the web survey that they don't process originating mail were excluded from the universe.

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Table 1
Selected Survey Sites for On-Site Data Collection

Site	Date (2006)
Santa Barbara CA	June 26
Oxnard CA	June 27
Los Angeles CA	June 28
Kilmer NJ	June 27
Southeastern PA	June 28
Baltimore MD	June 29
Abilene TX	July 10
Midland TX	July 11
El Paso TX	July 12
Tampa FL	July 11
Orlando FL	July 12
Lake Mary FL	July 13
Chicago IL	July 11
Carol Stream IL	July 12
Palatine IL	July 13

The first site drawn within each group is shown in bold.

4.2 Survey Instrument

The data collection forms used for the second phase of the DVD-by-mail study is found in *Appendix B*. The *Machine Statistics* form was used to collect data on damage, jams, rejects, and missorts, as well as information on machine downtime. The total volume of each company's DVDs run on the machinery, for the duration of the observation, was recorded on this form as well. The *Processing Flow Counts* form was used to measure the returning DVDs being separated at each point in the mail processing stream. Data collectors used separate forms for Netflix, Blockbuster, and Gamefly. Where the volume of return DVDs was high, data collectors measured DVDs in inches. These inch measurements were later converted to pieces using a conversion rate calculated at each site.

4.3 Data Collection Teams

Five teams of two data collectors each from Christensen Associates visited the fifteen randomly selected SCFs (each team collected data at three plants). All arrangements were made through the site coordinators identified via the web-based survey. Data collectors arrived at the plants at least 30 minutes prior to the processing of collection mail. Upon arrival, data collectors toured the facility, with the site coordinator or some other knowledgeable plant employee, and familiarized themselves with the locations of automation equipment and DVD envelope culling points. Plant personnel were expressly asked not to deviate from their normal methods of processing DVD envelopes.

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4.3.1 Machine Statistics

The data collector responsible for recording machine statistics took both outbound and return observations throughout the evening at each piece of machinery where DVD envelopes were actively being run. When mail processing stopped on a given machine due to employee breaks, low mail volume, or the need for maintenance on the machinery, the data collector concluded the observation and moved on to the next piece of equipment.[5] Observations were typically taken on the AFCS equipment first, until enough mail had been cancelled that other automation equipment (DBCS, OCR, etc.) were actively sorting.

The preliminary site visits revealed two special cases affecting the recording of machine statistics:

1) *Un-cancelled rejects* - Data collectors observed un-cancelled mail pieces being rejected by AFCS machines. In some plants these pieces were redirected to another machine or manual operation. In other plants these pieces were dumped back onto the culling belts for another pass through the machines. Operators continued to dump these hampers until they ran out of collection mail at the end of the evening. For the purposes of this study, any DVD envelopes redirected in this way were recorded as rejected pieces.

2) *"Soft" jams* - When recording jam statistics, data collectors became familiar with what machine operators termed a "soft" jam. Operators attempted to dislodge a soft jam on the DBCS by switching the machine on and off. Both DVD and non-DVD mail pieces caused soft jams. Data collectors only recorded information on jams when an operator physically opened a machine and worked on clearing a jam.

Data collectors generally used two methods to count the number of DVD envelopes that were processed on the automation equipment. Some data collectors found it most effective to count the pieces as they were fed into the machines. Others counted the envelopes in the machine runouts. In cases where the data collector was able to observe a complete run of either the presort DVDs from the mailer or returning DVDs from the subscribers, the DVD piece counts were obtained from end-of-run bin counts or drop-ship manifests.

4.3.2 Processing Flow Counts

The second data collector was responsible for counting all the DVD envelopes returning from subscribers at each point in the mail processing stream. At times it was necessary that both data collectors observe nodes in the mail stream. Coordination with plant personnel was necessary to obtain accurate processing flow counts. The goal was to count any DVD envelopes returning from subscribers that were either manually separated or successfully run on the machinery. This count was taken for each of the three main DVD mailers. Data collectors also noted any other DVD rental companies' envelopes.

Data collectors observed the processing flow at several different locations in each plant. For plants that were caller service locations for the DVD mailers, it was possible to work next to the manual preparation station where the envelopes were being trayed for pickup. In order to track

[5] If the machinery ran constantly, the data collector began and ended each observation at a pre-determined time

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where the envelopes were coming from, data collectors marked containers at the various separation points with different colored stickers. Where this method was employed, mail processing employees were instructed not to mix the containers from the various processing points. As a container arrived at caller service with a specific sticker color, the data collector counted the DVDs and recorded the total in the appropriate section of the *Processing Flow Counts* form.

At other plants, data collectors identified the mail processing employee responsible for gathering the containers of DVD envelopes from the various separation points in the mail processing stream. As the employee gathered the containers, the data collector counted the DVDs in them. In plants where DVD envelopes were commingled with other First-Class Mail throughout, recording the piece counts was more difficult. Data collectors often found it most effective to count the DVD envelopes in the FIM and reject trays coming off the AFCS. This method only worked in plants where the DVD processing stream was very clearly defined.

4.3.3 Wrap-up

Aside from recording machine statistics and processing flow counts, the on-site data collectors were also responsible for:

- Completing a web-based survey questionnaire for each plant visited
- Creating a detailed flow chart of the return DVD-by-mail processing flow for each mailer
- Collecting any necessary manifests and end-of-run reports

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5.0 VOLUME ESTIMATES

A primary purpose of this study is to develop estimates of DVD volumes by mail processing method. The goal is to develop estimates for both the outbound DVDs being mailed to the subscriber and the returning DVDs being mailed back to the rental company. The methods employed to develop volume estimates are described in this section.

5.1 Outbound Trip Volumes by Processing Method

5.1.1 Estimation Procedure

In order to calculate an estimate of outbound (rental company to subscriber) DVD volumes by processing method, the total number of outbound DVD envelopes processed by each plant is needed. These plant-specific volumes can then be attributed to the processing method identified by each plant in the outbound section of the web-based survey. The total number of DVD pieces mailed by Netflix, Blockbuster (excluding stamped pieces), and Gamefly in FY2005 is obtained from the *PostalOne!* system.

These postage statement data indicate the points at which the DVD envelopes are entered, but not the plants where they are processed. The first step in distributing the *PostalOne!* volumes to the plants is to determine which destinating three-digit ZIP Codes each plant processes. This information is obtained from the list of destinating SCFs found in Column C of the DMM labeling list L002. Next, the *PostalOne!* volumes are distributed to the appropriate three-digit ZIP Codes. To accomplish this, distribution keys are developed for each DVD rental company.

For Netflix, its own "On-Time Survey" information is used as a distribution key. Once or twice each year, Netflix asks its subscribers to complete a short on-line survey about the arrival dates and condition of the DVDs that they receive. The total number of respondents to this survey over a four-week period (by three-digit ZIP Code) is used to distribute the *PostalOne!* volumes for Netflix. For Blockbuster and Gamefly, this same information is used to form proxy distribution keys. Finally, the volumes by three-digit ZIP Code are attributed first to the destination plant and then to the method used to process these volumes as determined by the web-based survey.

5.1.2 Results

Table 2 below shows the estimates of FY 2005 outbound DVD volumes by processing method. The vast majority of the outbound Netflix and Blockbuster DVD-by-mail volumes are processed on some form of BCS equipment. Even though the Gamefly envelopes are designed to be run in the flat automation stream, many of these pieces are processed on BCS equipment as well. Other than the fact that a higher percentage of Netflix outbound DVDs are processed on AFSM 100 equipment, the processing methods used for the initial trip of Netflix and Blockbuster DVDs are similar.

Table 2
Estimate of Outbound Volumes (000s) by Processing Method

Processing Method	Netflix	(%)	Blockbuster	(%)	Gamefly	(%)
DBCS with DPS	[redacted]					
DBCS - no DPS						
CSBCS						
OCR						
AFSM 100						
USFM 1000						
SPBS						
Manual Letter						
Manual Flat						
Other						
Total						

5.2 Return Trip Volumes by Processing Method

5.2.1 Estimation Procedure

As mentioned in Section 2.0, very few, if any, plants have records of the number of returning DVD envelopes that are processed. Even caller service locations for the larger DVD rental companies do not keep track of this information. Because the DVDs mailed by these rental companies to their subscribers must be returned, the same *PostalOne!* volumes used in the outbound estimate are used to develop the estimates of returning DVD volumes by processing method.

The list of originating facilities from the DMM labeling list L201 is used to determine which originating plant processed each three-digit ZIP Code. For each company, the Netflix on-time survey data is again used to distribute the *PostalOne!* volumes to the three-digit ZIP code level. The distributed DVD volumes by three-digit ZIP Code are then summed first by originating plant and then by return processing method as determined by the web-based survey.

5.2.2 Results

Table 3 below presents the estimates of FY 2005 returning DVD volumes by processing method. In stark contrast to the uniform outbound estimates, 77 percent of the Netflix returning DVD envelopes are processed manually compared to Blockbuster's almost 35 percent. Just over 62 percent of Blockbuster's returning DVDs are processed on some form of BCS equipment. The vast majority of Gamefly's returning DVDs are processed on the AFSM 100.

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Table 3
Estimate of Returning Volumes (000s) by Processing Method

Processing Method	Netflix	(%)	Blockbuster	(%)	Gamefly	(%)
DBCS/BCS/CSBCS	[redacted]					
MLOCR						
AFSM 100						
UFSM 1000						
Manual						
Other						
Total						

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6.0 Cost Estimates

Another purpose of this study is to estimate the costs to the Postal Service for processing different types of DVD envelopes. Using the results of the web-based and on-site surveys, costs can be estimated both for the outbound trip to the subscriber as well as the return trip back to the DVD rental company. Such cost estimates are developed in this section.

DVD envelopes are generally categorized into two groups based on their processing characteristics:

- Floppy-edge envelopes
- Centralized-disc envelopes

Floppy-edge envelopes have DVDs that are positioned on the leading or trailing edge of the envelope, thus creating unbalanced pieces during processing. Centralized-disc envelopes have the DVD positioned in the middle of the envelope, resulting in two evenly balanced edges.

6.1 Outbound Trip Cost Analysis

6.1.1 Estimation Procedure

As shown in *Table 2*, outbound DVD-by-mail pieces are processed in a variety of ways. Based on these findings, stylized models can be constructed to estimate the costs of processing outbound volumes of both types of DVD envelope. Outbound DVD processing generally follows 6 basic methods:

Letters processing methods

- DBCS processing with DPS
- DBCS processing without DPS
- Manual letters processing

Flats processing methods

- AFSM 100 processing
- UFSM 1000 processing
- Manual flats processing

For each method described above, costs are developed in a manner similar to the Postal Service's methodology used in PRC proceedings.[6] A series of processing steps is defined. For any given step, work content is determined by first dividing the marginal productivity (pieces per hour) of a step by the average clerk and mail handler wage rate (dollars per hour). The resulting unit cost is then adjusted with premium pay and piggyback factors. The weighted unit cost for a step is determined by the proportional amount of volume flowing through the step. The overall unit cost is equal to summing the weighted unit costs over all steps. Additional non-modeled unit

[6] For example, see USPS-LR-L-43 and USPS-LR-L-48 in docket no. R2006-1.

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costs are then added to account for BMEU activities, allied and miscellaneous mail processing activities, transportation, casing, and delivery. Finally, CRA controls are applied.

Detailed parameters are required to model the volumes of each step of a processing method. FY 2005 *PostalOne!* volume is partitioned between each of the 6 methods using volume proportions from the web-based survey described in Section 4.0. Flow densities, coverage factors, and automation reject and damage rates are then applied to determine step-specific volumes. Flow densities and coverage factors are taken from studies used in the current and previous PRC proceedings.[7] Reject and damage rates are developed from the on-site survey described in Section 5.0.

Detailed cost parameters are also needed including clerk and mailhandler average wage rates, operation-specific marginal productivities and piggyback factors, class-specific premium pay factors, unit costs of non-modeled steps,[8] and CRA proportional adjustment factors. The majority of these parameters are taken from studies of presorted First-Class Mail and Standard Mail used in the on-going PRC proceedings.[9] Some parameters are developed from presorted First-Class Mail first-ounce increment cost data.

6.1.2 Results

Table 4 below presents the FY 2005 unit cost estimates for outbound DVD volumes by processing method and DVD envelope type.[10] In general, letter-processing methods have a lower unit cost than flats-processing methods. As expected, there is not much difference in the processing cost between floppy-edge and centralized-disc envelopes since both types tend to be processed similarly during the outbound trip to the subscriber.

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[7] See USPS-T-24 in docket no. R2000-1 (presort letter densities), USPS-LR-J-63 in docket no. R2001-1 (flats densities), and USPS-LR-L-44 in docket no. R2006-1 (coverage factors).

[8] Unit costs for non-modeled steps account for Bulk Mail Entry Unit (BMEU) activities, allied and miscellaneous mail processing activities, transportation (O/S 14), and delivery activities. Unit costs for each of these steps are developed from sources outside the model. Unit costs for BMEU activities and allied/miscellaneous mail processing activities are based on shape-specific cost pool data as found in USPS-LR-L-143. The unit cost for transportation is based on first-ounce letter cost of presorted First-Class Mail letters. Unit costs for casing/delivery activities are taken from USPS-LR-L-67.

[9] See the following sources from docket no. R2006-1: USPS-LR-L-43 (flats CRA proportional adjustment factor); USPS-LR-L-48 (letters CRA proportional adjustment factor); USPS-LR-L-55 (wages rates and premium pay factors); USPS-LR-L-67 (delivery costs); USPS-LR-L-137 (piggyback factors).

[10] The detailed calculations for each processing method and DVD envelope type are found in the Excel workbooks that accompany this report: "FE Outbound v.xls," "CD Outbound v.xls".

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Table 4
Estimates of Outbound Unit Costs (Cents) By Processing Method And DVD Envelope Type

Processing Method	Floppy-Edge Envelope	Centralized-Disc Envelope
Pieces Processed in Letter Operations		
DBCS with DPS	8.42	8.85
DBCS/OCR without DPS	17.02	17.42
Manual Letters	22.64	26.89
Total Letters	11.27	11.15
Pieces Processed in Flats Operations		
AFSM 100	20.60	21.74
UFSM 1000	29.08	33.50
Manual Flats	30.83	34.93
Total Flats	21.21	22.20
Total	**12.75**	**12.23**

6.2 Return Trip Cost Analysis

6.2.1 Estimation Procedure

Stylized models can also be constructed to estimate the processing costs of DVD-by-mail pieces being returned to DVD rental companies. As shown in *Table 3*, returning centralized-disc envelopes tend to be processed more on automation equipment than floppy-edge envelopes. As noted in Section 3.4.4, this is because on the return trip DVDs in floppy-edge envelopes are positioned toward the trailing edge which makes these pieces less amenable to automation processing.

Each of the 15 facilities that participated in the on-site survey represents a different DVD processing method. Although some facilities used similar methods, no two facilities used exactly the same method. Because of this variation, it is necessary to construct cost models that are specific to each of the surveyed facilities. Cost results of each facility can then be weighted together to form a national-average unit cost for each type of DVD envelope.[11]

The steps needed to process returning DVD envelopes are divided into 5 general categories:

- culling prior to or within the automation mail stream
- sorting on automation equipment
- manual sorting
- manual preparation for caller service
- miscellaneous work (damage repair, missort redirection)

[11] The weights used to form the national-average unit cost are based on the inverse of the original sampling probabilities for each facility. They are adjusted using the Horvitz-Thompson procedure to ensure unbiased results. This procedure is required for unequal probability samples. See W. G. Cochran, Sampling Techniques, 3rd Edition (1977).

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For each facility, modeled costs are based on a series of processing steps. Each sampled facility has a different combination of processing steps. For instance, the way DVDs are culled varies by facility. Some facilities cull all DVD envelopes in the collection mail steam prior to induction into the AFCS. Other facilities cull some DVD envelopes prior to AFCS induction while culling others farther down the automation processing steam. Still others cull no DVD envelopes at all, choosing instead to process them all on automation equipment. The way a facility treats the two types of DVD envelopes also varies. Some facilities cull both types at once, creating "jackpotted" DVD containers, and then separate them at a different operation. Other facilities have completely distinct processing methods for each type of envelope. To estimate the proportional volume flows across these processing steps, each facility's on-site survey data is used. Volumes are adjusted based on the facility-specific automation reject rates, missort rates, and damage rates.

Unit costs are developed in a manner similar to the outbound cost models—namely, by combining productivities, wage rates, premium pay factors, and piggyback factors for each processing step at each facility, and then summing the resulting weighted unit costs over all steps. Additional non-modeled unit costs are then included to account for collection activities, allied and miscellaneous mail processing activities, transportation, and caller service pick up.[12] Additional data are developed from First-Class single-piece, first-ounce increment cost data. Finally, a CRA proportional adjustment factor is applied.[13]

An important question to consider is what productivity should be used to determine the work content of culling activities. Unlike the cost models for outbound DVDs—where the majority of the processing steps are associated with automation processes that have well-defined productivities—many of the returning DVDs are culled from the automation mail stream. Such a process has not been closely studied. To our knowledge, there are no measured culling productivities that the Postal Service has developed, nor are there MODS data that exactly measure culling activities. Because of this, proxy productivities must be developed.

There are two ways to think of culling activities. On the one hand, culling may be a very manual process in which employees sift through piles of collection mail as it is loaded onto belts. On the other hand, culling may be a relatively minor job that only involves quickly riffling through mail that has already been prepped for induction onto automation equipment. This suggests a range of productivities depending on the exact point in the mail stream where DVD envelopes are culled. We propose two proxy productivities to represent the extremes of this range:

- Low-End Productivity: 625 pieces per hour (5.76 seconds per piece)
- High-End Productivity: 2,166 pieces per hour (1.67 seconds per piece)

The low-end productivity is developed from the national-average manual sorting productivities as found in MODS. The high-end productivity is developed from the national-average riffling

[12] Unit costs for each of these steps are developed from sources outside the model. Unit costs for collection activities, allied/miscellaneous mail processing activities, and transportation are based on first ounce letter cost of single-piece First-Class Mail letters. The unit cost for caller service pick up is taken from USPS-LR-L-69.

[13] CRA proportional adjustment factor is taken from the BRM study found in USPS-LR-L-69 in docket no. R2006-1.

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productivity for MODS operation 029. Both productivities are based on FY 2005 data and have been adjusted with their respective variabilities.[14]

6.2.2 Results

To estimate the impact of using different proxies for culling activities, we develop three distinct scenarios.[15] *Table 5* reports the results for scenario 1 across each of the 15 sampled facilities.[16] In this scenario, both ends of the productivity range are used. The high-end productivity is used for culling at the feeding stations in automation operations (e.g., AFCS induction, DBCS induction, OCR induction). For culling at all other operations (e.g., dock, collection mail belt, AFCS rejection, hand cancellation), the low-end productivity is used.

[14] The low-end productivity is adjusted using the manual letters cost pool variability (0.89). The high-end productivity is adjusted using the cancellation cost pool variability (0.59). See USPS-T-11 (Table 1) in docket no. R2006-1.

[15] The detailed calculations for each scenario are found in the Excel workbooks that accompany this report. The scenarios for the floppy-edge envelope are found in "FE Return Scenario 1 v.xls," "FE Return Scenario 2 v.xls," and "FE Return Scenario 3 v.xls." The scenarios for the centralized-disc envelope are found in "CD Return Scenario 1 v.xls," "CD Return Scenario 2 v.xls," and "CD Return Scenario 3 v.xls."

[16] Facilities in Madison, WI and Milwaukee, WI have also been included in the return cost results. Data from these facilities were collected during the preliminary site visits. Because these two facilities were not part of the set of 15 randomly selected facilities, their Horwitz-Thompson weights are set to 1.00, meaning that they are self weighted and do not represent any other (non-sampled) facilities in the country.

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Table 5
Estimates of Return Unit Costs (Cents)
By Facility And DVD Envelope Type

Scenario 1: High-End Productivity Used At Some Culling Points, Low-End Productivity Used At Other Culling Points

Facility	Floppy-Edge Envelope	Centralized-Disc Envelope
Orlando	40.07	40.06
Tampa	13.59	11.90
Lake Mary	23.78	28.75
Los Angeles	27.17	23.29
Oxnard	31.26	21.34
Santa Barbara	26.51	22.72
Abilene	28.30	18.93
Midland	19.69	16.20
El Paso	43.62	41.72
Madison	23.47	N/A
Milwaukee	27.79	N/A
Chicago	27.38	17.29
Carol Stream	27.56	32.88
Palatine	26.40	27.05
Kilmer	23.58	17.20
Southeastern	23.76	27.92
Baltimore	26.51	21.89
Total	**27.68**	**25.20**

Referring to the bottom of *Table 5*, the national-average unit cost is 27.68 cents for floppy-edge envelopes and 25.20 cents for centralized-disc envelopes. It is notable that, with the exception of a few facilities (Tampa, El Paso, Orlando), the distribution of unit costs across facilities for each envelope type is fairly compact. This is expected to some degree. Because the same set of processing productivities is applied to each facility, variation in unit costs is driven only by the mix in volume across processing steps. Thus, for each envelope type, the biggest cost differences occur between facilities that use automation to process the vast majority of DVDs versus those that cull the vast majority of DVDs and process them manually.

To measure how sensitive these models are to these proxy culling rates, the models can be reconfigured to produce the maximum and minimum national-average unit costs. Scenario 2 assumes the high-end productivity at all culling points, while scenario 3 assumes the low-end productivity at all culling points. These two scenarios are presented in *Table 6* and *Table 7*, respectively.

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Table 6
Estimates of Return Unit Costs (Cents)
By Facility And DVD Envelope Type

Scenario 2: High-End Productivity Used At All Culling Points

Facility	Floppy-Edge Envelope	Centralized-Disc Envelope
Orlando	26.42	26.41
Tampa	13.14	11.90
Lake Mary	16.67	15.10
Los Angeles	20.10	18.31
Oxnard	19.00	18.41
Santa Barbara	17.88	18.93
Abilene	22.19	18.93
Midland	19.69	16.20
El Paso	32.56	32.49
Madison	18.32	N/A
Milwaukee	17.95	N/A
Chicago	18.51	15.74
Carol Stream	21.03	21.89
Palatine	20.91	22.41
Kilmer	19.29	14.82
Southeastern	21.07	21.50
Baltimore	20.91	17.85
Total	**20.59**	**19.50**

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Table 7
Estimates of Return Unit Costs (Cents)
By Facility And DVD Envelope Type

Scenario 3: Low-End Productivity Used At All Culling Points

Facility	Floppy-Edge Envelope	Centralized-Disc Envelope
Orlando	40.07	40.06
Tampa	13.75	11.90
Lake Mary	23.78	28.75
Los Angeles	28.92	23.29
Oxnard	31.83	26.71
Santa Barbara	27.97	22.72
Abilene	30.58	18.93
Midland	27.53	16.20
El Paso	44.55	44.22
Madison	28.51	N/A
Milwaukee	28.20	N/A
Chicago	28.75	17.29
Carol Stream	34.65	35.34
Palatine	33.65	34.61
Kilmer	26.84	18.85
Southeastern	33.40	33.63
Baltimore	30.87	24.06
Total	**30.33**	**26.84**

The range of national-average unit cost runs from a minimum of 20.59 cents to a maximum of 30.33 cents for floppy-edge envelopes, and from a minimum of 19.50 cents to a maximum of 26.84 cents for centralized-disc envelopes. Notice that the gap between the national-average unit cost between the two envelope types is bigger for scenario 3 (3.5 cents) than for scenario 2 (1.1 cents). This is because centralized-disc envelopes are not culled as much as floppy-edge envelopes. This has a greater cost savings in scenario 3, where culling is based on a slower, more expensive productivity than in scenario 2.

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Appendix A: Web-Based Survey Questionnaire

Thank you for agreeing to complete our survey on DVD-by-mail.

The survey shouldn't take more than about 15 minutes to complete.

We hope you complete this survey in one session. If you cannot, you can re-enter by clicking the link again.

To access the survey, type your finance number in the box below.
(Enter the first two digits in the first box and the remaining four digits in the second box.)

My finance number is:

____ - _____

Does your facility process destinating mail?
Please select only one

- o Yes
- o No

(If the response is "Yes")

The questions in this section of the survey pertain to processing of **outbound DVDs.**

By outbound DVDs, we mean DVDs going from the rental company (Blockbuster, Netflix, etc.) to the viewer.

OUTBOUND QUESTIONS BEGIN HERE

Does your facility process [NF BB GF] **outbound DVDs**? (Note: noticeable amount of GF?)
Please select only one

- o Yes
- o No

Question 1: How do [NF BB GF] **outbound DVDs** arrive for processing at your facility?
Please select all that apply

NF BB GF	Presort trays from [NF BB GF] (BMEU-entered or drop shipped)
NF BB GF	Presort trays from other mail processing facilities
NF BB GF	Commingled trays from other mail processing facilities
NF BB GF	Other (please specify in box below) ____

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Question 2: How do you process **the majority** of [NF BB GF] **outbound DVDs**?
Please select only one

NF BB GF	DBCS / BCS Operations
NF BB GF	MLOCR Operations
NF BB GF	AFSM 100 Operations
NF BB GF	UFSM 1000 Operations
NF BB GF	SPBS / LIPS / APPS Operations
NF BB GF	Manual Letter Operations
NF BB GF	Manual Flat Operations
NF BB GF	Other (please specify in box below) _____

(If the response to Question 2 is "DBCS")

Question 2a: Do you DPS **the majority** of [NF BB GF] **outbound DVDs**?
Please select only one

NF BB GF	Yes
NF BB GF	No

(If the response to Question 2 is "Manual Letter or Manual Flat")

Question 2b: Why are [NF BB GF] **outbound DVDs** processed manually?
Please select all that apply

NF BB GF	[NF BB GF] has asked that we process them manually
NF BB GF	[NF BB GF] outbound DVDs don't run well on machinery

---

(If the response to Question 2b is "don't run well on machinery")

Question 2b.1: Why don't [NF BB GF] **outbound DVDs** run well on machinery?
Please select all that apply

NF BB GF	They jam the machines
NF BB GF	They are damaged on the machines
NF BB GF	They are missorted on the machines
NF BB GF	They cause other mail to be missorted on the machines
NF BB GF	Other (please specify in box below) _____

Question 3: Are containers of [NF BB GF] **outbound DVDs** cross-docked to another mail processing facility?
Please select only one

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NF BB GF	Yes
NF BB GF	No

(If the response to Question 3 is "A")

Question 3a: For which destination facilities do you cross-dock containers of [NF BB GF] **outbound DVDs**? *Please enter up to 8 facilities*

_____ _____
_____ _____
_____ _____
_____ _____

Question 4: How are **the majority** of damaged [NF BB GF] **outbound DVDs or envelopes** treated in your facility? *Please select only one*

NF BB GF Repaired and returned to the mail stream
NF BB GF Returned to [NF BB GF] for resubmission
NF BB GF Damage is not an issue
NF BB GF Other (please specify in box below) _____

(If the response to Question 4 is "repaired and returned to the mail stream")

Question 4a: Where are **the majority** of repairs to damaged [NF BB GF] **outbound DVDs or envelopes** made? *Please select only one*

NF BB GF Rewrap
NF BB GF Sorting operations where damage occurred
NF BB GF Other (please specify in box below) _____

(If the response to Question 4 is "returned to mailer for resubmission")

Question 4b: Is [NF BB GF] charged to resubmit damaged **outbound DVDs**? *Please select only one*

NF BB GF [NF BB GF] is not charged
NF BB GF [NF BB GF] is charged only for outbound postage
NF BB GF [NF BB GF] is charged for both outbound and return postage

---

Question 5: What types of damage to [NF BB GF] **outbound DVDs or envelopes** are common in your facility? *Please select all that apply*

NF BB GF Torn envelopes
NF BB GF Empty envelopes
NF BB GF DVDs are exposed
NF BB GF DVDs are loose
NF BB GF DVDs are broken

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Question 6: Please provide any additional comments that will help us understand how you process [NF BB GF] **outbound DVDs**. *Please type comment in box below*

_____
_____
_____
_____
_____

OUTBOUND QUESTIONS END HERE

Does your facility process originating mail? *Please select only one*

- o Yes
- o No

(If the response is "Yes"

The questions in this section of the survey pertain to processing of **return DVDs.**

By return DVDs, we mean DVDs on the return trip from the viewer to the rental company (Blockbuster, Netflix, etc.)

RETURN QUESTIONS BEGIN HERE

Do you have a dedicated manual unit that prepares trays of **return DVDs**?
Please select only one

- o Yes
- o No

(If the response is "Yes")

What MODS operation are the employees in the dedicated manual unit clocked into?
Please type 3-digit code in box below

_____ 3-digit MODS code

(If the response is "Yes")

How many hours were spent in this dedicated manual unit during the last week?
Please type number of hours in the box below

_____ hours last week

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Does your facility process [NF BB GF] **return DVDs**? (Note: noticeable amount of GF?)
Please select only one

- o Yes
- o No

Question 1: Are efforts made to separate [NF BB GF] **return DVDs** from other collection mail at your facility?

NF BB GF	Yes
NF BB GF	No

(If the response to Question 1 is "Yes")

Question 1a: At what point are [NF BB GF] **return DVDs** separated from other collection mail?
Please select all that apply

NF BB GF	At the stations / branches
NF BB GF	In dock operations
NF BB GF	In 010 / 020 operations
NF BB GF	In automation operations (DBCS, MLOCR, AFSM 100, etc.)
NF BB GF	Other (please specify in box below) _____

Question 2: Are **the majority** of [NF BB GF] **return DVDs** that arrive in your collection mail sorted on automation equipment (other than the AFCS)?
Please select only one

NF BB GF	Yes
NF BB GF	No

(If the response to Question 2 is "Yes")

Question 2a: On what automation equipment do you process **the majority** of [NF BB GF] **return DVDs**? *Please select only one*

NF BB GF	DBCS / BCS
NF BB GF	MLOCR
NF BB GF	AFSM 100
NF BB GF	UFSM 1000
NF BB GF	SPBS / LIPS / APPS
NF BB GF	Other (please specify in box below) _____

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(If the response to Question 2 is "No")

Question 2b: Why are [NF BB GF] **return DVDs** processed manually?
Select all that apply

NF BB GF	[NF BB GF] has asked that we process them manually
NF BB GF	[NF BB GF] return DVDs don't run well on machinery

(If the response to Question 2b is "don't run well on machinery")

Question 2b.1: Why don't [NF BB GF] **return DVDs** run well on machinery?
Please select all that apply

NF BB GF	They jam the machines
NF BB GF	They are damaged on the machines
NF BB GF	They are missorted on the machines
NF BB GF	They cause other mail to be missorted on the machines
NF BB GF	Other (please specify in box below) _____

Question 3: Do [NF BB GF] **return DVDs** arrive at your facility from other mail processing facilities? *Please select only one*

NF BB GF	Yes
NF BB GF	No

(If the response to Question 3 is "Yes")

Question 3a: How are [NF BB GF] **return DVDs** that arrive from other facilities prepared?
Please *select all that apply*

NF BB GF	Direct [NF BB GF] trays / containers
NF BB GF	Commingled with other mail in manual trays / containers
NF BB GF	Commingled with other mail in automation trays / containers

---

(If the response to Question 3a is "direct trays")

Question 3a.1: What type of direct containers do [NF BB GF] **return DVDs** commonly arrive in from other facilities? *Please select all that apply*

NF BB GF	MM trays
NF BB GF	EMM trays
NF BB GF	Flat tubs
NF BB GF	Other (please specify in box below)

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(If the response to Question 3a is "B" or "C")

Question 3a.2: Where do **the majority** of commingled containers of [NF BB GF] **return DVDs** from other facilities commonly enter your facility's mail processing stream?
Please select only one

NF BB GF	DBCS / BCS Operations
NF BB GF	MLOCR Operations
NF BB GF	AFSM 100 Operations
NF BB GF	UFSM 1000 Operations
NF BB GF	SPBS / LIPBS / APPS Operations
NF BB GF	Manual Letter Operations
NF BB GF	Manual Flat Operations
NF BB GF	Other (please specify in box below) _____

Question 4: How do [NF BB GF] **return DVDs** leave your facility?
Please select only one

NF BB GF	Picked up by [NF BB GF] from caller service
NF BB GF	Dispatched to another mail processing facility

(If the response to Question 4 is "dispatched to another facility")

Question 4a: Do you prepare direct trays of [NF BB GF] **return DVDs** for another facility?
Please select only one

NF BB GF	Yes
NF BB GF	No

(If the response to Question 4a is "Yes")

Question 4a.1: Which facility (facilities) do you prepare direct [NF BB GF] trays of **return DVDs** for? *Please enter up to 4 facilities*

_____ _____
_____ _____

(If the response to Question 4a is "Yes")

Question 4a.2: How are direct trays of [NF BB GF] **return DVDs** prepared?
Please select all that apply

NF BB GF	DVD envelopes are faced
NF BB GF	DVD envelopes have been riffled for accuracy
NF BB GF	Trays / containers have been sleeved
NF BB GF	Other (please specify in box below) _____

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(If the response to Question 4 is "caller service")

Question 4b: How are [NF BB GF] **return DVDs** prepared for caller service pick-up?
Please select all that apply

NF BB GF	DVD envelopes are faced
NF BB GF	DVD envelopes have been riffled for accuracy
NF BB GF	Trays / containers have been sleeved
NF BB GF	Other (please specify in box below) _____

Question 5: Where are **the majority** of repairs to damaged [NF BB GF] **return DVDs or envelopes** made? *Please select only one*

NF BB GF	Rewrap
NF BB GF	Sorting operations where damage occurred
NF BB GF	Damage is not an issue
NF BB GF	No attempt is made to repair DVDs or envelopes
NF BB GF	Other (please specify in box below) _____

Question 6: What types of damage to [NF BB GF] **return DVDs or envelopes** are common in your facility? *Please select all that apply*

NF BB GF	Torn envelopes
NF BB GF	Empty envelopes
NF BB GF	DVDs are exposed
NF BB GF	DVDs are loose
NF BB GF	DVDs are broken

Question 7: Does your facility always sort [NF BB GF] **return DVDs** to the mailing address on the piece? *Please select only one*

NF BB GF	Yes
NF BB GF	No

Question 8: Please provide any additional comments that will help us understand how you process [NF BB GF] **return DVDs**?
Please type comment in box below

_____
_____
_____
_____

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RETURN QUESTIONS END HERE

Thank you for completing this survey.

Simply close your browser or point your browser to another page.

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Appendix B: Web-Based Survey Results

Table B-1
Summary of Responses to Introductory Questions on DVD-by-Mail Web Survey

Question	Answer	Responses
Does your facility process destinating mail?	No	19
	Yes	329
Does your facility process originating mail?	No	38
	Yes	310
Do you have a dedicated manual unit that prepares trays of return DVDs?	No	218
	Yes	92

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Table B-2
Summary of Responses to Outbound (Rental Company to Viewer) DVD Questions on Web Survey

Question	Answer	Responses NF	BB	GF[17]
Does your facility process outbound DVDs[18]?	No	94	134	312
	Yes	234	195	16
How do outbound DVDS arrive for processing at your facility?	Presort trays from [NF BB GF]	80	39	4
	Presort trays from other processing facilities	73	53	6
	Commingled from other processing facilities	122	124	10
	Other	2	4	2
How do you process the majority of outbound DVDs?	DBCS/BCS	135	127	7
	MLOCR	13	8	0
	AFSM 100	26	15	6
	UFSM 1000	7	5	1
	SPBS/LIPS/APPS	1	1	0
	Manual Letter	38	28	0
	Manual Flat	3	2	1
	Other	1	1	1
	CSBCS	9	8	0
Do you DPS the majority of outbound DVDs?	No	14	13	0
	Yes	123	115	7
Why are outbound DVDs processed manually?	[NF BB GF] has asked for manual processing	9	4	0
	Outbound DVDs don't run well on machinery	37	30	1
Why don't outbound DVDs run well on machinery?	They jam the machines	23	17	1
	They are damaged on the machines	26	17	1
	They are missorted on the machines	8	5	0
	They cause other mail to be missorted	8	4	0
	Other	2	4	0
Are containers of outbound DVDs cross-docked to another MP facility?	No	186	175	14
	Yes	48	20	2
How are the majority of damaged outbound DVDs or envelopes treated in your facility?	Repaired and returned to the mail stream	126	99	7
	Returned to [NF BB GF] for resubmission	23	14	0
	Damage is not an issue	77	75	7
	Other	5	3	2
	Sent to another postal facility	2	2	0
Where are the majority of repairs to damaged outbound DVDs or envelopes made?	Rewrap	89	71	4
	Sorting operations where damage occurred	21	15	2
	Other	4	4	1
	Manual	4	3	0
	Nixie	6	5	0
Is [NF BB GF] charged to resubmit damaged outbound DVDs?	[NF BB GF] is not charged	15	9	0
	[NF BB GF] is charged only for outbound trip	1	0	0
	[NF BB GF] is charged for round-trip postage	6	5	0

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[17] NF = Netflix, BB = Blockbuster, GF = Gamefly
[18] For Gamefly, this question was phrased "Does your facility process a noticeable amount of Gamefly outbound DVDs?

Table B-2 (continued)
Summary of Responses to Outbound (Rental Company to Viewer) DVD Questions on Web Survey

Question	Answer	Responses		
		NF	BB	GF
What types of damage to outbound DVDs or envelopes are common in your facility?	Torn envelopes	152	116	8
	Empty envelopes	35	22	1
	DVDs are exposed	36	24	2
	DVDs are loose	25	14	1
	DVDs are broken	30	15	1

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Table B-3
Summary of Responses to Return (Viewer to Rental Company) DVD Questions on Web Survey

Question	Answer	Responses NF	BB	GF[19]
Does your facility process return DVDs[20]?	No	23	69	293
	Yes	287	240	16
Are efforts made to separate return DVDs from other collection mail at your facility?	No	44	116	7
	Yes	243	124	9
At what point are return DVDs separated from collection mail?	At the stations/branches	68	33	3
	In dock operations	47	25	3
	In 010/020 operations	205	100	6
	In automation operations (DBCS,FSM,etc.)	106	45	3
	Other	19	7	2
Are the majority of return DVDs that arrive in collection mail run on automation equipment?	No	207	98	3
	Yes	80	142	13
On what automation equipment do you process the majority of return DVDs?	DBCS/BCS	65	126	5
	MLOCR	4	5	0
	AFSM 100	6	7	8
	UFSM 1000	2	2	0
	SPBS/LIPS/APPS	0	0	0
	Other	2	1	0
	CSBCS	1	1	0
Why are return DVDs processed manually?	[NF BB GF] has asked for manual processing	67	17	1
	Return DVDs don't run well on machinery	158	80	2
Why don't return DVDs run well on machinery?	They jam the machines	99	48	0
	They are damaged on the machines	103	49	1
	They are missorted on the machines	35	17	0
	They cause other mail to be missorted	48	17	0
	Other	13	6	1
Do return DVDs arrive at your facility from other mail processing facilities?	No	158	151	9
	Yes	129	89	7
How are return DVDs that arrive from other facilities prepared?	Direct trays/containers	42	14	1
	Commingled with other mail in manual trays	80	63	3
	Commingled with other mail in auto trays	62	46	4
What type of direct containers do return DVDs commonly arrive in from other facilities?	MM trays	10	7	1
	EMM trays	31	12	0
	Flat tubs	11	3	0
	Other	1	0	0
Where do the majority of commingled containers of return DVDs from other facilities commonly enter your facility's mail processing stream?	DBCS/BCS Operations	37	44	4
	MLOCR Operations	3	1	0
	AFSM 100 Operations	8	2	1
	UFSM 1000 Operations	3	1	0
	SPBS/LIPS/APPS Operations	0	1	0
	Manual Letter Operations	33	20	1
	Manual Flat Operations	6	2	0
	Other	13	11	0
How do return DVDs leave your facility?	Picked up by [NF BB GF] from caller service	73	27	1
	Dispatched to another mail processing facility	214	212	15

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[19] NF = Netflix, BB = Blockbuster, GF = Gamefly
[20] For Gamefly, this question was phrased "Does your facility process a noticeable amount of Gamefly return DVDs?

Table B-3 (continued)
Summary of Responses to Return (Viewer to Rental Company) DVD Questions on Web Survey

Question	Answer	Responses		
		NF	BB	GF
Do you prepare direct trays of return DVDs for another facility?	No	98	163	15
	Yes	116	49	0
How are direct trays of return DVDs prepared?	DVD envelopes are faced	84	37	0
	DVD envelopes have been riffled for accuracy	64	23	0
	Trays/Containers have been sleeved	89	38	0
	Other	2	0	0
How are return DVDs prepared for caller service pick-up?	DVD envelopes are faced	54	21	1
	DVD envelopes have been riffled for accuracy	56	22	1
	Trays/containers have been sleeved	50	18	1
	Other	3	0	0
Where are the majority of repairs to damaged return DVDs or envelopes made?	Rewrap	134	104	3
	Sorting operations where damage occurred	30	24	2
	Damage is not an issue	92	93	11
	No attempt is made to repair DVD envelopes	15	7	0
	Other	6	4	0
	Manual	2	2	0
	Nixie	8	6	0
What types of damage to return DVDs or envelopes are common in your facility?	Torn envelopes	178	135	5
	Empty envelopes	53	33	0
	DVDs are exposed	47	32	1
	DVDs are loose	40	25	0
	DVDs are broken	40	25	0
Does your facility always sort return DVDs to the mailing address on the piece?	No	70	24	1
	Yes	217	216	15

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Appendix C: On-Site Data Collection Forms

On-Site Data Collection Form: Machine Statistics

Surveyor's Initials		3	**Date**	
Facility Name		4	**Sheet #**	

[Please Use One Form per Piece of Equipment per Session]

DVD Trip Direction: [Circle One] Outbound Return

Equipment Type: [Circle One] AFCS AFSM 100 DBCS DBCS-EC FSM 1000 OCR

Time at Machine: (hh:mm:ss)

Start Time:	: :
End Time:	: :

Total Number of DVDs Run:

		Units Used [Circle 1]	
NF		Pieces	Inches
BB		Pieces	Inches
GF		Pieces	Inches

Number of Rejected DVDs:

NF		Pieces	Inches
BB		Pieces	Inches
GF		Pieces	Inches

Number of Damaged DVD Pieces:

NF	
BB	
GF	

Missorts:	**Non-DVD Pieces in Dedicated DVD Bin**	**DVD Pieces in Wrong Bins**
NF		
BB		
GF		

Jam Reports:

Cause of Jam: [Circle One]				**Time to Fix Jam:** (hh:mm:ss)		**# Pieces Damaged by Jam:**	
				Start Time:	End Time:	Non-DVD	DVD
NF	BB	GF	Non-DVD	: :	: :		
NF	BB	GF	Non-DVD	: :	: :		
NF	BB	GF	Non-DVD	: :	: :		
NF	BB	GF	Non-DVD	: :	: :		
NF	BB	GF	Non-DVD	: :	: :		
NF	BB	GF	Non-DVD	: :	: :		
NF	BB	GF	Non-DVD	: :	: :		

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On-Site Data Collection Form - Processing Flow Counts - NETFLIX

Facility:		Date:	

Location of Count (circle one): Caller Service P.O. Boxes Manual Prep Unit Processing Floor

Separation Point	Count:	Units	Total
Stations / Branches		Pieces Inches	
Dock Operations		Pieces Inches	
Opening Unit / Culling Belt		Pieces Inches	
Pre-AFCS		Pieces Inches	
AFCS Rejects		Pieces Inches	
Post-AFCS		Pieces Inches	
Pre-DBCS		Pieces Inches	
Post-DBCS		Pieces Inches	
Pre-MLOCR		Pieces Inches	
Post-MLOCR		Pieces Inches	
Pre-AFSM 100		Pieces Inches	
Post-AFSM 100		Pieces Inches	
Pre-UFSM 1000		Pieces Inches	
Post-UFSM 1000		Pieces Inches	
Rewrap		Pieces Inches	
Unknown Source		Pieces Inches	

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On-Site Data Collection Form - Processing Flow Counts - BLOCKBUSTER

Facility:		Date:	

Location of Count (circle one): Caller Service P.O. Boxes Manual Prep Unit Processing Floor

Separation Point	Count:	Units	Total
Stations / Branches		Pieces Inches	
Dock Operations		Pieces Inches	
Opening Unit / Culling Belt		Pieces Inches	
Pre-AFCS		Pieces Inches	
AFCS Rejects		Pieces Inches	
Post-AFCS		Pieces Inches	
Pre-DBCS		Pieces Inches	
Post-DBCS		Pieces Inches	
Pre-MLOCR		Pieces Inches	
Post-MLOCR		Pieces Inches	
Pre-AFSM 100		Pieces Inches	
Post-AFSM 100		Pieces Inches	
Pre-UFSM 1000		Pieces Inches	
Post-UFSM 1000		Pieces Inches	
Rewrap		Pieces Inches	
Unknown Source		Pieces Inches	

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On-Site Data Collection Form - Processing Flow Counts – GAMEFLY

Facility:		Date:	

Location of Count (circle one): Caller Service P.O. Boxes Manual Prep Unit Processing Floor

Separation Point	Count:	Units	Total
Stations / Branches		Pieces Inches	
Dock Operations		Pieces Inches	
Opening Unit / Culling Belt		Pieces Inches	
Pre-AFCS		Pieces Inches	
AFCS Rejects		Pieces Inches	
Post-AFCS		Pieces Inches	
Pre-DBCS		Pieces Inches	
Post-DBCS		Pieces Inches	
Pre-MLOCR		Pieces Inches	
Post-MLOCR		Pieces Inches	
Pre-AFSM 100		Pieces Inches	
Post-AFSM 100		Pieces Inches	
Pre-UFSM 1000		Pieces Inches	
Post-UFSM 1000		Pieces Inches	
Rewrap		Pieces Inches	
Unknown Source		Pieces Inches	

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Agenda
Round-Trip Prepaid Service Workgroup
14 March 2005, 2:00 to 3:00 p.m.
Headquarters Conference Room 8621

US-159

US-159

1. **Engineering Reports**
   -- Procedures for testing new letter-size pieces [redacted]
   -- DVD damage analysis update [redacted] → critical path? - NO
   -- Stiffness criteria [redacted] and [redacted]
   -- Flat-size mail physical criteria update [redacted]

need due 32 weeks

US-159

US-136

2. **Product Descriptions** US-068 US-027
   -- Barcoding requirements [redacted] and [redacted]
   (Attachment of requirements) US-152
   -- Confirm and other special services [redacted] team discussion)
   -- Postage statement [redacted] and [redacted]
   US-027 US-012

3. **Operational Issues**
   -- Plant report data collection [redacted] with [redacted] and [redacted]
   [redacted] US-068 US-154 US-151
   -- Atlanta and Milwaukee P&DC visits [redacted] US-154
   -- BSN file analysis report [redacted] - US-154
   -- Designated facilities for entry [redacted] team discussion)
   US-023

report next week!

4. **Planning** US-152 US-027 US-066 US-125
   --Activity plan [redacted]
   (Attachment of draft plan)
   --Business case report [redacted] US-125

Letter [redacted]

Business Plan → Business evaluation

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[redacted] - Washington, DC -VS-027

From: VS-152 [redacted] - Washington, DC
Sent: Tuesday, November 09, 2004 4:34 PM
To: VS-023; VS-131; VS-015 [redacted] - Rosslyn, VA; [redacted] - Washington, DC; [redacted] - VS153 Washington, DC; [redacted] - Washington, DC; [redacted] - Washington, DC; [redacted] - Merrifield, VA - Contractor
Cc: VS-151; VS-159; [redacted] - Washington, DC; [redacted] - Washington, DC; [redacted] - Washington, DC; [redacted] - Rosslyn, VA; [redacted] - Washington, DC; [redacted] - Washington, DC
Subject: VS-025 DVD Mailing Team--Minutes--November 8, 2-4 p.m.
VS-027; VS-110; VS-060; VS-047; VS-183

Hi DVD Team,

Thank you all for a lively brainstorming session. The concerns and issues raised are important and will require our sensitivity to customer needs and postal operational and marketing strategies for the Postal Service.

Our next meeting is Monday, November 15, 2-4 p.m., Room 2814.

MEMBERS PRESENT:

[redacted] Pricing Strategy -VS-152
Mailing Standards - VS-015
Sales VS-023
Pricing Strategy VS-027
Operational Requirements — VS-153
Engineering -VS-159
Pricing VS-131
Operational Requirements VS-151

ISSUES COVERED:

(1) Specifications.
Development of specifications for a two-way mailing envelope that would meet our machinability criteria and automation criteria: VS-159
VS-159 [redacted] will complete test of four prototypes and about 8,000 pieces. [redacted] has also been asked by Netflix to test a new design for Netflix.

VS-159 [redacted] believes that the optimal two-way mailing envelope would weigh about 1.2 ounces. [redacted] mentioned that her VS-127 earlier work on this project did indicate that the 1.2-ounce envelope was workable within the various concerns from Legal and others. We believe the specification and DVD envelope rules should include:
(1) Testing process for envelopes; and
(2) Certification process for approved envelopes.

(2) Timeline.
Here is a timeline the team believed was appropriate and reasonable:
Step 1: Finish testing and establish specifications for DMM revision: January 15, 2005.
[redacted] VS159

Step 2: Codify specifications into DMM proposed rule for Federal Register.
Circulate document for internal clearance and receive comments.
Receive and incorporate clearance comments.
Publish proposed rule in Federal Register: January 30, 2005.
Wait 30 days for public comment.

Step 3 Respond to comments from public.
Circulate revised document.
Determine implementation date based on comments.
Publish revised specifications for DVD mailing envelopes: March 31, 2005.

[redacted]

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(4) Data.
Operational Requirements has collected data from various plants on the processing of the DVD mailing envelopes. will send us copies of the report. Operational Requirements will also support the development of a machinable envelope. US-151

US 131

(5) Other Members.
recommended that we invite to the next meeting. We plan to invite a member of group from Product Development.

Thanks to everyone for your ideas and support. We hope to see you next week with more ideas and solutions!

US-152

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7/1/04

US-157 US-131 US025

Netflix Dam

[redacted], [redacted], [redacted], [redacted], [redacted], [redacted]

US100 US-160 US215

US-159

RE: [redacted] Envelope [redacted] telecon

1.2 → 1.1 ≥ 1.2
1.3 → 1.24

trade-offs between two envelopes

1.3 - ran better (engineering); 1.2 strategically (law)
Netflix - testing both pieces

[redacted] US-215

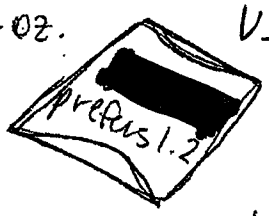
1.3 1.2 - very similar
- sounder mail piece; fewer problems
- preferred piece
- machinability reasons use 1.3
- better performance

DOA → fold over problem → less likely to have problem
no foldovers in 1.2
AFCS - return - fold over (disk not on leading edge)
- Did not happen! 250 - too same sample size
- would feel better w/ a 10,000 piece sample

[redacted] Going to try with 10,000 pieces - have to coordinate w/ Netflix

US-100

[redacted] 1.2 - would be much preferred.
under 1 oz. on return; not waving 2nd oz.
strategically better
[redacted] issue (internally)
1.3 is over on return (1 oz.)
want to check w/ engineering to make sure 1.2 is okay



US-183

- Netflix getting back to us in a couple weeks w/ their decision (then asking for 10,000)
- put engineering in return address so can run in mail stream
- 10,000 piece test → test in a single night.
  - end of July (need to tell processing)
  - just return on AFCS
- On ~~outbound~~ outbound - both are fine; but need to test inbound.
- Contact Kansas City person and see how it is running.

+ Setting up classification - based on envelope.
  How many pieces for functionally equivalent test?
Eng) minimum 1,000 - preferably 10,000

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4/26/04

Want a process & how to interact w/ Operations

[redacted]

- Netflix (fulfillment piece - not a mkting piece) ?
- [redacted] - open ECR mail → fit into flats strategy ?

4/27/04 US-216 US-100 US-025 US-110

[redacted], [redacted], [redacted], [redacted]

Netflix

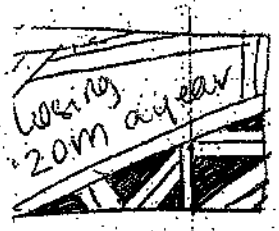
US-100 [redacted] - postal engineers & Netflix = design an envelope that would work.
- don't want NFLX to have intellectual property rights

US-110 [redacted] - risk a day loss w/c non-auto return mailer

US-025 [redacted] - Engineers working w/ Blockbuster entire time
- Standard practice to work w/ envelope makers to come up w/ an auto letter.

(Status) - by end of this wk - should have info on how NFLX envelopes work. Test completed by Friday.
- Have all samples (1.1 - 1.3)
- Highest weight 1.3 - return - weighs 1.1; not case for other two.

US-216 [redacted] - Equal rights - could license rights to other companies.
- We have not licensed an envelope before (to her knowledge)



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with a company that has proprietary rights.

US-100 [redacted] - don't want to be in DMM.

- [redacted]

- [redacted]

US-110 [redacted] - reason to have NDA; ? not niche

US-216 [redacted] - primarily analysis on NFLX having a patent

- analysis shows if patent is not likely - then no problem

- if it is easy to change design and get a patent - then no problem

- utility patents - hard to get - must be inventive

- Design patent - ornamental features (external form), not functions

US-157 [redacted] - not goal - property rights -

goal - open rights to envelopes

US-216 [redacted] - goal - eliminate monetary cost

[redacted] - want engineers to work w/ NFLX, as they do w/ other mailers

US-216 [redacted] - have our engineers be "inventors" on envelope

US-157 [redacted] - co-inventors - share rights in some way

? have ability to share w/ NFLX competitors

US-157 [redacted] - under NDA

US-216 [redacted] - have to look at NDA

US-110 [redacted] - open to interpretation; need to look at it

US-216 [redacted] - make an offer to buy or share rights

[redacted] - meeting w/ NFLX counsel.

US-157 US-100

6/23/04 Dam US-157 US.025 US-100 PUBLIC

Netflix: [redacted], [redacted], [redacted]

(1.) Engineering - preferences [redacted] 1.3

Is 1.2 auto ~~capable~~ compatible? yes

: 1.1 is not defined as auto ~~cap~~ compatible.

1.3 - extra ounce on outbound and return

- keep as close as you can to 1oz. If can have return piece under 1oz. - better for filing.

└ Eng. says it will work better!

└ need to explain to Eng. why we choose other than 1.3

Decision - to be as low as possible

└ why is eng. going w/ 1.3?

Implied assumption - 1.2 oz. → under 1 oz. on return trip. [redacted] went to post office and weighed it. US-100

not implied

US100 US.025

* [redacted] wants to talk w/ Eng. - [redacted] wants to be involved.

(Eng kick out is not an issue) Significant amount of opposition internally -

told Netflix → getting approval on envelope over 1.02 will not be a problem - this is not the case.

* If auto compatible - get information

→ Should talk w/ [redacted] about additional

US183

GFL0001117

- Have eng. and managers. Need to feel comfortable with these for litigation.

US160

- [redacted], contractor, and [redacted] (telecon)

- Goal of telecon: explaining to them legal issues and talk about weight.

→ 1.2 is auto compatible (defined as) but 1.3 is better.

* 1.2 is okay - 1.3 is premium charge

(2.) [redacted]

- [redacted]

- [redacted]

[redacted]

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US-025 5/18/04 [redacted], US-100 [redacted], US-157 [redacted], US-110 [redacted], Netflix pre-meeting [redacted], [redacted], law Intern US-114

US-026

Engineering
Foldover - stiff envelopes fixes problem
breakage - not advising
no blowups
Better thermal label
no tumble, roll effect of envelope
FIM issues (relocated)

NFLX (envelope)
- C2 is better because it is under 1 oz. inbound.
- Also more valuable to Netflix (C-3) b/c it lowers breakage rate. →

SURCHARGE ISSUES → 2006 rate case
• return pieces come back manually

Patents: engineering pieces don't work
NFLX already has a patent; useless b/c have to pay additional ounce charge.
• have to realize → functionally equivalent must be available [redacted]

• Functionally equivalent → "piece must be approved by the Postal Service for automation capability, both

- Issues ↓
  Eng. results
- Operational Issues for Netflix (testing of their own)
  - breakage rate change
  - difference between 2 & 3oz.
- If testing has occurred → ready to negotiate.
  - if hasn't → one more step before negotiations.

Envelope Issues

C-3 → waving 1 ounce on in & outbound.
Don't want to go in w/ C-2
Premium over current rate

[redacted]

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VS-110 VS-025 PUBLIC VS-157

5/18/04 VS026 VS-100 VS-114

USPS- [redacted]

NFLX- [redacted]

NF-016 NF-013 NF-021

1.) Review of Eng.

- C-1 - not working; C-2/3 → working
  - various trade offs between 2.
  - too infrequent → so worked
- 2 other issues
  - Thermal Address labels - burned; blurred address labels → move towards something more heat resistant.
  - FIM mark on return piece - located outside of specs. - need to be 2", now at 2.5"
- Questions?
  - on leading edge. Same ones as testing in Kansas City.
  - 1.3 = 1.24 ozs. 1.2 = 1.1 - something

2.) Operational tests

- NETFLIX needs to conduct tests (laboratory vs. real world) - can get out of paying extra charge? (test exception?)
- Run enough mailers through normal stream w/ customers & measure regular strap rate.
  - can't guarantee where it would go.
  - would be mixed in (properly could not tell)
  - Out of San Jose

VS-157 [redacted] → don't think we can bypass charge.

NF-013 [redacted] → test in a broad way.

3.) Next Steps

- NFLX moving forward on their tests
  (1 month time frame)
- Once have more details → will contact us

4.) Discount

NF013 [redacted] - One penny discount?

US-110 [redacted] - have to get results first
started out that way w/ original mailer;
thinking might have changed.

[redacted] - might not be worth it for NFLX to move forward. Discount worth testing?

- damage rate?

US-110 [redacted] - should wait → breakage rate

5.) Reconvene after testing results

6.) Patents

Dave - info on patents and what would be best to NFLX.

- ~~[illegible]~~
- derivative work to existing patent
- continuation of original patent; but has not put in yet.

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9/29/03 US-025 US-002 US-152 US-100

[redacted], [redacted] (telecon)

QBRM → not doing

Return Pieces are not QBRM → only using to pre-pay

Paying 37¢ at every facility except one.

[redacted]

[redacted] - RCSC-NY - test program

33¢ out → avg. pre-sort rate

└ if sort properly

└ need equipment to sort (only in San José)

└ don't give pre-sorted, unless they ~~wanted~~

Automation

- Return services must be automation compatable (envelopes)

Charge — ops & finance

- non-machineable surcharge

regulations: how currently written - don't have to pay

told to fix

US213

[redacted]

ops.

sales

[redacted]

[redacted]

[redacted]

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Engineering - a new prototype made

- Field Ops is complaining - not HQ ops.

*Patenting envelope (hopefully)

ACFC gains

- Prepaid Reply mail
  - take it off experiment

- QBRM
  - pass through (250%) - too big
  - meet stds - no problem, but do not loosen regulations for them

- [redacted] Group VS-160
  - tasked by Sales to design envelopes, weight under 1oz.
    ? go through automation.

- June 30th rates of 2002 - why $.55

[redacted]

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[redacted] Stakeholders' Meeting
7/10/2003 [redacted]

1. [redacted]
2. Progress Report
3. [redacted] White Paper
4. [redacted]
5. [redacted]
6. [redacted]

[redacted]

Communications Meeting

- Public Outreach
- External Communication
  - not necessary
- [redacted] to calc [redacted]

US 110

US-152

From Stakeholder Meeting

Net Flix [redacted] US-152

2 issues
1.) Pieces are not machineable
- Returns
weigh under 1 oz.
not being charge surcharge

[redacted]

- new envelope design

2.) not using BRM properly.
Pre-paid Reply mail
maybe do a test
- [redacted] email to Mike P. to discuss Monday
- paying upfront to cover return.
- miss Acctingfee; no per/piec fee get float

not pre-printing labels for BRM - so not being able to be read.

- Hidden costs to serve these clients
  - technical compliance but handling is not subclass represented.

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UNITED STATES POSTAL SERVICE®

LSS Project Re-Measure

Return DVD Handling & Damage Reduction

Greenbelt

02-24-2009

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GFL0001334

UNITED STATES POSTAL SERVICE®

Project Charter

PROBLEM STATEMENT:	Automated USPS handling procedures cause a perceived amount of damage to mailers' DVD products causing a large return volume to be processed manually at the mailers' request. Manual processing of DVDs imposes undue expenses on the USPS.
PROJECT GOAL:	Reduce USPS expenses on manual DVD return processing. Determine if alternate handling methods exist which can be used to control mailer damage/scrap rates.
PROJECT SCOPE:	Focus on one P&DC. Redesign the return DVD handling process and procedures to include automation. The scope will drill down to one P&DC and its supporting Associate Offices and City Stations.

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UNITED STATES POSTAL SERVICE®

Project Charter

BUSINESS CASE	Processing mail in the correct mail stream in which customers paid for ensures that the USPS protects its revenue. Alternate means may exist in handling methods that do not cause an unfair cost to either the USPS or its DVD mailing customer.
EXPECTED BUSINESS RESULTS	Reduced LDC17 work hours. Improved customer relations and DVD return service.
EXPECTED CUSTOMER RESULTS	Improved customer relations and DVD return service.

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UNITED STATES POSTAL SERVICE®

Project Charter

TEAM MEMBERS:	US-188 US-189 [redacted] HQ PO [redacted] HQ Engineering [redacted] P&DC US-190; US-191; US-192 US-193
TARGET END DATE:	March 2009

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GFL0001337

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From Define Tollgate: Next Steps

- ❑ Identify costs incurred by Netflix recommendations
  - Materials
  - Labor
- ❑ Get DVD Handling Survey approved and distributed
- ❑ Meet with Netflix and explain the revised objective – present cost data and test damage data
- ❑ Identify & contact a Site that currently handles DVD mailings in automation

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From Define Tollgate: Next Steps at Site: Rochester P&DC

- ❑ Contact In-Plant Support
- ❑ Interview via phone, tour 3 MDO(s) and/or SDO(s), and/or AOS
- ❑ Obtain a process flow map or VSM
- ❑ Implement any suggested changes as a controlled experiment

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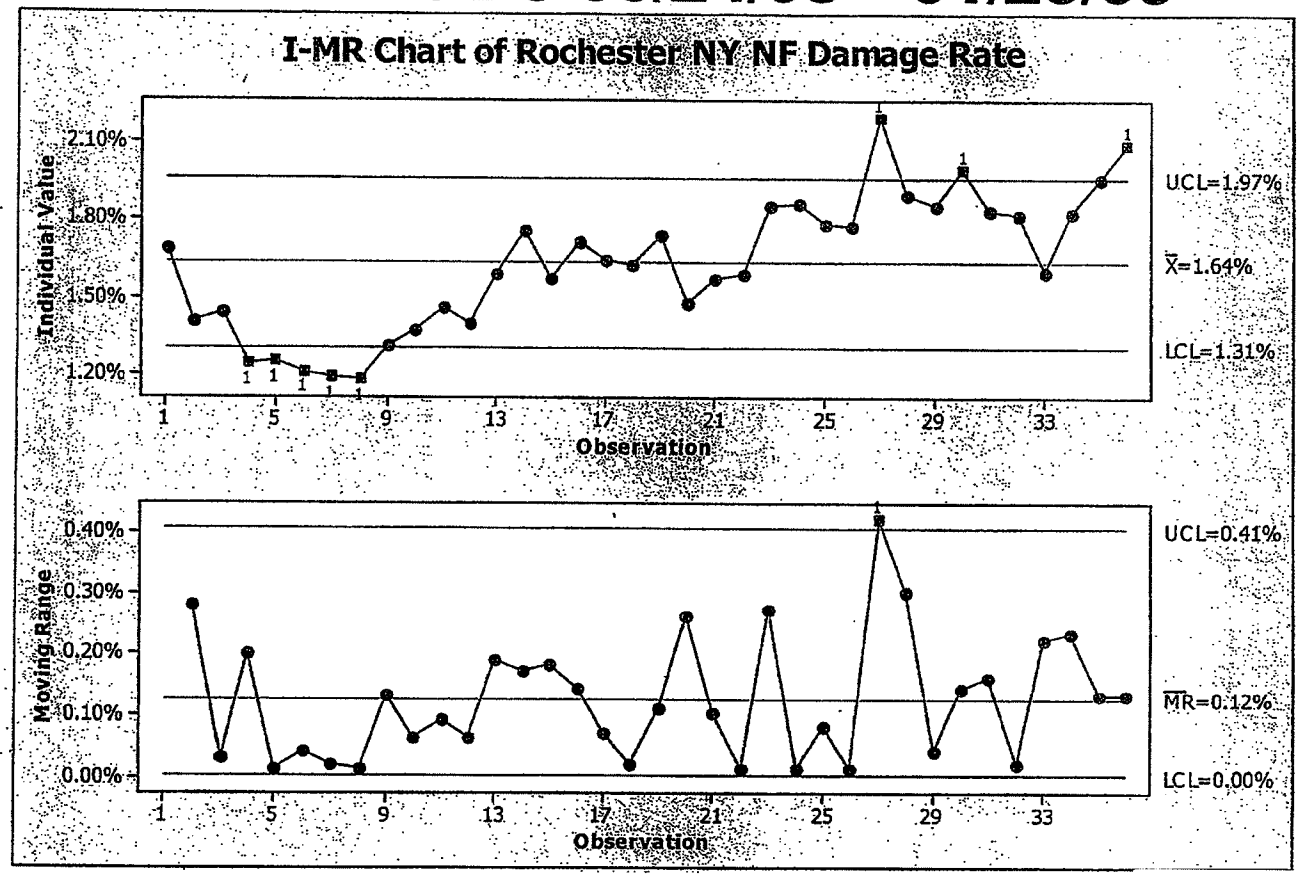
Control Charts for DVD Damage: Rochester P&DC 05/24/08 – 01/25/09



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GFL0001340

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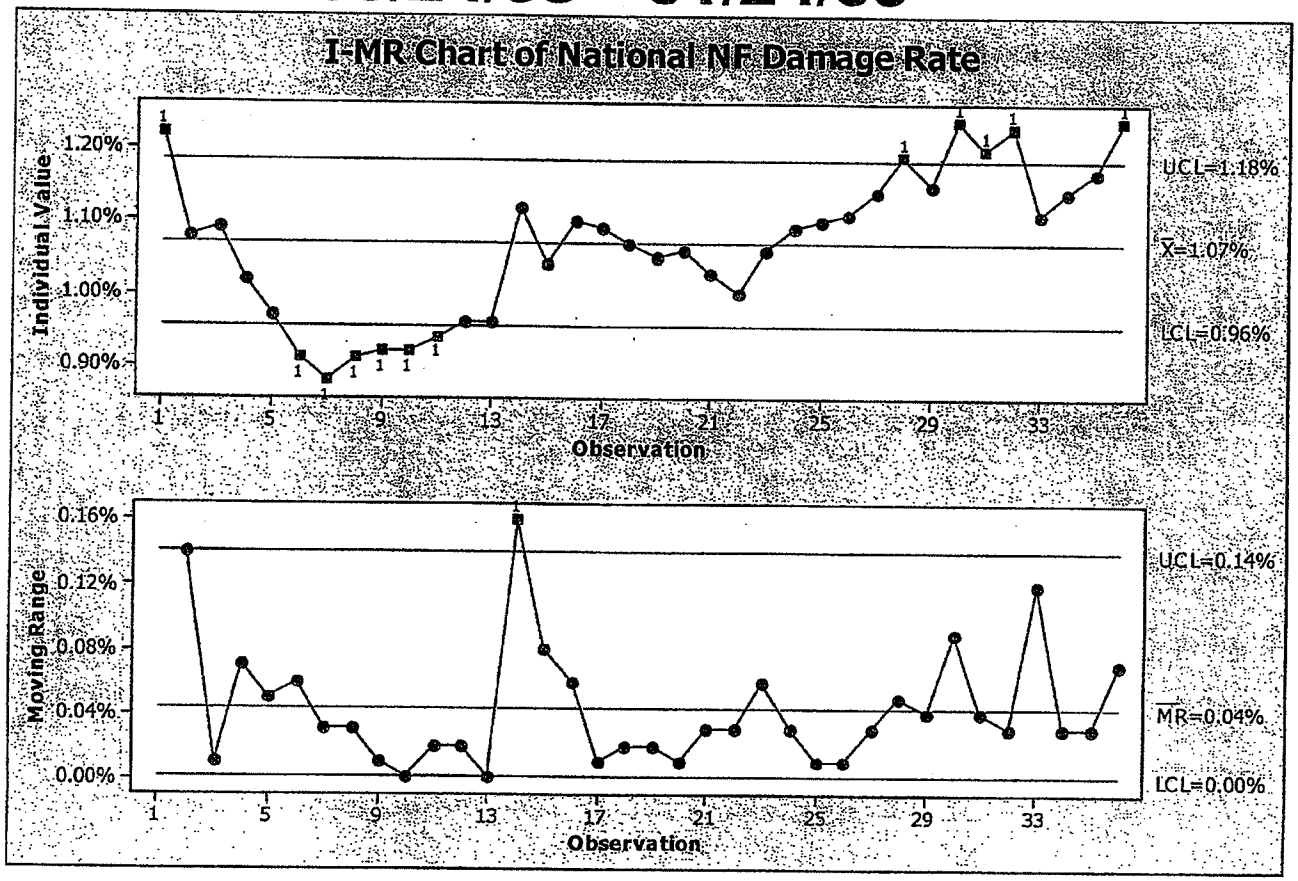
Control Charts for DVD Damage: National 05/24/08 – 01/24/09



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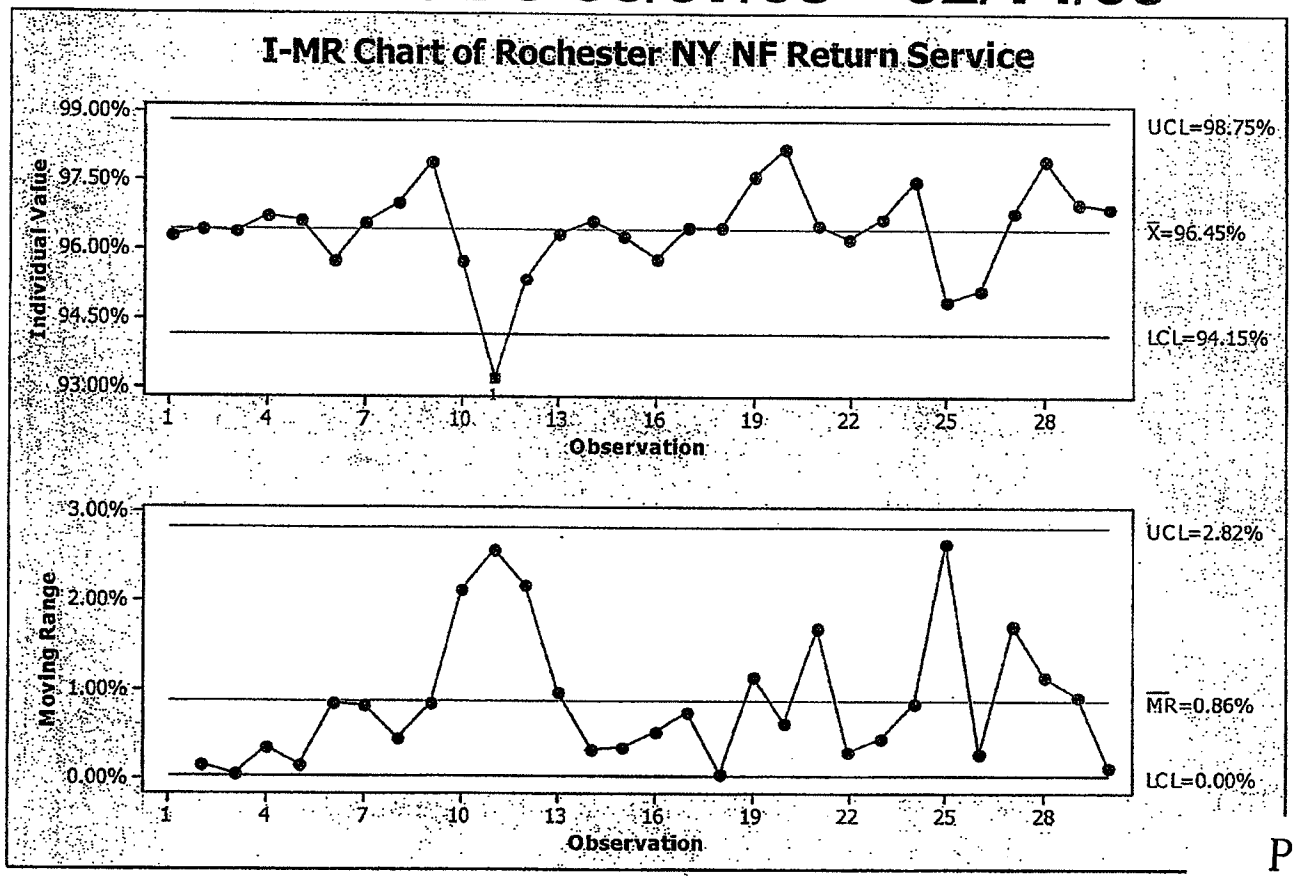
Control Charts for DVD Return Service: Rochester P&DC 06/07/08 – 02/14/09



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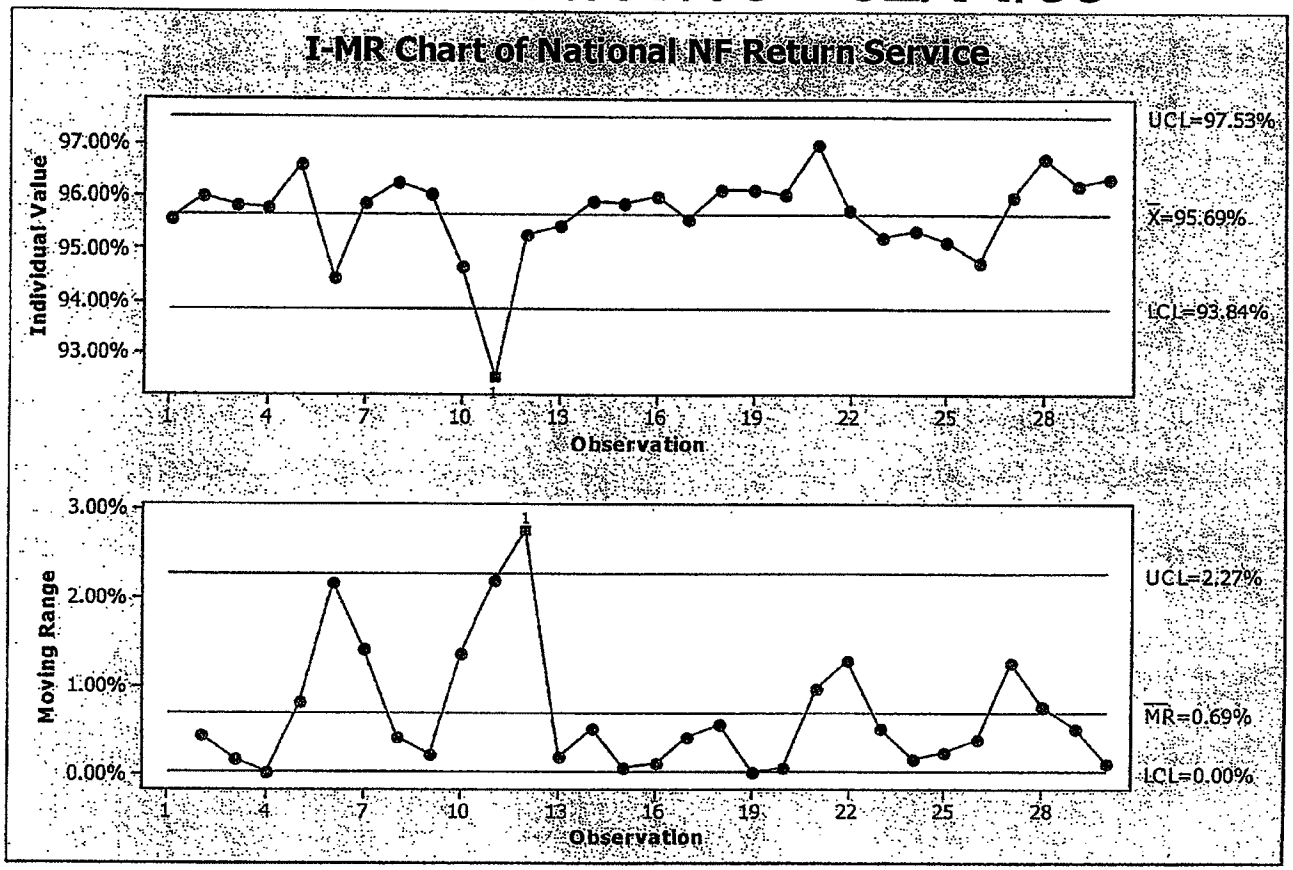
GFL0001342

UNITED STATES POSTAL SERVICE®

Control Charts for DVD Return Service: National P&DC 06/07/08 – 02/14/09



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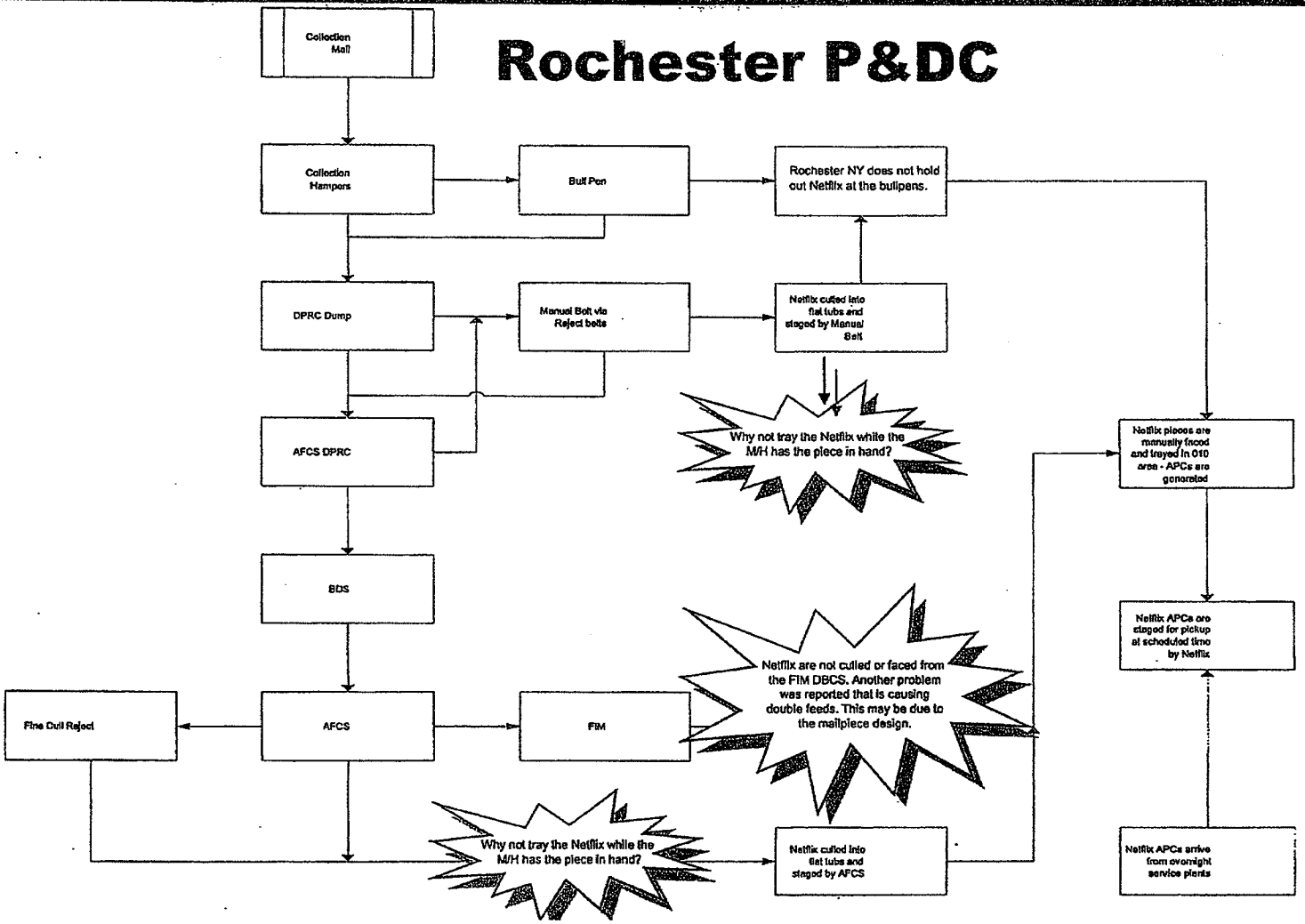
Measure – Current State Process Map

Rochester P&DC



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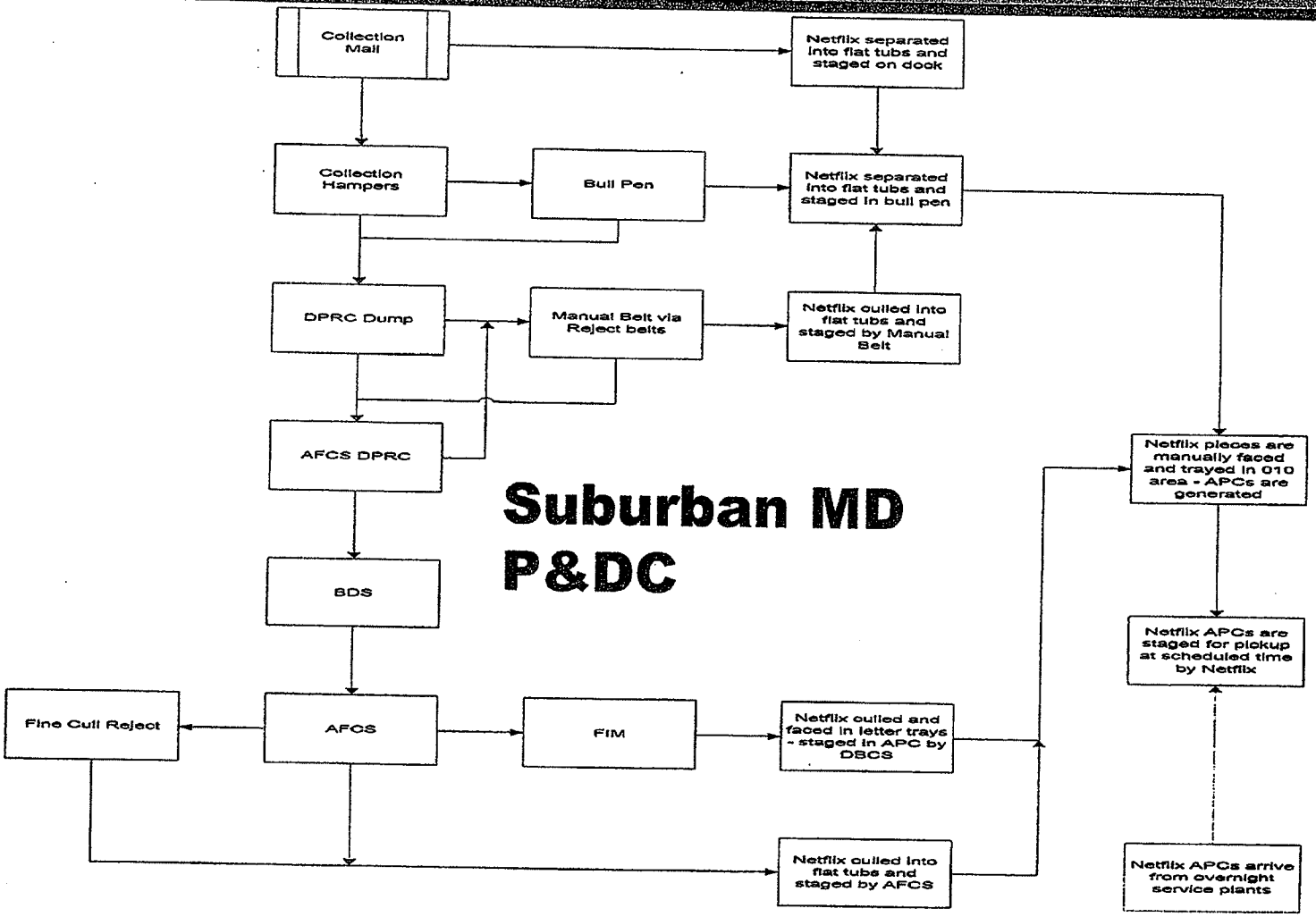
Current State Measure – Process Map



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From Define Tollgate: Next Steps

- ❑ Identify costs incurred by Netflix recommendations
  - Materials
  - Labor
- ❑ Identify & contact a 1 - 5 Sites for DVD facing Survey
  - Carrier Unit
  - 1 - 3 Sites that cull all DVDs
  - 1 Site that does not cull DVDs (Rochester NY)
- ❑ Contact In-Plant Support / AOS
- ❑ Get DVD Handling Survey approved and distributed

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From Define Tollgate: Next Steps at Site: Rochester P&DC

- ❑ Meet with Netflix and explain the revised objective – present cost data and test damage data
- ❑ Implement any suggested changes as a controlled experiment for damage reduction at Rochester
- ❑ Put the DVDs back into automation

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Timeline:

Phase	Original Scheduled Date	Phase Completed	New Scheduled Date	New Phase Completed	Current Timeline		
					DEC	JAN	FEB
Charter Rev		6/12/2008	10/24/2008	10/24/2008			
Define	3/1/2008	3/1/2008	11/14/2008	11/14/2008			
Measure	6/12/2008	6/12/2008	12/30/2008		Tollgate 12/30		
Analyze	9/28/2008	10/24/2008	1/13/2009			Tollgate 1/13	
Improve			1/27/2009			Tollgate 1/27	
Control			2/24/2009				Tollgate 2/24

Phase	Original Scheduled Date	Phase Completed	New Scheduled Date	New Phase Completed	Current Timeline		
					Feb	March	April
Charter Rev		6/12/2008	10/24/2008	10/24/2008			
Define	3/1/2008	3/1/2008	11/14/2008	11/14/2008			
Measure	6/12/2008	6/12/2008	12/30/2008		Tollgate 2/24	Tollgate 3/17	
Analyze	9/28/2008	10/24/2008	1/13/2009			Tollgate 3/17	
Improve			1/27/2009				Tollgate 3/31
Control			2/24/2009				

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LSS Project Background Information

Return DVD Damage Reduction

7/16/2009

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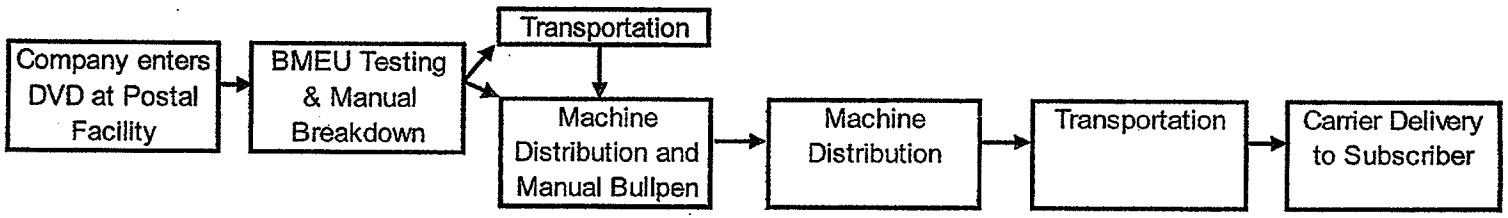
SIPOC

Outbound DVD – (not the focus)

SUPPLIERS	INPUTS	PROCESS	OUTPUTS	CUSTOMERS
Netflix Blockbuster GameFly Other DVD companies	2-way DVD Mailpiece		DPS DVD Mailpiece	DVD Service Subscriber



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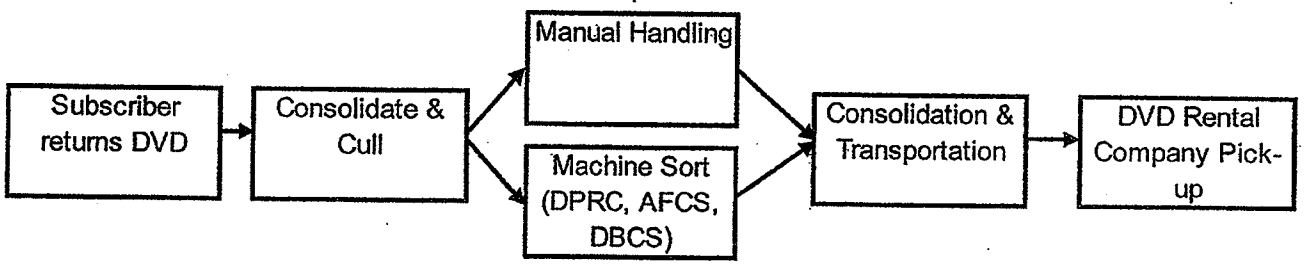
SIPOC

Return DVD – (the scope)

SUPPLIERS	INPUTS	PROCESS	OUTPUTS	CUSTOMERS
DVD Subscribers	1-way DVD Mailpiece		Manually Faced Tub/Tray of DVDs	DVD Rental Companies



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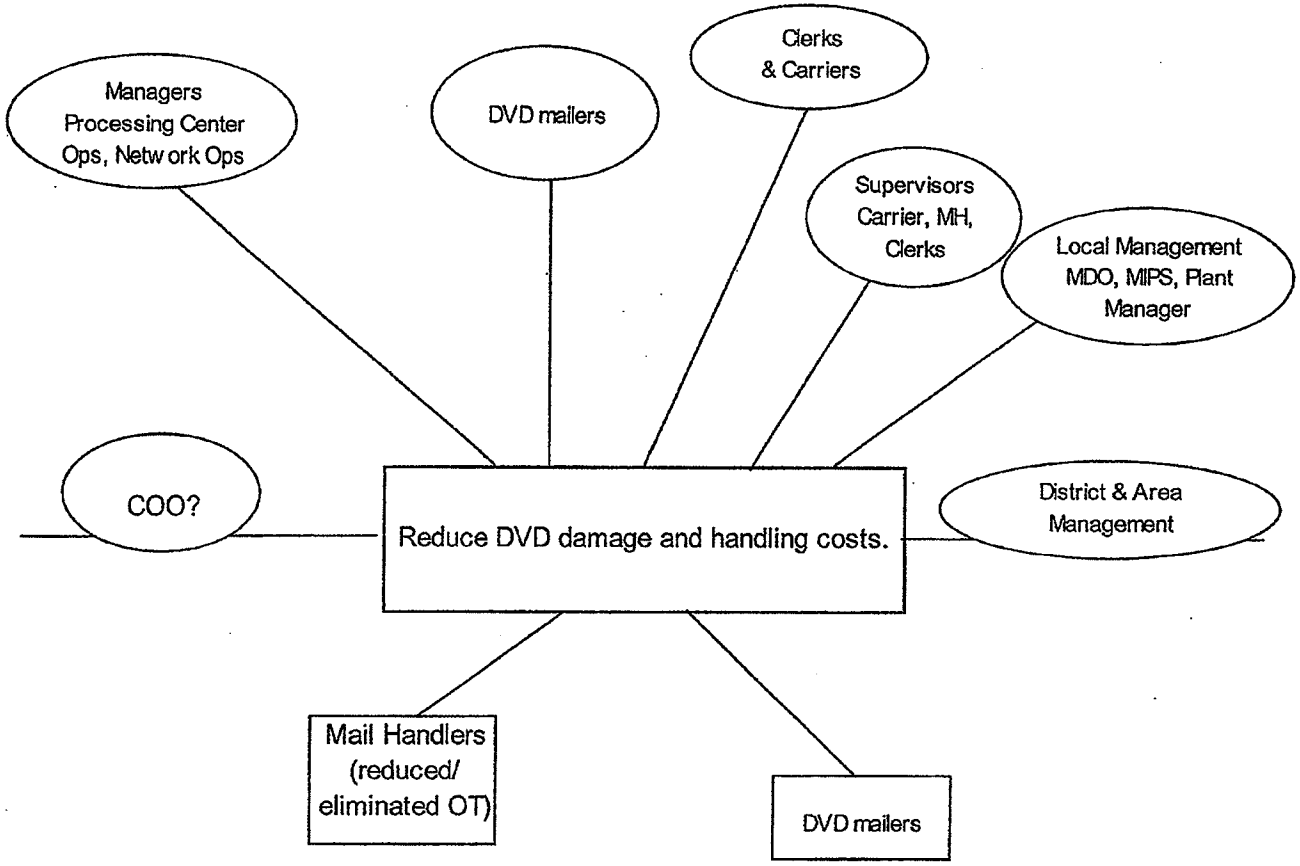
Stakeholder Analysis



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Initial Meeting – 10-30-2007
Focus On Philadelphia P&DC

VOC/VOB	CTQ	Defect Definition	Measure
Our product sustains too much damage.	The mail must be in correct walk sequence for the carrier.	Damaged (unplayable) mail piece (DVD).	Damage Rate % > 1.32%
Customer service may be adversely impacted.	Continue to meet current rate of customer service.	Return DVD is late to DVD mailer.	Service score% > 94.91%
USPS may be increased.	Reduce current work hours in LDC 17 "Collection Mail Prep w/o AFCS" & "AFCS Only."	Increase in current WH usage.	929 & 422 hrs per week (8 week average)

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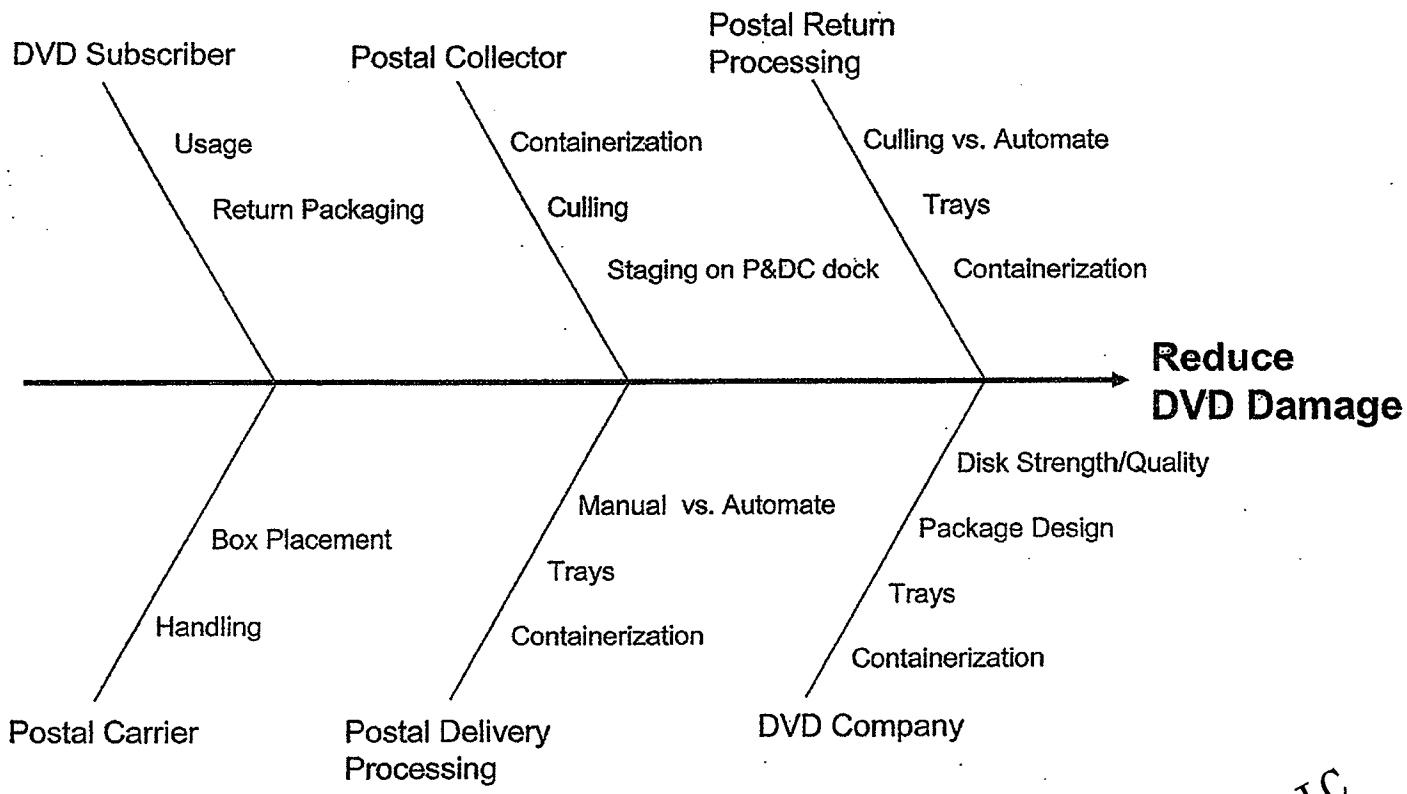
Fishbone Diagram



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Measure – Current State Process Map

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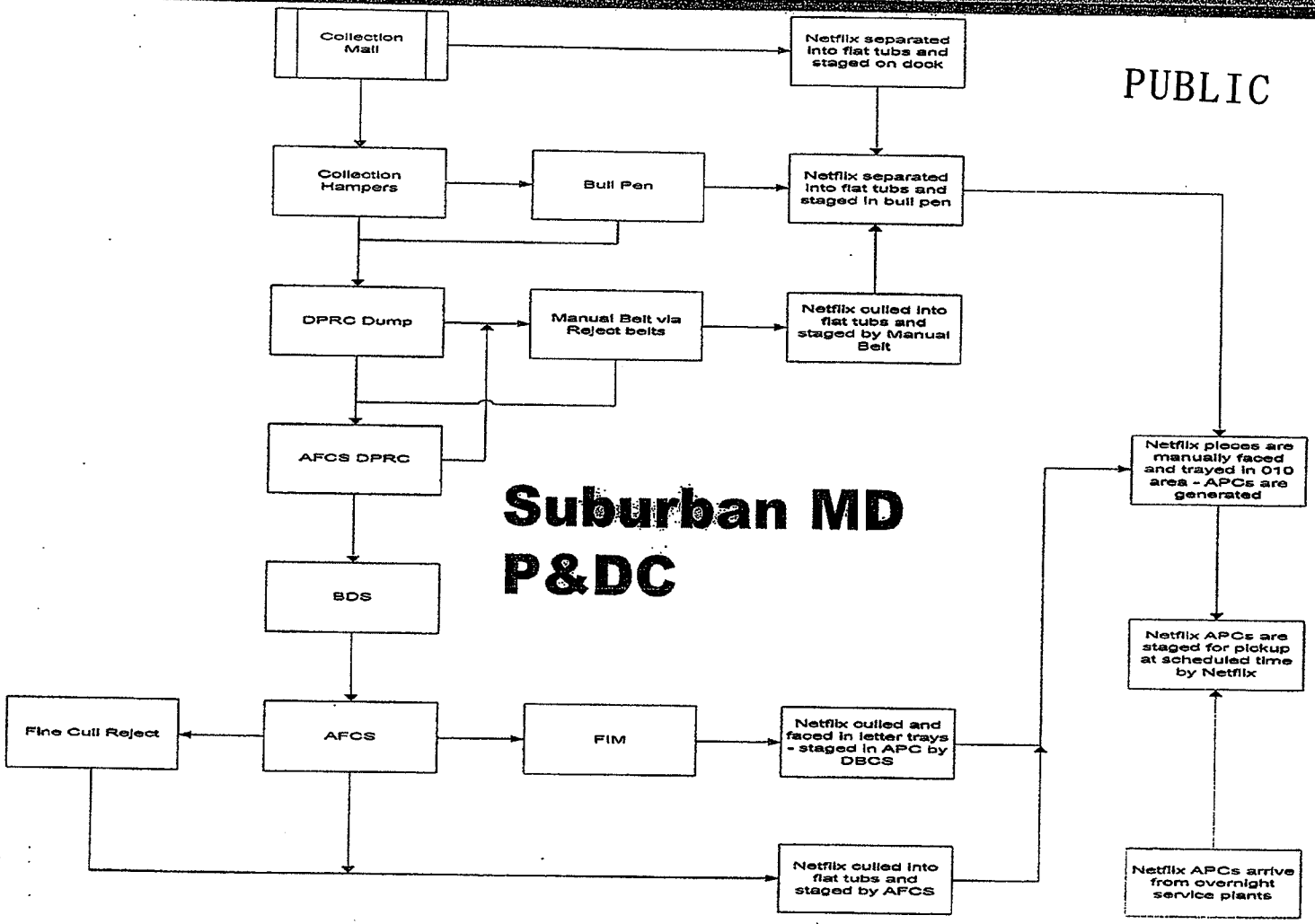

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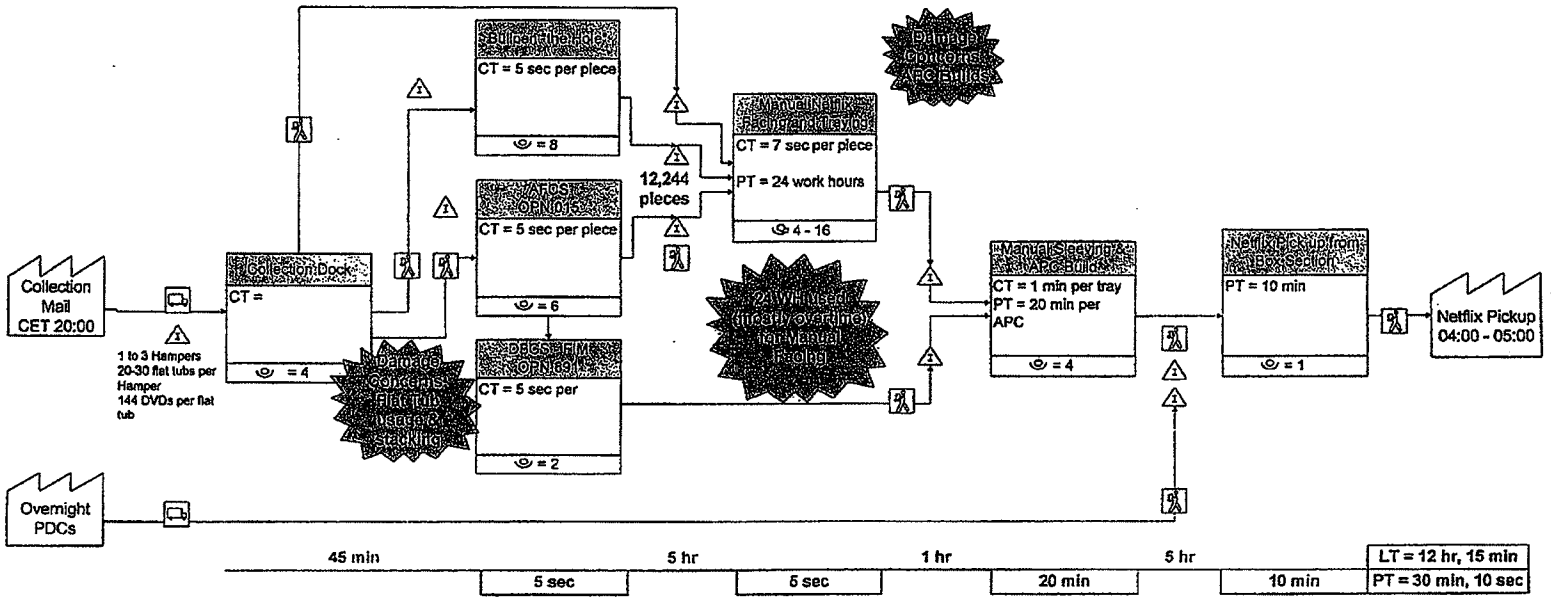
Measure – Current State VSM

Suburban Maryland P&DC



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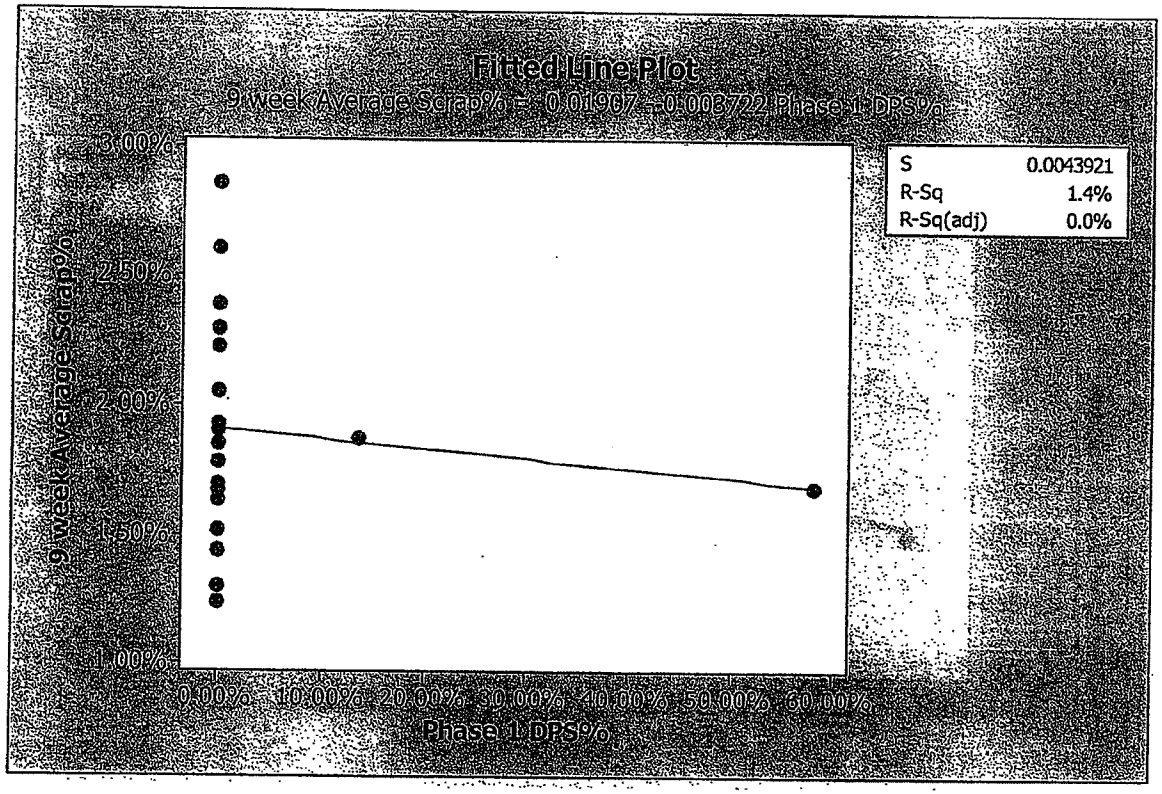
Phase 1 DPS% - Bottom 20 Sites



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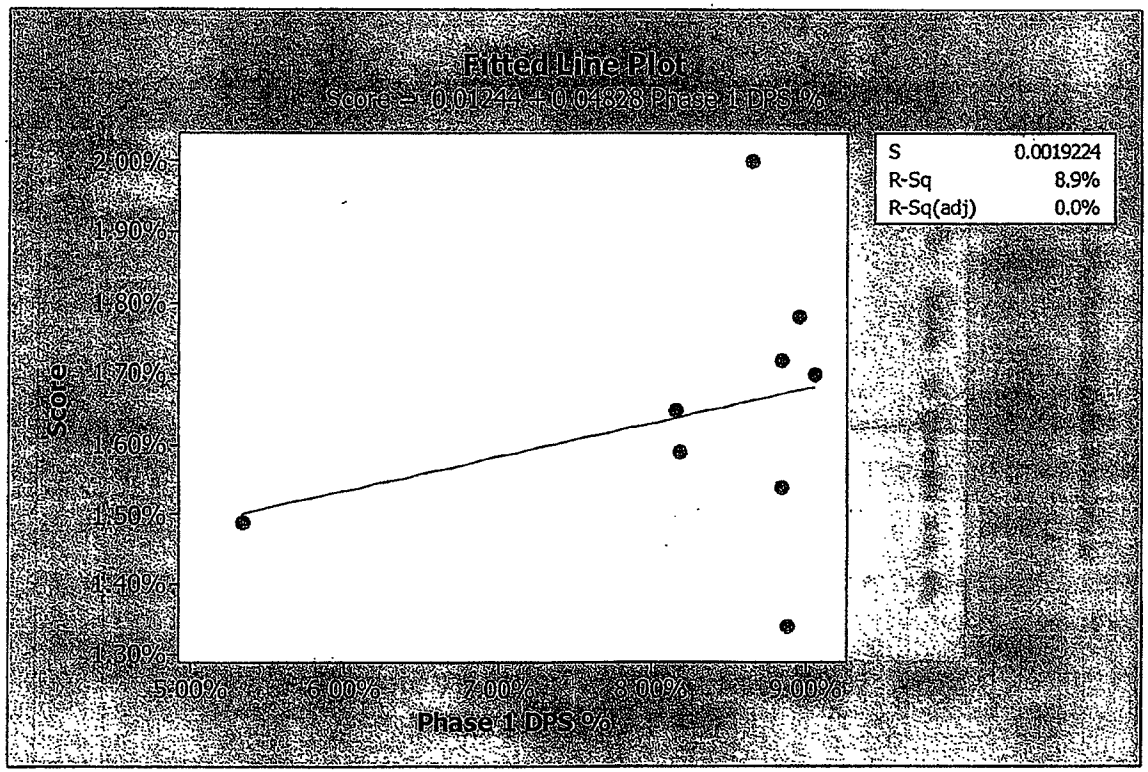
Analyze – Phase 1 DPS% - Philadelphia P&DC



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Analyze – OIG Report

- Estimated 70% of return DVD volume is processed manually (due to damage, jams and missorts)
- Estimated labor cost of $41.9M previous two years (2006 & 2007)
- Estimated labor cost of $61.5M over the next two years (2008 & 2009)

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Christensen Associates
Analyze – Data (November 2006)

- 77% of Netflix Return Volume is handled manually
- Estimated cost difference of $0.19 per piece in outbound automation vs. manual sortation on return

Table 3

Estimate of Returning Volumes (000s) by Processing Method

Processing Method	Netflix	(%)	Blockbuster	(%)	Gamefly	(%)
DBCS/BCS/CSBCS	[redacted]					
MLOCR						
AFSM 100						
UFSM 1000						
Manual						
Other						
Total						

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UNITED STATES POSTAL SERVICE

June 11, 2002

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[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 facer canceller 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. [redacted]

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

US-008

Sincerely,

[redacted]

R [redacted]
Letter Mail Technology

US-160

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Analyze – Netflix Data

What we think we know so far

DVDs generally fail from fatigue

Small cracks forms and propagate to catastrophic cracks

Fatigue life is affected by manufacturing processes

Fatigue life does not seem affected by printing processes

Mechanical stresses are caused by processing

The Netflix sorter does not seem to be a contributor

The AFCS does cause damage and certain paths seem worse

The DVD mailer seems a significant factor

Different DVD orientations in the mailer make a significant difference

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Where do starter cracks come from?

Test sample DVDs

1. Field test on AFCS with used DVDs

   DVD breakage and significant starter crack formation

2. Netflix "In-plant" sorter

   500 passes on the in-house sorter

   - 800 New DVDs
   - 2 different production machines
   - 4 different printing methods

   No starter cracks

3. AFCS at USPS with 800 new DVD's and 800 with no prior USPS processing

   15 passes through the facer/canceller portion

   No starter cracks

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Conclusions:

Without starter cracks fatigue may not lead to failure

There must be some other source(s) of starter crack damage

We should look at the DBCS and rough cull sections as well

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Analyze – Netflix Data

Key Ingredients To A Standardized Process

- ❑ Culling By Collectors
- ❑ Culling By AOs & Stations
- ❑ Culling Before/After Dual Pass/Rough Cull
- ❑ Culling By AFCS Operator
- ❑ Exclusive Use of EMM Trays
- ❑ Always Sleeve
- ❑ Exclusive Use of Shelved APCs
- ❑ Bricklaid In APCs

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Conclusions

- ❑ USPS is handling return DVD mailings manually
- ❑ USPS automation equipment does not cause breakage or starter cracks on new DVDs
- ❑ Netflix's suggested methods of handling return DVDs costs the USPS money
  - Verified by OIG
  - Verified by Christensen Associates
- ❑ USPS must evaluate the handling procedure of DVD mailings and explore alternatives

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LSS Project
Analyze

Return Letter Sized DVD Damage Reduction

Greenbelt

7/16/2009

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GFL0001366

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Project Charter

PROBLEM STATEMENT	USPS handling procedures over time cause damage to mailers' letter sized DVD mailing contents. Rochester, NY P&DC currently handles these mailings in a pure Automation mail stream and has one of the worst damage rates in the country over the past 44 weeks at 1.66%.
PROJECT GOAL	Reduce Rochester NY's damage rate to or below the national average of 1.10% and control the handling process.
PROJECT SCOPE	Focus on one P&DC. Redesign the return letter sized DVD handling process and procedures. The scope will drill down to one P&DC and its supporting Associate Offices and City Stations. [redacted]

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Project Charter

BUSINESS CASE	A National DVD mailing company has requested help in improving quality of service provided by the USPS. An improvement in quality of delivered product will be a direct factor in increasing letter sized DVD mail volumes and revenue for the USPS.
EXPECTED BUSINESS RESULTS	(This will vary depending on Central PA's handling procedures) Reduced LDC17 work hours, improve 891 FIM productivity. Improved customer relations. Improvement in customer service equates to growth in letter sized DVD mailing volumes and USPS revenue.
EXPECTED CUSTOMER RESULTS	Improved customer relations and reduced damage to products.

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Project Charter

TEAM MEMBERS	[redacted] – USPS Engineering [redacted] – LMI [redacted] E Rochester) [redacted] (DM), [redacted] Reading PM, [redacted] (York Postmaster), [redacted] (Harrisburg PM), [redacted] (Harrisburg MIP), [redacted] (Harrisburg MDO) [redacted] (ISS Harrisburg), [redacted] (MMO Harrisburg) MDO, SDO, 010 Mail Handlers – Lancaster P&DC
	US-194; US-195; US-196; US-197; US-198 US-199; US-200; US-201; US-202
TARGET END DATE	September 2009

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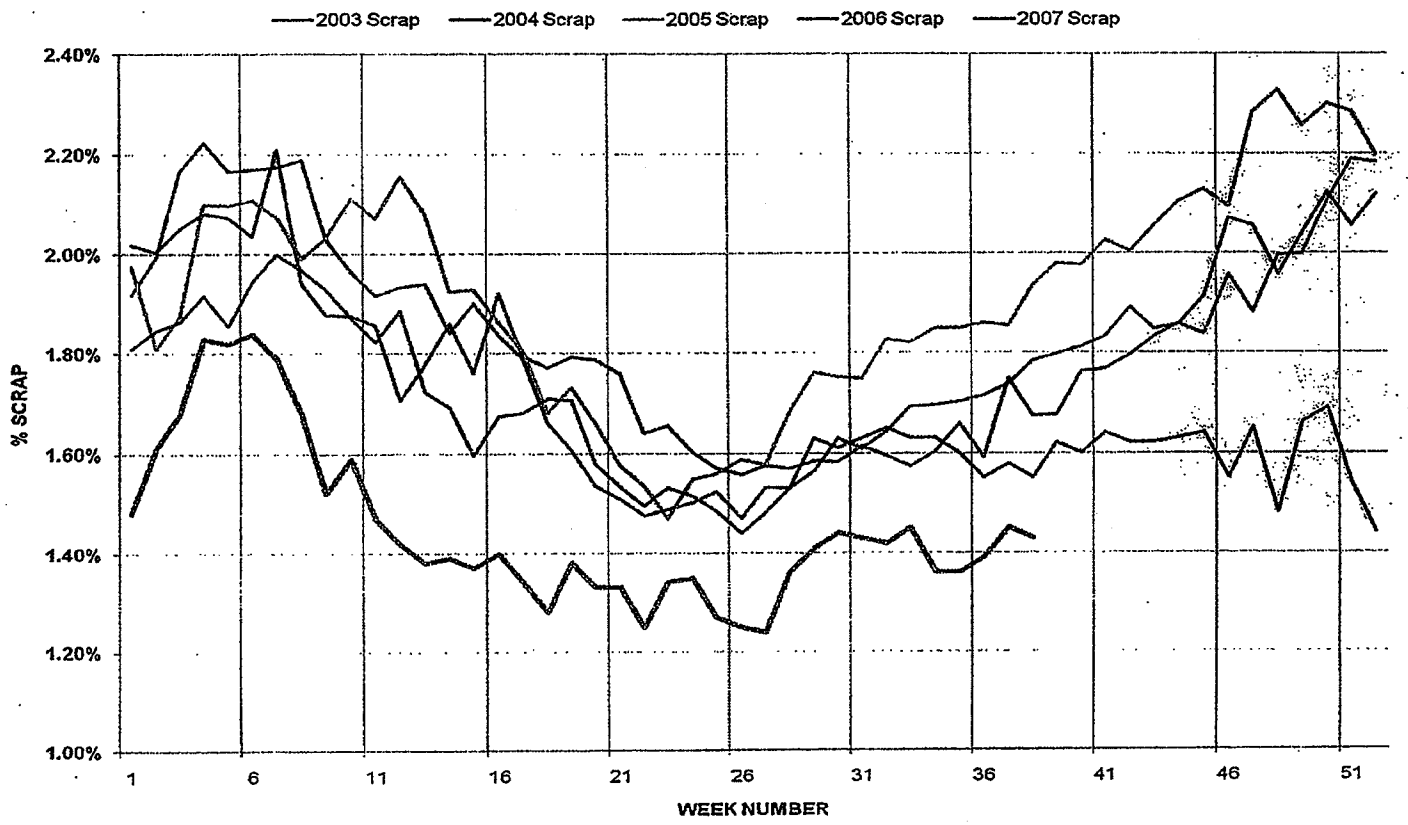
Damage is seasonal and improves yearly

Year Over Year Scrap Rate



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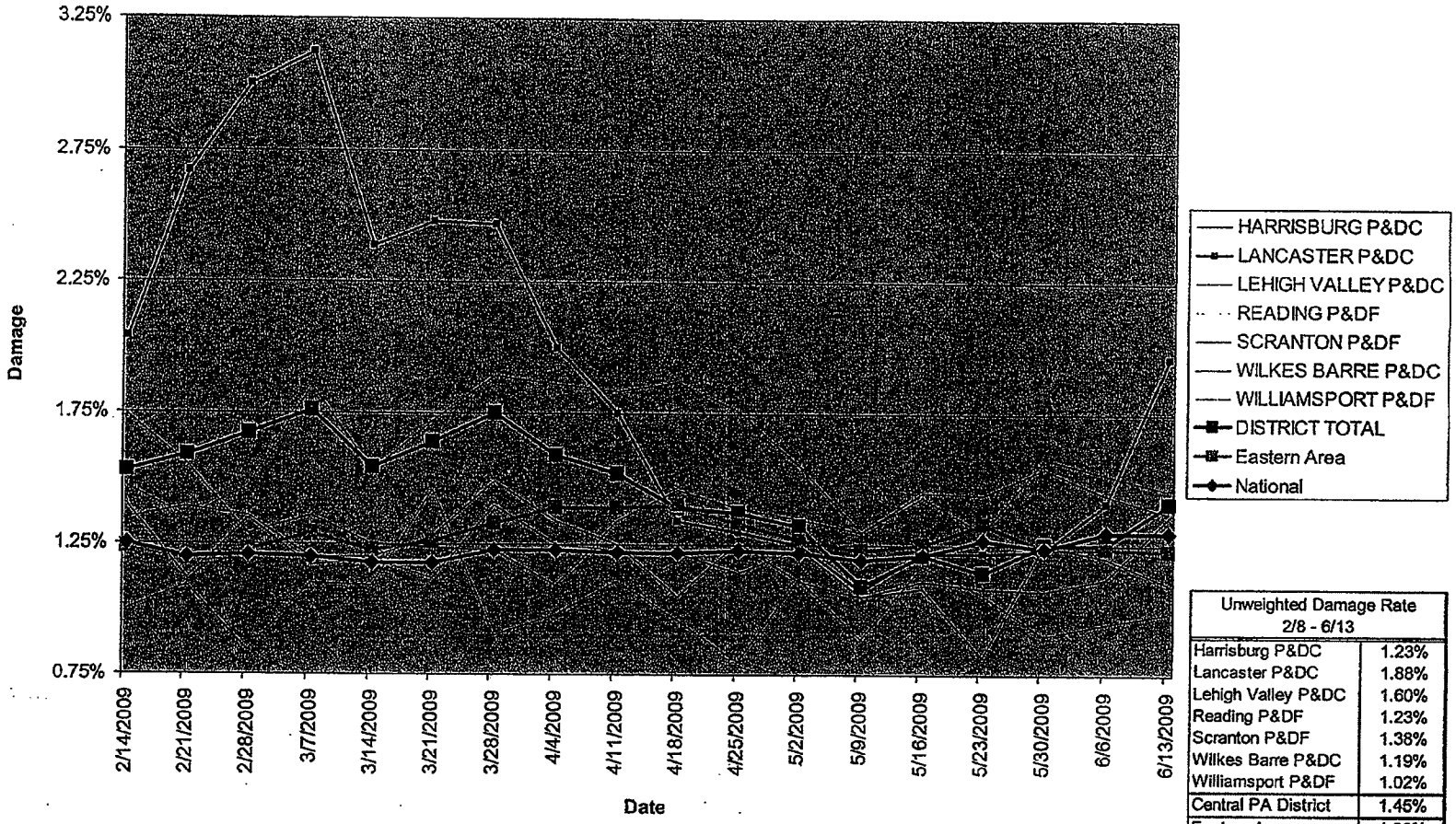
Central PA District DVD Damage Scores



Unweighted Damage Rate 2/8 - 6/13	
Harrisburg P&DC	1.23%
Lancaster P&DC	1.88%
Lehigh Valley P&DC	1.60%
Reading P&DF	1.23%
Scranton P&DF	1.38%
Wilkes Barre P&DC	1.19%
Williamsport P&DF	1.02%
Central PA District	1.45%
Eastern Area	1.28%
National	1.23%

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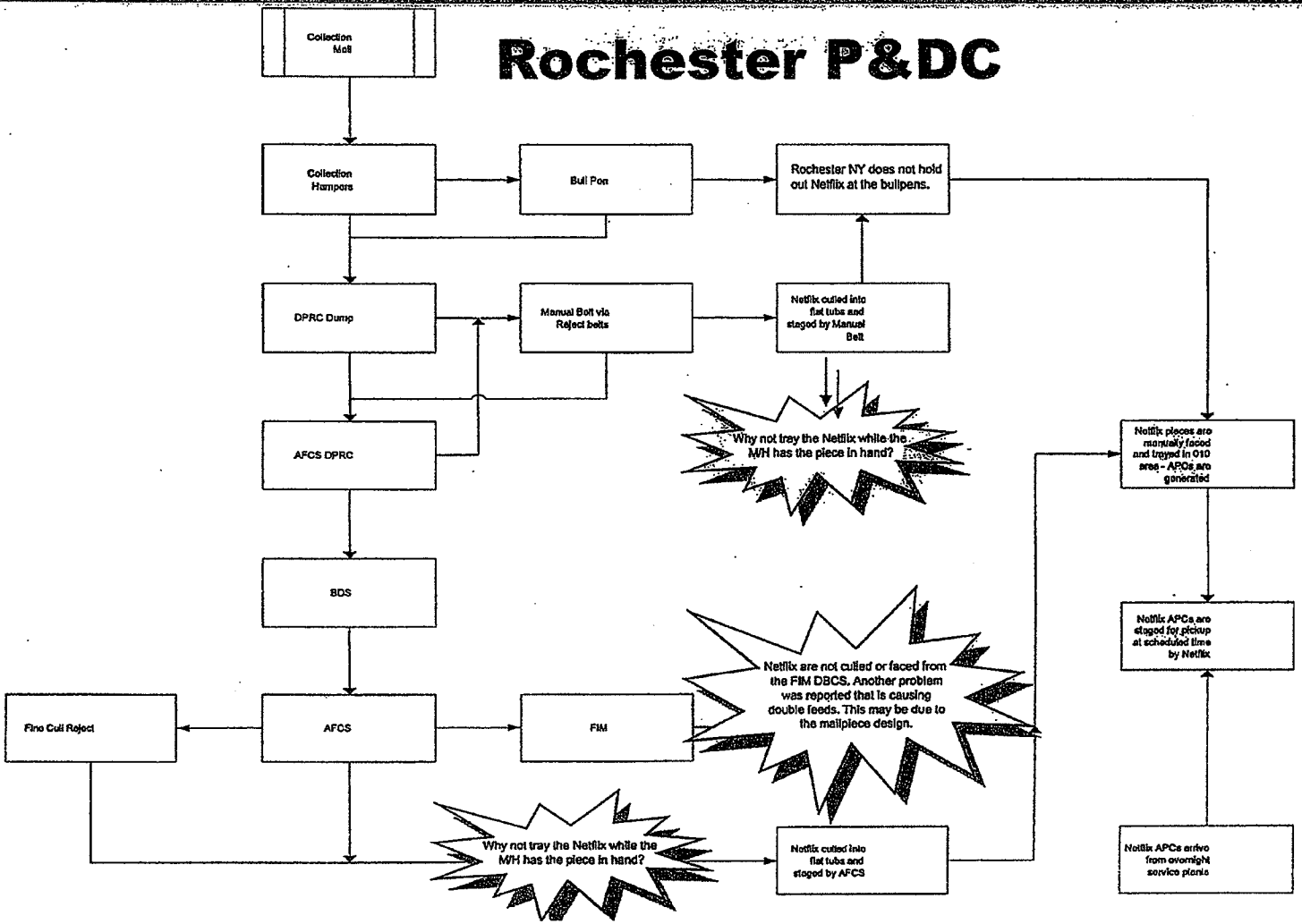
Measure – Current State Process Map

Rochester P&DC



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FMEA Rating Explained:

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Failure Mode Rating Scale	
10	Breakage Occurs
5	Stress on Disk for future weakness
1	No Risk

Occurrence Rating Scale	
10	All Disks Undergo this Process
5	50% of Disks Undergo this Process
1	Very Few Disks undergo this process - Rare occurance

Detection Rating Scale	
10	Defects undetectable
5	Manual Inspection Required
1	Breakage is obvious

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Failure Mode & Effect Analysis Worksheet

Project: Reduce DVD Damage

Suburban MD P&DC

Items or Process Steps	Potential Effect (s) of Failure	Severity	Potential Cause (s)	Occurrence	Current Controls	Detection	RPN
Netflix Facility	Breakage&Stress	5		10		1	50
Netflix tray stacking	Stress	5		10		10	500
Transit to Plant	Stress	5		10		10	500
BMEU Testing	Breakage&Stress	10		1		5	50
Transportation	Stress	5		10		10	500
OG Automation	Breakage&Stress	10		10		5	500
SCF Automation	Breakage&Stress	10		10		5	500
918 Automation	Breakage&Stress	10		10		5	500
919 Automation	Breakage&Stress	10		10		5	500
DFSA/APC Build	Stress	3		3		10	90
Transportation	Stress	5	Directly related to APC Build	3		10	150
Carrier Delivery	Stress	2		10		5	100
Customer Handling	Stress	2		10		10	200
Collection Box	Stress	5		5		10	250
Carrier Collections	Stress	5		5		10	250
Transit back to Plant	Stress	5		10		10	500
Culling at/before 010	Stress	7	[illegible]	5		10	350
DFRC Process	Breakage&Stress	5	[illegible]	5		10	250
AFCS Process	Breakage&Stress	5	[illegible]	1	Culling Process	5	25
FIM/DBCS Process	Breakage&Stress	1		1	Culling Process	5	5
Manual Facing	Stress	1		10		1	10
APC Build	Stress	3		10		10	300
Transportation	Stress	5	Directly related to APC Build	5		10	250
Box Section Staging	Stress	3		10		5	150
Mailer Pick-up	Stress	5		10		5	250
			Total Risk Priority Number =		6,710		

Failure Mode & Effect Analysis Worksheet

Project: Reduce DVD Damage

Rochester NY P&DC

Items or Process Steps	Potential Effect (s) of Failure	Severity	Potential Cause (s)	Occurrence	Current Controls	Detection	RPN
Netflix Facility	Breakage&Stress	5		10		1	50
Netflix tray stacking	Stress	5	APC Build	10		10	500
Transit to Plant	Stress	5	APC Build	10		10	500
BMEU Testing	Breakage&Stress	10		1		5	50
Transportation	Stress	5	APC Build	10		10	500
OG Automation	Breakage&Stress	10		10		5	500
SCF Automation	Breakage&Stress	10		3		5	150
918 Automation	Breakage&Stress	10		10		5	500
919 Automation	Breakage&Stress	10		10		5	500
DFSA/APC Build	Stress	3	APC Build	3		10	90
Transportation	Stress	5	APC Build	3		10	150
Carrier Delivery	Stress	2		10		5	100
Customer Handling	Stress	2		10		10	200
Collection Box	Stress	5		5		10	250
Carrier Collections	Stress	5		5		10	250
Transit back to Plant	Stress	5		10		10	500
Culling at/before 010	Stress	7	[illegible]	5		10	350
DFRC Process	Breakage&Stress	5	[illegible]	5		10	250
AFCS Process	Breakage&Stress	5	[illegible]	1		10	50
FIM/DBCS Process	Breakage&Stress	1	[illegible]	1		5	5
Manual Facing	Stress	1		10		1	10
APC Build	Stress	3	APC Build	10		10	300
Transportation	Stress	5	APC Build	5		10	250
Box Section Staging	Stress	3	APC Build	10		5	150
Mailer Pick-up	Stress	5	APC Build	10		5	250
			Total Risk Priority Number =		7,294		

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Manual Site vs. Automated Site

- Suburban MD P&DC: RPN 6,710
  - Nesting & use of Flat Tubs
  - APC Building Inconsistencies
- Rochester, NY P&DC: RPN 7,294
  - Mostly Automated
- Difference: 584
- Proposed Changes may benefit both types of sites

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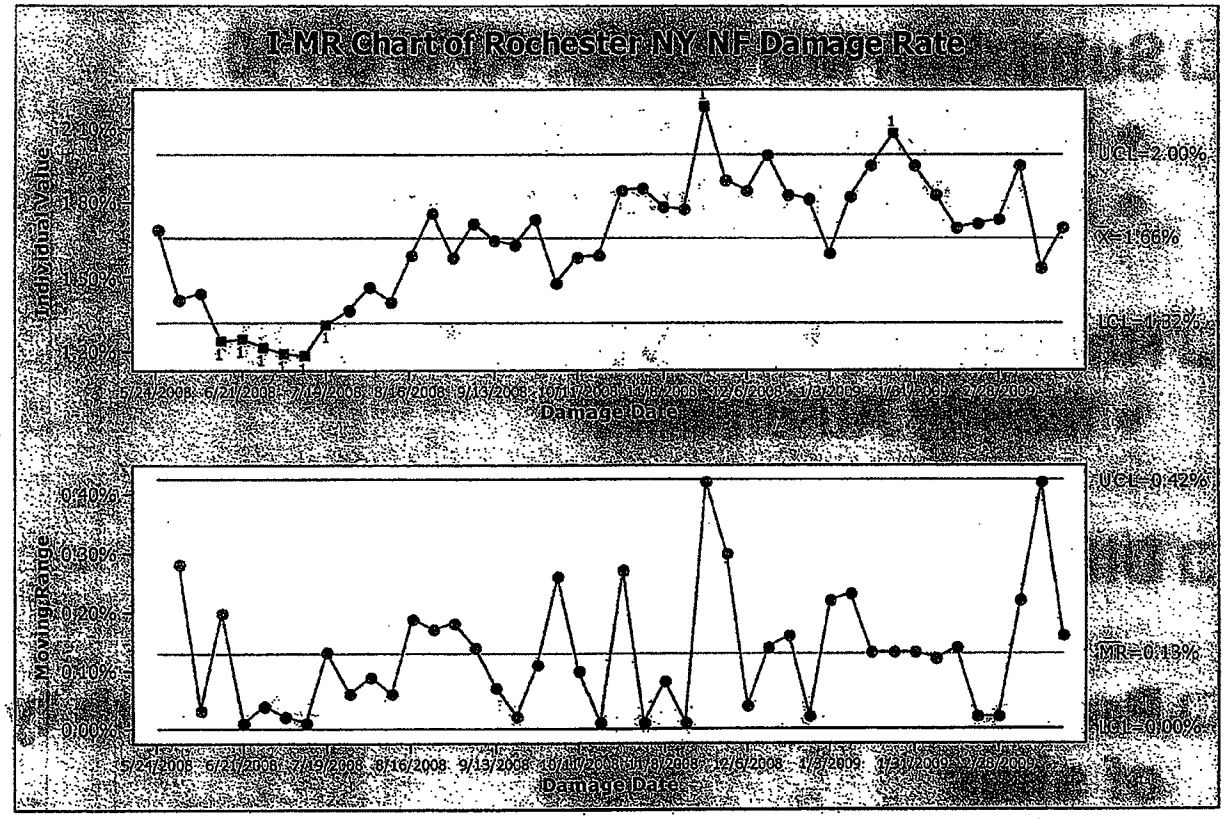
Control Charts for DVD Damage: Rochester P&DC 05/24/08 – 03/21/09



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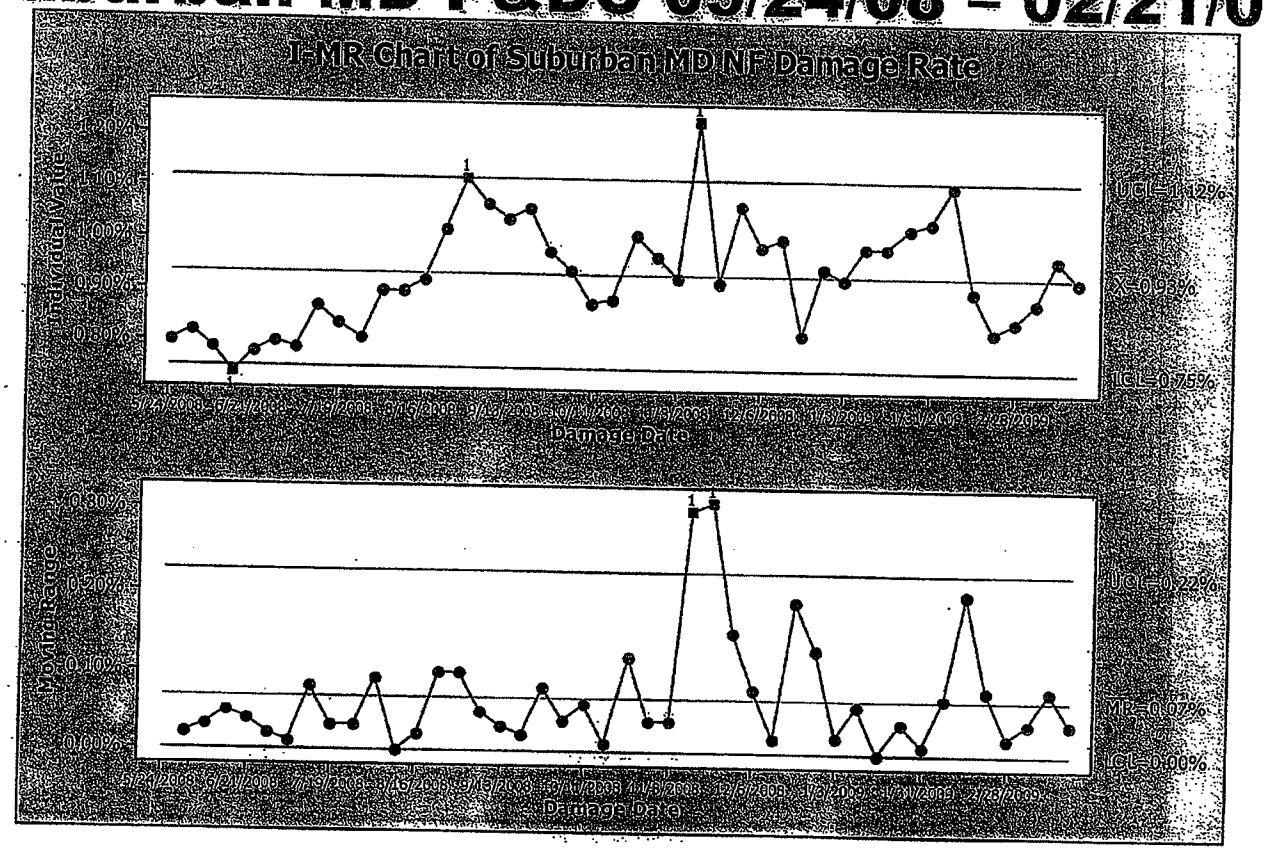
Control Charts for DVD Damage: Suburban MD P&DC 05/24/08 – 02/21/09



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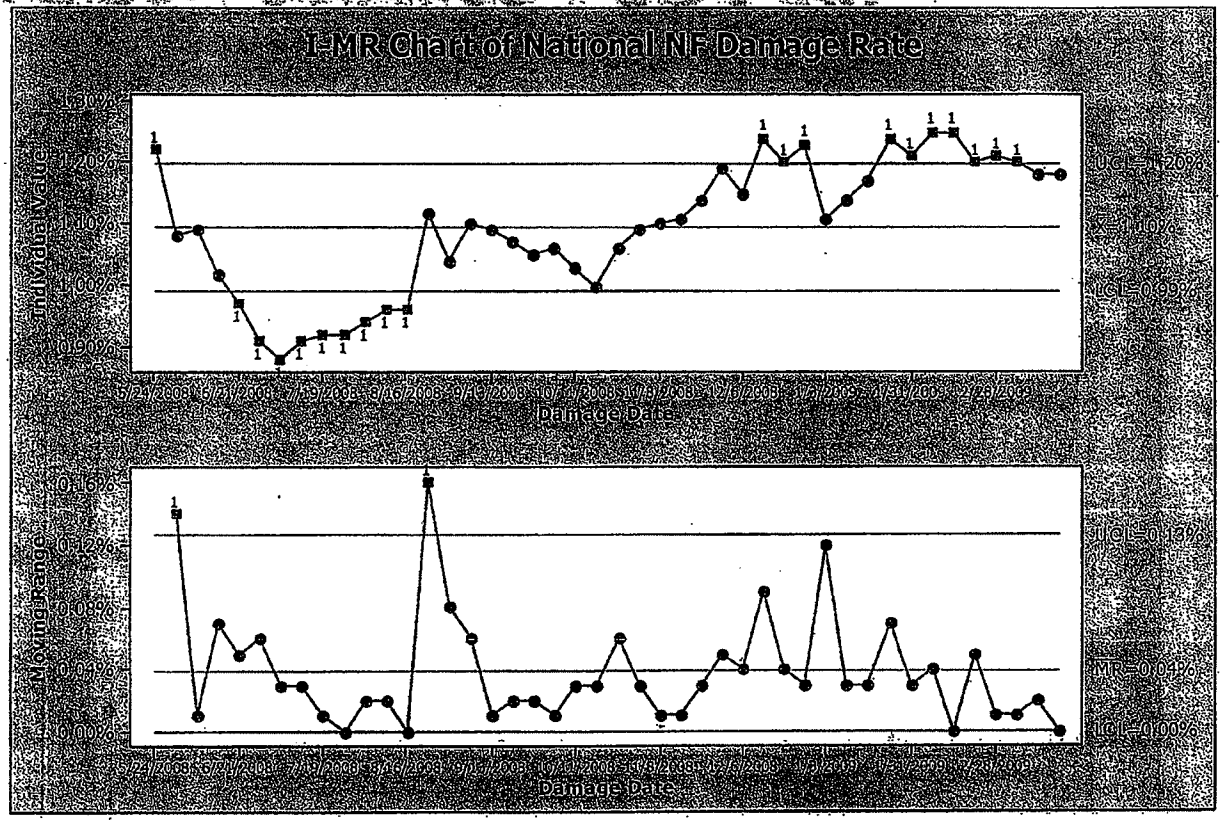
Control Charts for DVD Damage: National 05/24/08 – 03/21/09



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GFL0001378

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Possible Damage Reduction Options:

- APC Build: RPN reduction of 1,220 → Current Policy
  - EMM Trays
  - Shelved APC [redacted]
  - Brick Laid Pattern
  - Both Netflix & USPS can implement

- Does the Customer Require a faced product?
  - Manual Culling: RPN reduction of 1,784
    - Carriers/Collectors [redacted]
    - 010 Prep
    - DPRC
    - AFCS – Implement only here initially because of BDS

- Study to be performed at each proposed Operation
  - Must not adversely impact regular duties
  - If facing is required, it must be done at cull site
  - Spatial and Safety Requirements

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UNITED STATES POSTAL SERVICE®

Failure Mode & Effect Analysis Worksheet - Rochester NY P&DC

Project: Reduce DVD Damage Team: Matt Bright (TL); [redacted] Date: March 15, 2009 (original) (revised)

Items or Process Steps	Potential Effect (s) of Failure	Severity	Potential Cause (s)	Occurrence	Current Controls	Detection	RPN	Recommended Action	Responsibility and Target Date	"After" → Action Taken	Severity	Occurrence	Detection	RPN	Δ
Netflix Facility	Breakage&Stress	5		10		1	50	None			10	5	1	50	
[illegible]	[illegible]	5	APO Build	10	[illegible]	10	500	EMM Trays w/ bricklayer & shelved APOs			5	10	10	300	200
Transit to Hub	[illegible]	5	APO Build	10	[illegible]	10	500	EMM Trays w/ bricklayer & shelved APOs			5	10	10	300	200
[illegible]	Breakage&Stress	5	[illegible]	[illegible]	[illegible]	5	50	None			10	1	10	100	
Transportation	Stress	5	APO Build	10	[illegible]	10	500	EMM Trays w/ bricklayer & shelved APOs			5	10	10	300	200
OG Automation	Breakage&Stress	10		10		5	500				10	10	5	500	
SCF Automation	Breakage&Stress	10		3		5	150				10	3	5	150	
918 Automation	Breakage&Stress	10		10		5	500				10	10	5	500	
919 Automation	Breakage&Stress	10		10		5	500				10	10	5	500	
DFS/APO Build	Stress	3	APO Build	10	[illegible]	10	300	EMM Trays w/ bricklayer & shelved APOs			3	3	10	90	60
Transportation	Stress	5	APO Build	3	[illegible]	10	150	EMM Trays w/ bricklayer & shelved APOs			3	3	10	90	60
Customer Delivery	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	None			2	10	5	100	
Customer Handling	Stress	2		10		10	200	None			2	10	10	200	
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	None			5	5	10	250	
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	Manual Cutting & Facing Trays EMM with Jones Strapping			[illegible]	5	10	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	Manual Cutting & Facing Trays EMM with Jones Strapping			3	10	10	300	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	Manual Cutting & Facing Trays EMM with Jones Strapping			[illegible]	5	10	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	Manual Cutting & Facing Trays EMM with Jones Strapping			[illegible]	5	10	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	Manual Cutting & Facing Trays EMM with Jones Strapping			[illegible]	[illegible]	5	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	Manual Cutting & Facing Trays EMM with Jones Strapping			[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
APO Build	Stress	5	APO Build	10	[illegible]	10	500	EMM Trays w/ bricklayer & shelved APOs			5	10	10	300	200
Transportation	Stress	5	APO Build	5	[illegible]	10	250	EMM Trays w/ bricklayer & shelved APOs			3	5	10	150	100
Box Section Staging	Stress	3	APO Build	10	[illegible]	5	150	EMM Trays w/ bricklayer & shelved APOs			1	10	5	50	100
Mailer Pick up	Stress	5	APO Build	10	[illegible]	5	250	EMM Trays w/ bricklayer & shelved APOs			3	10	5	150	100
			Total Risk Priority Number =		7,294					"After" Risk Priority Number =		4,290			

PUBLIC

GFL0001380

UNITED STATES POSTAL SERVICE®

Implementation of Trial Methods:

- Reissue APC Build SOP in Rochester
  - Monitor daily at time of pick up
  - Monitor NF Drop at BMEU
  - Provide Survey for NF drivers and BMEU clerks – 2-6 weeks
- Two week process for only APC Build
- Four week process for culling monitoring (score lag)
- Analyze AFCS culling
  - BDS Concern
  - Productivity Concern
    - More Time Sweeping
    - Box Clerk spends 8 hrs facing daily
  - Operator Input
- Follow up week of APC Build Survey
- [redacted]

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Other Data Analyzed:

- Review of DPS % - No current AFSM Use
  - Suburban MD formerly used AFSM
    - DPS Composite = 49.9% for Feb '09
    - Other Composite = 0.4% for Feb '09
    - Single or No-scan Composite = 49.7%
  - Rochester
    - DPS Composite = 57.3% for Feb
    - Other Composite = 3.0% for Feb
    - Single or No-scan Composite = 39.7%
- Immediate review of 090-099 volume & damage rates
  - Explore Processing Options

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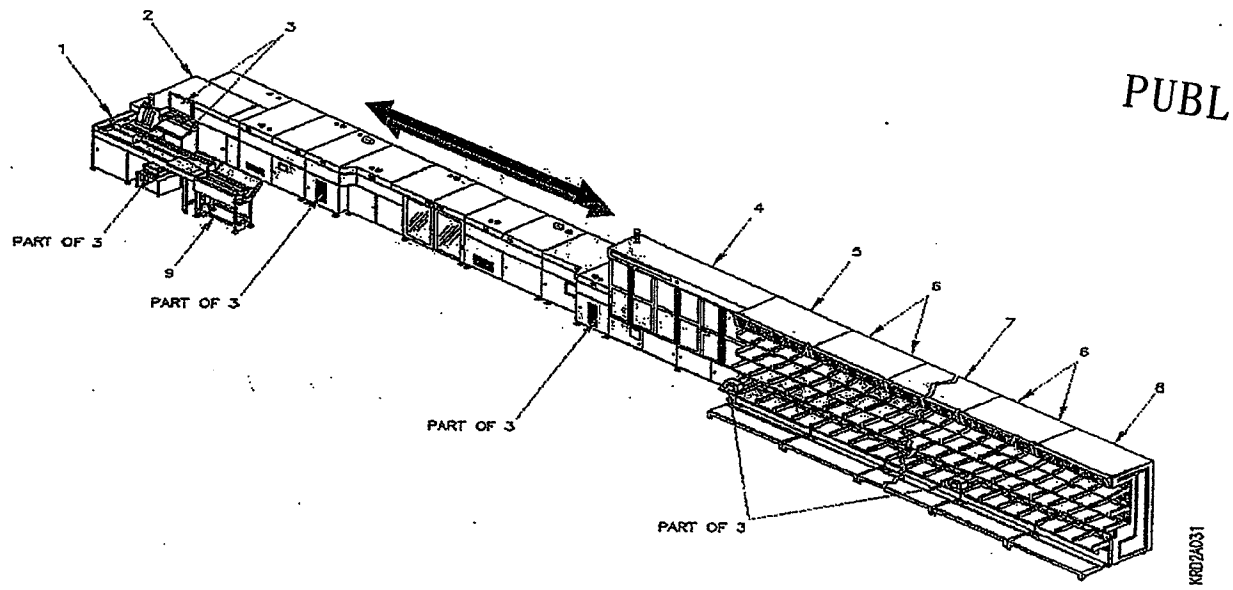
Possible Damage Reduction Options:

- ❑ Remove DVD mail from Forwarding processing
  - CIOSS processing
  - How much volume runs in Operation 090-099?
  - Is 090-099 volume significant?



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Implementation Progress:

- Difficulties – Cancelled site visit by Netflix on Monday, 4/5/09 → Miscommunication
  - Site to stop all Culling
  - Damage effects of absolutely no culling

- Next Steps
  - Share Tollgates with Area & District Management
  - Consult local Subject Matter Experts
  - Modify & Re-Evaluate Implementation Plan
  - Conduct trial with Local In-plant Support

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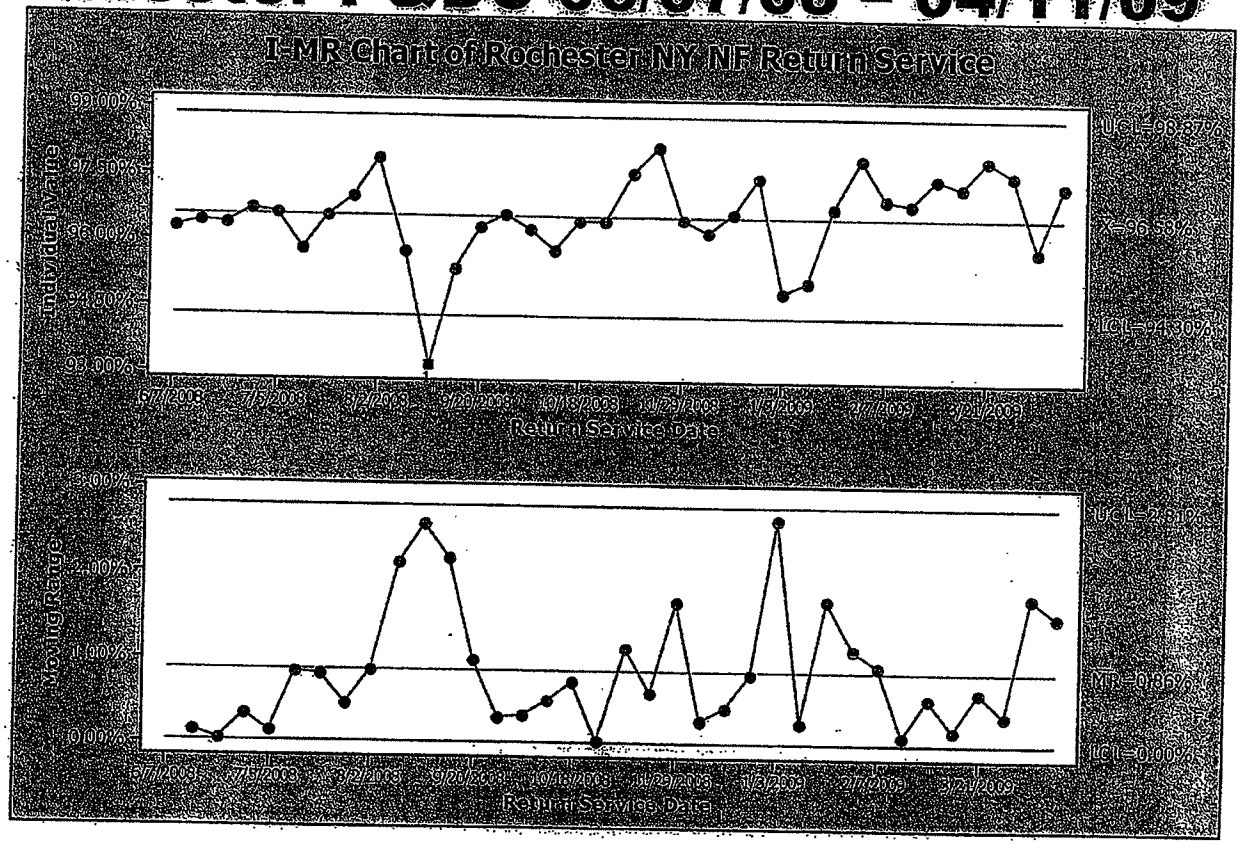
Control Charts for DVD Return Service: Rochester P&DC 06/07/08 – 04/11/09



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GFL0001385

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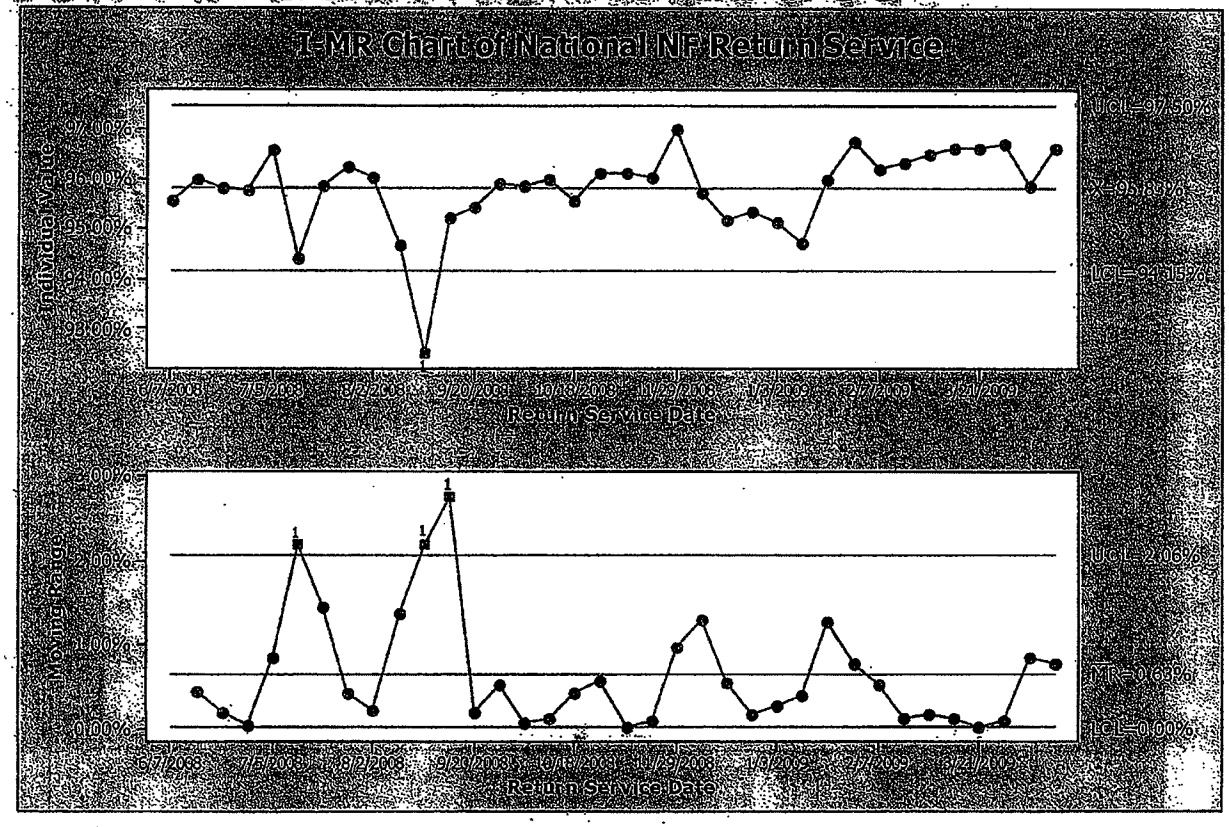
Control Charts for DVD Return Service: National 06/07/08 – 04/11/09



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Timeline:

Phase	Original Scheduled Date	Phase Completed	New Scheduled Date	New Phase Completed	Current Timeline		
					March	June	June
Charter Rev		6/12/2008	10/24/2008	10/24/2008			
Define	3/1/2008	3/1/2008	11/14/2008	11/14/2008			
Measure	6/12/2008	6/12/2008	12/30/2008				
Analyze	9/23/2008	10/21/2008	1/13/2009		Customer Meetting 3/26 Tollgate 4/7		
Improve			1/27/2009			Tollgate 7/14	
Control			2/24/2009				Tollgate 8/??

PUBLIC

GFL0001387

[redacted] - Washington, DC US-141

From: [redacted] - Washington, DC [redacted] -US-167
Sent: Wednesday, September 20, 2006 12:06 PM
To: [redacted]
Subject: RE: Netflix

As I said, if it turns out that it's not moot, and I can help with anything, you know where to find me!

-----Original Message-----
From: [redacted]
Sent: Wednesday, September 20, 2006 9:44 AM
To: [redacted] - Washington, DC US-167
Subject: RE: Netflix

[redacted] US-167

This is news to me. We will talk with [redacted] and [redacted]. Thanks.

[redacted] US110

US-167

-----Original Message-----
From: [redacted]a - Washington, DC [redacted]
Sent: Tue 9/19/2006 2:53 PM
To: [redacted]
Subject: Netflix

[redacted]
You haven't heard much back from me because I understand from a meeting I had with [redacted] on Friday that the Netflix issue is now moot.
US-110

US-110 [redacted] said that Ops has agreed to issue a national SOP that orders all plants to put Netflix returns on automation, and that Netflix will yield up 80-some ZIP Codes and be given 4 unique 5-Digit ZIP Codes and our schemes will be set up such that the Netflix returns are automatically routed to the nearest Netflix return center, regardless of the address/ZIP on the Netflix return piece itself.

With an impending national SOP, I was led to believe that the study was no longer necessary and that my assistance or attention was not needed. If your understanding is different and we still need to talk about this, I'd be happy to do so.

[redacted]

US-167

PUBLIC

GFL0001480

Message

[redacted] - Washington, DC US-141

From: [redacted] - Washington, DC [redacted] -US-167
Sent: Wednesday, September 13, 2006 5:22 PM
To: [redacted]
Subject: FW: Netflix Follow Up
Attachments: Scrap Charts.ppt; PDC SCRAP_2.xls

-----Original Message-----
From: [redacted] - Washington, DC -US-153
Sent: Friday, December 02, 2005 4:29 PM
To: [redacted]ashington, DC - US-167
Subject: FW: Netflix Follow Up

The PDC Scrap spreadsheet provides the distribution of returns through over 250 of our plants.

-----Original Message-----
From: [redacted] E - Washington, DC -US-161
Sent: Tuesday, November 01, 2005 3:57 PM
To: [redacted] - Washington, DC US-153
Subject: FW: Netflix Follow Up

[redacted] US-161

-----Original Message-----
From: [redacted] -NF016
Sent: Sunday, October 09, 2005 1:48 PM
To: [redacted] - US-113
Cc: [redacted] US-161
Subject: Netflix Follow Up

[redacted] -US-113

PUBLIC

On behalf of [redacted] and the entire Netflix team I want to thank you for taking time out of your busy schedule to visit with us and address the leaders of Netflix. Everybody had very positive feedback regarding your candor and seemingly calmness in such a huge job. The insight you provided certainly shed a new vision of the USPS for most.

Regarding our follow on conversations at the Sunnyvale Operations Center and at dinner I'd like to summarize the issues we discussed

- **DVD rentals from our perspective will continue to grow at a significant rate and based on our experience in the Bay Area we see little reason to doubt that Netflix will be a billion dollar First Class Mail customer of the Postal Service in 5 years with a subscriber base approaching 20 million.**

- **While we are working on downloading in order to be ready for its eventuality, at this point because of the availability of content and studio agreements we do not see any significant volume shifts from our DVD rental model for at least the next 5 years and likely longer.**

Message

- One day delivery has been demonstrated to have a significant impact on Customer Satisfaction and is the single biggest factor in growing customers in a market. In order to achieve greater one day coverage we've expanded on our 35 physical locations by drop shipping into another 45 plus P&DCs generally within a 2 hour drive. The inconsistencies of Critical Entry Times and the corresponding pick up times for our returns was discussed and you suggested I meet with [redacted] to create a national approach. This meeting has been scheduled for next Wednesday to start the process. If we could move some CET's to later in the evening we could expand our 1D service to other more distant hubs via our transport system.

- We discussed the concern we have of the impact damage (scrap) of our rental returns means to our ability to maximize our advertising spending to acquire new customers. 70% of our scrap is focused on our rental return product. At current scrap rates, we estimate this to be a $35 million a year hit for us in 2006 and over $300 million over the next 5 years. Any change in mail processing rules that raises the scrap rate will have significant impact on our ability to grow the business and in turn grow mail volume.

- Currently the only viable solution to scrap reduction is the culling of our returns prior to getting into the automation stream. As requested I've attached our scrap statistics and broken them down by Area and P&DC within the Area. Summary charts are found in the PowerPoint attachment and detail data in the Excel spreadsheet. Obviously all this data must be treated as confidential. As you can see the Pacific Area and Cap Metro are the best by far and it just so happens that the Pacific Area has issued an SOP that calls for complete culling. Every Area is aware of this SOP but many have not chosen to adopt it or at least enforce it. The results speak for themselves.

- We also recognize that manual culling is not the ideal solution and want to find an automated process that will separate our DVD type mail without it being subjected to the 5 bull wheels and severe divert angles associated with the AFCS. We shared with you a concept we had to achieve this by using the existing thickness detector and some type of coding on our mail. We thought a proof of concept of this with our Engineers and yours could be established at the San Jose P&DC. Since we met we've even brainstormed an idea of having Netflix approach Siemens to create a prototype in their Arlington TX facility. We briefly discussed this with them and while they would not commit to anything, they indicated with USPS knowledge and concurrence of the idea they would gladly work this project for us. Netflix would fully fund the prototype. We also would not object to any modification such as this being applied to other mailers that would meet a certain criteria for its use.

- While we did not discuss the recent efforts by Pricing and Classification to potentially change our envelope design and the negative impacts it would have on us, we strongly believe it is much more prudent to pursue the above mentioned modification as a solution. When we demonstrate there is a solution to reducing our scrap, everyone wins and we certain would consider changes in the envelope if it would achieve that objective along with the modifications.

- The last issue we discussed involved trying to work towards a return piece that directs our mail to the Nearest Netflix Hub without having to provide multiple addresses as we now do. This will obviously avoid USPS transportation and distribution costs and will provide our customers a very high and reliable level of service from wherever they are mailed. While this initiative is not a significant priority, it would seem fairly simple and quick to develop a solution with a minimum amount of risk and effort.

[redacted]ns NF-016

PUBLIC

NETFLIX, Inc.
Office: [redacted]
Cell: [redacted]

8/12/2006

From: [redacted] - Washington, DC [redacted] US-167
Sent: Wednesday, September 13, 2006 4:19 PM
To: [redacted]
Subject: FW: DVDs in the mail

Attachments: Pacific Area DVD SOP.pdf

Pacific Area DVD SOP.pdf (1,00...

-----Original Message-----
From: [redacted] - Washington, DC US-165
Sent: Wednesday, August 17, 2005 1:29 PM
To: [redacted] - Washington, DC; [redacted] J - Washington, DC; [redacted] - Washington, DC; [redacted] - Washington, DC US-167; US-151
US-152
Subject: RE: DVDs in the mail

<<Pacific Area DVD SOP.pdf>>

The Pacific Area MTPS forwarded me the attached SOP. It may be of interest to you, given that Netflix is based out of California. San Diego District is processing this mail exactly as described in the SOP.

[redacted] US-165

-----Original Message-----
From: [redacted] - Washington, DC US-167
Sent: Friday, August 12, 2005 11:33 AM
To: [redacted] - Washington, DC; [redacted] - Washington, DC; [redacted] Washington, DC; [redacted] - Washington, DC

Subject: FW: DVDs in the mail

-----Original Message-----
From: [redacted] J - Washington, DC US-128
Sent: Friday, August 12, 2005 12:17 AM
To: [redacted] - Washington, DC; [redacted] US045 US-173; US-071 Washington, DC; [redacted] - Washington, DC; [redacted] - Washington, DC; [redacted] R - Washington, DC; [redacted] J - Washington, DC; [redacted] Washington, DC; [redacted] - Washington, DC; [redacted] - Washington, DC; [redacted] - Merrifield, VA; [redacted] - Washington, DC; [redacted] Washington, DC; [redacted] - Washington, DC
US-036 US-051
Cc: [redacted] - Washington, DC; [redacted] - Washington, DC
Subject: DVDs in the mail

US-183; US-203; US-053; US-045; US-132; US-167; US-031; US-102; US-204; US-205; US-004;

I took two of my new-to-usps people out to Merrifield for an orientation of our processes in a P&DC tonight. This is an update on a topic we have discussed.

PUBLIC

GFL0002422

We have had discussions of how to adjust to DVDs in the mail at the rates group review. At NOVA(and they are not dummies) the plant is asking the collection people to pull them out for manual processing. If they are still in the mailstream, every AFCS operator is individually pulling them out. The fundamental belief is that a DVD is not flexible enough to be handled as a letter mail piece.. This is costing us a HUGE increment over an average letter mail automated rate on the returns.

So... [redacted]

PUBLIC

GFL0002423

DISK DAMAGE ASSESSMENT CATEGORIES

D0 NO DAMAGE. DISK IS PLAYABLE.

D1 CRACK/DELAMINATION EXTENDING LESS THAN .25 INCHES FROM HUB. DISK APPEARS PLAYABLE,

D2 CRACK/DELAMINATION EXTENDING MORE THAN .25 INCHES FROM HUB OR ANY CRACK ON DISK EDGE. DISK IS UNPLAYABLE,

D3 CONTINUOUS CRACK FROM HUB TO DISK EDGE (OR ENTIRE DISK). DISK IS UNPLAYABLE.

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Disk Damage

Attachment A contains disk damage data from the mailers under test by Engineering and indicates about 2% breakage. The damage occurs in both the DBCS and AFCS, with a slightly higher rate for the AFCS. The data is cumulative, i.e., damage found after the AFCS run could have occurred on one of the previous DBCS runs. The diverter 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.

TYPE	RUN 3 (DBCS)		RUN 4 (AFCS)		RUN7 (DBCS)		Total Samples	Total Broken	% Broken
	Samples	Damaged	Samples	Damaged	Samples	Damaged			
A*	129	3	148	3	185	6	462	12	2.60
B	327	14	342	9	628	14	1297	37	2.85
C*	163	1	125	0	159	0	447	1	0.22
D	324	3	288	8	640	14	1252	25	2.00
E	364	1	384	8	613	1	1361	10	0.73
Run Totals	1307	22	1287	28	2225	35	**4819**	**85**	**1.76**
% Broken	**1.68**		**2.18**		**1.57**				

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TYPE	SITE	RUN 1 (DBCS)		RUN2 (DBCS)		RUN 3 (DBCS)		RUN 4 (AFCS)		RUN 5 (DBCS)	
		Samples	Damaged	Samples	Damaged	Samples	Damaged	Samples	Damaged	Samples	Damaged
A	1	5	0	12	0	49	0	73	0	11	0
	2	12	0	1	0	50	3	75	3	3	0
	3										
	4										
	5										
	6										
B	1	0	0	0	0	50	0	70	1	2	0
	2	0	0	1	0	50	2	74	2	2	0
	3	2	0	1	0	48	5	50	3	0	0
	4	0	0	0	0	50	3	50	3	123	4
	5	6	0	14	0	50	4	54	0	2	0
	6	3	0	4	0	48	0	44	0	3	0
C	1	8	0	54	0	51	1	50	0	59	0
	2	0	0	0	0	0	0	0	0	0	0
	3										
	4										
	5										
	6										
D	1	12	0	52	0	42	1	40	0	50	1
	2	0	0	0	0	0	0	0	0	0	0
	3	0	0	0	0	50	0	50	3	2	0
	4	0	0	0	0	51	2	66	3	0	0
	5	2	0	5	0	50	0	71	2	0	0
	6	4	0	4	0	52	0	61	0	1	1
E	1	3	0	1	0	51	0	76	7	3	0
	2	0	0	1	0	50	0	68	0	5	0
	3	1	0	4	0	49	1	71	1	0	0
	4	0	0	1	0	50	0	74	0	0	0
	5	9	0	10	0	50	0	56	0	0	0
	6	0	0	33	0	51	0	39	0	0	0
	Run Totals	67	0	198	0	992	22	1212	28	266	6
	% Broken	0.00		0.00		2.22		2.31		2.26	

PUBLIC

RUN 6 (DBCS)		RUN7 (DBCS)		Total Samples	Total Broken	% Broken
Samples	Damaged	Samples	Damaged			
84	2	0	0	234	2	0.85
0	0	87	4	228	10	4.39
98	0	0	0	220	1	0.45
1	0	94	3	222	7	3.15
0	0	107	3	208	11	5.29
0	0	1	0	224	10	4.46
2	0	96	4	224	8	3.57
2	0	95	0	199	0	0.00
0	0	0	0	222	1	0.45
0	0	225	0	225	0	0.00
0	0	0	0	196	2	1.02
0	0	185	0	185	0	0.00
0	0	98	2	200	5	2.50
0	0	105	6	222	11	4.95
0	0	117	3	245	5	2.04
2	1	80	0	204	2	0.98
0	0	102	0	236	7	2.97
2	0	101	0	227	0	0.00
0	0	100	1	225	3	1.33
0	0	99	0	224	0	0.00
0	0	101	0	226	0	0.00
0	0	100	0	223	0	0.00
191	3	1893	26	**4819**	**85**	**1.76**
1.57		**1.37**				

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TYPE	SITE	RUN 3 (DBCS)		RUN 4 (AFCS)		RUN7 (DBCS)		Total Samples	Total Broken	% Broken
		Samples	Damaged	Samples	Damaged	Samples	Damaged			
A	1	66	0	73	0	95	2	234	2	0.85
	2	63	3	75	3	90	4	228	10	4.39
	3									
	4									
	5									
	6									
B	1	50	0	70	1	100	0	220	1	0.45
	2	51	2	74	2	97	3	222	7	3.15
	3	51	5	50	3	107	3	208	11	5.29
	4	50	3	50	3	124	4	224	10	4.46
	5	70	4	54	0	100	4	224	8	3.57
	6	55	0	44	0	100	0	199	0	0.00
C	1	113	1	50	0	59	0	222	1	0.45
	2	50	0	75	0	100	0	225	0	0.00
	3									
	4									
	5									
	6									
D	1	106	1	40	0	50	1	196	2	1.02
	2	0	0	0	0	185	0	185	0	0.00
	3	50	0	50	3	100	2	200	5	2.50
	4	51	2	66	3	105	6	222	11	4.95
	5	57	0	71	2	117	3	245	5	2.04
	6	60	0	61	0	83	2	204	2	0.98
E	1	55	0	76	7	105	0	236	7	2.97
	2	51	0	68	0	108	0	227	0	0.00
	3	54	1	71	1	100	1	225	3	1.33
	4	51	0	74	0	99	0	224	0	0.00
	5	69	0	56	0	101	0	226	0	0.00
	6	84	0	39	0	100	0	223	0	0.00
	Run Totals	1307	22	1287	28	2225	35	**4819**	**85**	**1.76**
	% Broken	**1.68**		**2.18**		**1.57**				

PUBLIC

TYPE	RUN 3 (DBCS)		RUN 4 (AFCS)		RUN7 (DBCS)		Total Samples	Total Broken	% Broken
	Samples	Damaged	Samples	Damaged	Samples	Damaged			
A*	129	3	148	3	185	6	462	12	2.60
B	327	14	342	9	628	14	1297	37	2.85
C*	163	1	125	0	159	0	447	1	0.22
D	324	3	288	8	640	14	1252	25	2.00
E	364	1	384	8	613	1	1361	10	0.73
Run Totals	1307	22	1287	28	2225	35	**4819**	**85**	**1.76**
% Broken	**1.68**		**2.18**		**1.57**				

PUBLIC

September 12, 2006

[redacted] US-017

USPS Mailing Standards

Subject: [redacted]

[redacted] US-017

On September 7, 2006 U.S. Postal Service Engineering received approximately 50 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] have not been modified in any way that would significantly improve the poor machineability demonstrated by those samples.

Tests

All samples were run three times on DBCS to simulate outbound processing. The mailers were converted to return configuration and processed once on an AFCS and three times on a DBCS.

Results

The outbound processing of the samples was good with nominal feeding and stacking. Minor damage was noted on the edges and corners of the package. No jams occurred in the DBCS related to the mail piece, however this is a very small sample size.

The return processing of the samples was typical for DVD mailers in that most of the samples were rejected by the Fine Cull due to their stiffness. Of the pieces that remained in the transport, five of approx ten samples were found in the AFCS stacker with folded flaps. Folded mail pieces will be unreadable or cause jams in subsequent operations.

The samples were then run three times on a DBCS. Several soft jams occurred in the DBCS related to the mail piece. This mail piece will slow momentarily when it encounters a diverter gate. This allows the piece behind it to catch up and overlap the first piece. This results in tracking errors and machine shutdown.

No formal assessment of disk damage was made; the test samples were not opened in order to examine the disks.

PUBLIC

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.

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 automation compatible or machineable.

PUBLIC

September 12, 2007

US-059

[redacted]

U S Postal Service
90 Church Street, Suite [redacted]
New York, NY 10007-[redacted]

Re: [redacted] Re-test

[redacted], US-059 US-206

At the request of Mr. [redacted] Postal Service Engineering re-tested [redacted] disk mailer. Clarification of the chronology mentioned in Mr. [redacted] request is in order. Engineering tested 50 [redacted] samples provided by [redacted] in March 2007, with the results sent directly to [redacted]. In April 2007, Enginneering received 100 samples from [redacted] for test. The results of that test were sent to [redacted] on May 18. This report pertains to a further 100 samples submitted by [redacted] along with the cover letter in July 2007.

Description

[redacted]

Tests

All samples were run four times on DBCS to simulate outbound processing. Return samples were run on the AFCS once. No assessment of disk damage was made after testing.

Results

The outbound processing of the samples was good with nominal feeding and stacking. Minor damage was noted on the edges and corners of the package.

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 may lead 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

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

[redacted] US-159
USPS Engineering
Letter Technology
8403 Lee Highway
Merrifield, VA 22082[redacted]

PUBLIC

May 14, 2007

Mr. [redacted] -US-150
Pricing and Classification Service Center

Subject: [redacted] two way disk mailer

US-150

On April 23, 2007 U.S. Postal Service Engineering received approximately 100 two-way disk mailers manufactured by [redacted] for evaluation.

Description

[redacted]

History
It should be noted that Engineering tested a similar mail piece for [redacted]. These submissions were not automation compatible. The samples submitted by [redacted] have not been modified in any way that would significantly improve the poor machineability demonstrated by those samples.

Tests
All samples were run four times on DBCS to simulate outbound processing. Return samples were run on the AFCS once. No assessment of disk damage was made after testing.

Results
The outbound processing of the samples was good with nominal feeding and stacking. Minor damage was noted on the edges and corners of the package.

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.

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. 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 automation compatible or machineable.

PUBLIC

March 16, 2007

Mr. [redacted]

Re: [redacted] Two-way Disk Mailer

Mr [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

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

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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] US-159

Letter Technology
8403 Lee Highway
Merrifield, VA 22082-[redacted]

PUBLIC

June 14, 2006

Mr. [redacted]
Chief Operations Officer
[redacted]

Mr. [redacted]

On April 25, 2006 U.S. Postal Service Engineering received approximately 25 two-way DVD mailers from [redacted] for evaluation.

Description

[redacted]

History
It should be noted that Engineering tested a similar mailpiece in 2002 and in a letter dated June 11 of that year, informed the requestor that the mailpiece was not automation compatible. The samples submitted by [redacted] have not been modified in any way that would significantly improve the poor machineability demonstrated by those samples.

Tests
All samples were run three times on DBCS to simulate outbound processing. The mailers were converted to return configuration and processed once on an AFCS and three times on a DBCS.

Results
The outbound processing of the samples was good with nominal feeding and stacking. Minor damage was noted on the edges and corners of the package. One jam occurred in the DBCS related to the mailpeice. This corresponds to an unacceptable 4% jam rate.

The return processing of the samples was good with nominal feeding. Little additional damage was noted on the edges and corners of the package. Two of the samples were found in the AFCS stacker with folded flaps. Folded mailpieces will be unreadable or cause jams in subsequent operations. One jam occurred in the DBCS related to the mailpeice. This corresponds to an unacceptable 4% jam rate.

No formal assessment of disk damage was made; the test samples were not opened in order to examine the disks.

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Conclusion

This mailpiece 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.

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 automation compatible or machineable.

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Weekly Area/District Detail SOUTHEAST Delivery Survey		12/07/2008 TO 12/13/2008					
USPS DISTRICT	ZIP3	Surveys	Responses	On Time	PCT OT	On Time + 1	PCT OT1
ALABAMA	350	551	228	219	[illegible]	7	3.07%
ALABAMA	351	494	217	214	[illegible]	1	0.46%
ALABAMA	352	1002	400	378	94.50%	18	4.50%
ALABAMA	354	325	140	134	[illegible]	5	3.57%
ALABAMA	355	50	30	30	[illegible]	0	0.00%
ALABAMA	356	480	199	189	94.97%	9	4.52%
ALABAMA	357	547	231	226	[illegible]	5	2.16%
ALABAMA	358	508	227	223	[illegible]	4	1.76%
ALABAMA	359	196	107	104	[illegible]	3	2.80%
ALABAMA	360	289	146	135	92.47%	10	6.85%
ALABAMA	361	307	155	150	[illegible]	3	1.94%
ALABAMA	362	183	83	82	[illegible]	0	0.00%
ALABAMA	363	352	155	149	[illegible]	5	3.23%
ALABAMA	364	61	34	33	[illegible]	0	0.00%
ALABAMA	365	355	174	166	[illegible]	8	4.60%
ALABAMA	366	235	104	100	[illegible]	2	1.92%
ALABAMA	367	34	22	19	[illegible]	3	13.64%
ALABAMA	368	349	153	146	[illegible]	5	3.27%
DISTRICT TOTAL		6318	2805	2697	96.15%	88	3.14%
ATLANTA	300	4326	1749	1669	[illegible]	68	3.89%
ATLANTA	301	1982	798	752	94.47%	39	4.90%
ATLANTA	302	1258	525	491	93.52%	31	5.90%
ATLANTA	303	2400	956	911	[illegible]	39	4.08%
ATLANTA	305	844	373	358	[illegible]	14	3.75%
ATLANTA	306	579	287	278	[illegible]	7	2.44%
ATLANTA	311	1	1	1	[illegible]	0	0.00%
DISTRICT TOTAL		11390	4687	4460	95.16%	198	4.22%
CENTRAL FLORIDA	327	2171	847	819	[illegible]	26	3.07%
CENTRAL FLORIDA	328	1743	632	603	[illegible]	23	3.64%
CENTRAL FLORIDA	329	1406	580	539	92.93%	40	6.90%
CENTRAL FLORIDA	334	3346	1275	1216	[illegible]	52	4.08%
CENTRAL FLORIDA	347	1197	479	452	94.36%	27	5.64%
CENTRAL FLORIDA	349	999	390	370	94.87%	18	4.62%
DISTRICT TOTAL		10862	4203	3999	95.16%	186	4.43%
MISSISSIPPI	369	3	3	3	[illegible]	0	0.00%
MISSISSIPPI	386	563	193	182	94.30%	6	3.11%
MISSISSIPPI	387	38	23	22	[illegible]	1	4.35%
MISSISSIPPI	388	99	62	59	[illegible]	2	3.23%
MISSISSIPPI	389	54	28	28	[illegible]	0	0.00%
MISSISSIPPI	390	272	109	104	[illegible]	2	1.83%
MISSISSIPPI	391	237	113	104	92.04%	9	7.96%
MISSISSIPPI	392	204	99	96	[illegible]	3	3.03%
MISSISSIPPI	393	102	49	47	[illegible]	2	4.08%
MISSISSIPPI	394	290	125	119	[illegible]	6	4.80%
MISSISSIPPI	395	573	264	254	[illegible]	8	3.03%
MISSISSIPPI	396	32	19	17	[illegible]	2	10.53%
MISSISSIPPI	397	129	63	60	[illegible]	1	1.59%
DISTRICT TOTAL		2596	1150	1095	95.22%	42	3.65%
NORTH FLORIDA	320	1088	438	427	[illegible]	9	2.05%
NORTH FLORIDA	321	1099	504	476	94.44%	27	5.36%
NORTH FLORIDA	322	1419	505	479	94.85%	21	4.16%
NORTH FLORIDA	323	1068	419	394	94.03%	21	5.01%
NORTH FLORIDA	324	704	283	268	94.70%	13	4.59%
NORTH FLORIDA	325	1443	596	564	94.63%	26	4.36%

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NORTH FLORIDA	326	1111	433	413	[illegible]	20	4.62%
NORTH FLORIDA	344	906	396	382	[illegible]	11	2.78%
DISTRICT TOTAL		8838	3574	3403	95.22%	148	4.14%
SOUTH FLORIDA	330	3009	988	952	[illegible]	35	3.54%
SOUTH FLORIDA	331	4150	1362	1301	[illegible]	51	3.74%
SOUTH FLORIDA	332	9	9	9	[illegible]	0	0.00%
SOUTH FLORIDA	333	1723	578	557	[illegible]	19	3.29%
DISTRICT TOTAL		8891	2937	2819	96.98%	105	3.58%
SOUTH GEORGIA	298	301	151	137	[illegible]	12	7.95%
SOUTH GEORGIA	299	502	241	225	93.36%	13	5.39%
SOUTH GEORGIA	304	141	73	65	[illegible]	6	8.22%
SOUTH GEORGIA	308	230	90	88	[illegible]	1	1.11%
SOUTH GEORGIA	309	318	114	109	[illegible]	5	4.39%
SOUTH GEORGIA	310	433	193	190	[illegible]	3	1.55%
SOUTH GEORGIA	312	153	64	62	[illegible]	2	3.13%
SOUTH GEORGIA	313	339	125	116	92.80%	9	7.20%
SOUTH GEORGIA	314	489	218	211	[illegible]	7	3.21%
SOUTH GEORGIA	315	336	163	159	[illegible]	0	0.00%
SOUTH GEORGIA	316	162	63	52	[illegible]	9	14.29%
SOUTH GEORGIA	317	190	97	92	94.85%	5	5.15%
SOUTH GEORGIA	318	75	48	46	[illegible]	2	4.17%
SOUTH GEORGIA	319	244	102	97	[illegible]	5	4.90%
SOUTH GEORGIA	398	36	25	23	92.00%	2	8.00%
DISTRICT TOTAL		3949	1767	1672	94.62%	81	4.58%
SUNCOAST	335	1349	551	531	[illegible]	18	3.27%
SUNCOAST	336	1417	511	487	[illegible]	21	4.11%
SUNCOAST	337	1581	668	640	[illegible]	24	3.59%
SUNCOAST	338	1311	514	493	[illegible]	21	4.09%
SUNCOAST	339	2246	882	844	[illegible]	35	3.97%
SUNCOAST	341	963	420	398	94.76%	22	5.24%
SUNCOAST	342	1889	841	803	[illegible]	34	4.04%
SUNCOAST	346	1402	591	553	93.57%	33	5.58%
DISTRICT TOTAL		12166	4978	4749	95.40%	208	4.18%
TENNESSEE	307	325	119	91	[illegible]	24	20.17%
TENNESSEE	370	1748	737	708	[illegible]	28	3.80%
TENNESSEE	371	1051	433	406	93.76%	25	5.77%
TENNESSEE	372	1243	513	481	93.76%	26	5.07%
TENNESSEE	373	696	299	250	[illegible]	46	15.38%
TENNESSEE	374	314	127	97	[illegible]	27	21.26%
TENNESSEE	376	350	172	169	[illegible]	3	1.74%
TENNESSEE	377	251	122	117	[illegible]	4	3.28%
TENNESSEE	378	407	228	218	[illegible]	9	3.95%
TENNESSEE	379	655	296	277	93.58%	18	6.08%
TENNESSEE	380	753	277	266	[illegible]	11	3.97%
TENNESSEE	381	1191	441	415	94.10%	21	4.76%
TENNESSEE	382	76	44	40	[illegible]	3	6.82%
TENNESSEE	383	201	100	91	[illegible]	8	8.00%
TENNESSEE	384	135	64	61	[illegible]	2	3.13%
TENNESSEE	385	247	129	122	94.57%	7	5.43%
DISTRICT TOTAL		9543	4101	3809	92.88%	262	6.39%
GRAND TOTAL		74645	30202	28703	95.04%	1318	4.36%

PUBLIC

GFL0011181

From: [redacted]
Sent: Sunday, August 03, 2008 6:57 AM
To: [redacted]

Subject: FW: Netflix Delivery & Return Surveys

Attachments: DSurveyWeekClose 7-26-08.xls; RSurveyWeekClose 7-26-08.xls

DSurveyWeekClose 7-26-08.xls (... RSurveyWeekClose 7-26-08.xls (...

Service is on the rebound, Thanks,

[redacted]

From: [redacted]
Sent: Sunday, August 03, 2008 4:20 AM

[redacted]

PUBLIC

[redacted]

Subject: Netflix Delivery & Return Surveys

Attached are the Delivery and Return Survey results for the week ending 7/26. After a couple weeks of relatively poor performance, results are much better. Delivery increased ½% to 95.42% on-time with the 8 of 9 Areas above 95% and the Pacific Area above 96%. On the return side we also improved to 96.27% on-time with all Areas above 95% and Cap Metro, Eastern, Great Lakes, Pacific, Southeast, Southwest and Western Areas all above 96.

Weekly Area Summary - Delivery Survey

07/20/2008 TO 07/26/2008

USPS_AREA

Surveys

Responses

On Time

PCT OT

On Time + 1

PCT OT1

CAP METRO

60819

24679

PUBLIC

GFL0019029

From: [redacted]
Sent: Sunday, January 25, 2009 4:20 AM
To: [redacted]

Subject:

Attachments: ScrapWeekClose1.xls

ScrapWeekClose1.xls (185 KB)

From: [redacted]
Sent: Sunday, January 25, 2009 4:19 AM
To: DL Postal Operations; DL Hub Regional Managers; DL Hub Managers; [redacted]; '[redacted] - Memphis, TN.'; [redacted]; [redacted] - Gaithersburg, MD

Subject: FW: ScrapWeekClose1.xls

Hello Folks,

This is the last week of the Christmas Holiday period and though our

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GFL0070736

numbers rose again this week, I expect to see the down turn in damage on the next report. The Netflix Hubs are placing emphasis on identifying damage and the Post Office is addressing processes, this combination should yield better results.

The performance this week was lead by the Capital Metro Area at 1.08% followed by the Pacific Area at 1.09%. Thank you very much for the effort.

[redacted]

Netflix, Inc.

NETFLIX Damaged Disc Rate by Area

11/01/2008 TO 12/27/2008

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GFL0070737

From: [redacted]m
Sent: Friday, December 05, 2003 9:55 AM
To: [redacted]D - Washington, DC; [redacted]
Washington, DC
Subject: Follow Up

[redacted]

Thanks for meeting with me yesterday, it was helpful for me to get your perspective on things.

Regarding the ink jet replacing the die hub cancellation, do you have any sites that have been retrofitted yet that you used for testing? The reason I'm asking is that in about 6 weeks we will have for testing a new return mailer where the disk will be at the leading edge. We'd love to position them in a hub where we knew the cancellation would be a problem and the piece would get right into the automation stream.

Let me know.

Thanks.

[redacted]

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GFL0073700

NETFLIX

Standardization of Processing Return DVDs

October 30, 2007

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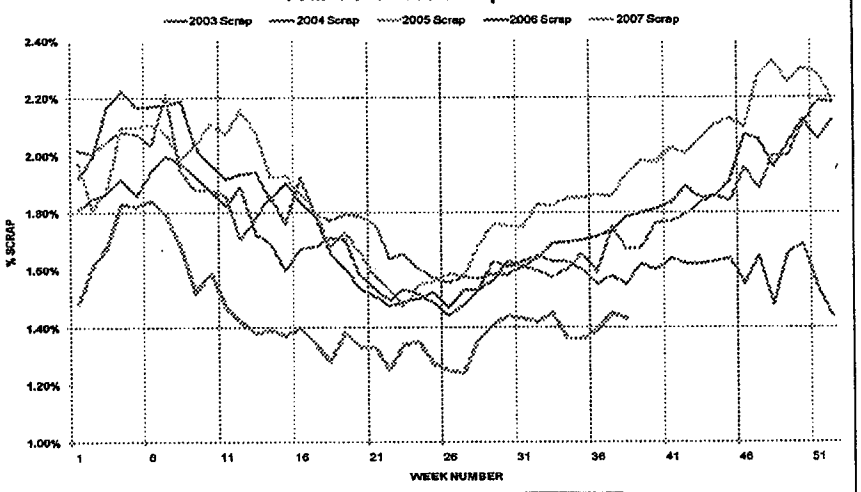
NETFLIX

History



2

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The Variation

20 Worst P&DC's	% Scrap	20 Best P&DC's	% Scrap
QUINCY (IL) AMPC	2.5%	READING (PA) P&DF	0.9%
ABILENE (TX) DISTRIBUTION ANNEX	2.4%	SAN FRANCISCO (CA) P&DC	0.9%
SPRINGFIELD (MO) P&DC	2.4%	REDDING (CA) MPO	0.9%
GREENVILLE (SC) P&DC	2.4%	OAKLAND (CA) P&DC	0.9%
WESTERN NASSAU (NY) P&DC	2.2%	CEDAR RAPIDS (IA) P&DF	0.9%
CORPUS CHRISTI (TX) P&DC	2.2%	HONOLULU (HI) P&DC	0.9%
BROOKLYN (NY) P&DC	2.2%	BOWLING GREEN (KY) P&DF	0.9%
PROVO (UT) P&DF	2.1%	SYRACUSE (NY) P&DC	0.9%
STATEN ISLAND (NY) P&DC	2.1%	EUREKA (CA) MPO	0.9%
MID-ISLAND (NY) P&DC	2.1%	YAKIMA (WA) PO	0.9%
PITTSBURGH (PA) P&DC	2.1%	UTICA (NY) P&DF	0.9%
BUFFALO (NY) P&DC	2.1%	GRAND JUNCTION (CO) MHA	0.9%
FORT SMITH (AR) MPO	2.1%	MISSOULA (MT) MPO	0.9%
MID-MISSOURI (MO) P&DF	2.1%	PORTLAND (ME) P&DC	0.9%
TUCSON (AZ) P&DC	2.1%	CASPER (WY) MPO	0.8%
MIDLAND (TX) P&DC	2.1%	WEST PALM BEACH (FL) P&DC	0.8%
WESTCHESTER (NY) P&DC	2.0%	BINGHAMTON (NY) P&DF	0.8%
SALT LAKE CITY (UT) P&DC	2.0%	NORTH BAY (CA) P&DC	0.7%
JOHNSON CITY (TN) CSNPF	2.0%	PENSACOLA (FL) P&DC	0.7%
MCALLEN (TX) P&DF	2.0%	EASTERN MAINE (ME) P&DF	0.6%

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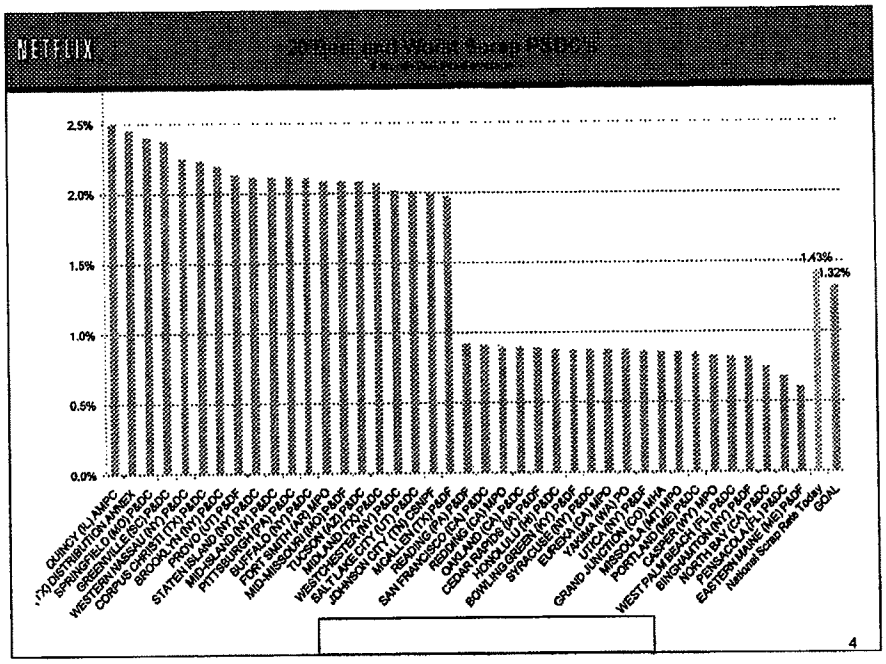
NETFLIX
2.5%
2.0%
1.5%
1.0%
0.5%
0.0%
1.43%
1.32%
QUINCY (IL) AMPC
(TX) DISTRIBUTION ANNEX
SPRINGFIELD (MO) P&DC
GREENVILLE (SC) P&DC
WESTERN NASSAU (NY) P&DC
CORPUS CHRISTI (TX) P&DC
BROOKLYN (NY) P&DC
PROVO (UT) P&DC
STATEN ISLAND (NY) P&DC
MID-ISLAND (NY) P&DC
PITTSBURGH (PA) P&DC
BUFFALO (NY) P&DC
FORT SMITH (AR) MPO
MID-MISSOURI (AR) MPO
TUCSON (AZ) P&DF
MIDLAND (TX) P&DC
WESTCHESTER (NY) P&DC
SALT LAKE CITY (UT) P&DC
JOHNSON CITY (TN) P&DC
MCALLEN (TX) P&DF
READING (PA) P&DF
SAN FRANCISCO (CA) P&DF
REDDING (CA) P&DC
OAKLAND (CA) MPO
CEDAR RAPIDS (IA) P&DC
HONOLULU (HI) P&DF
BOWLING GREEN (KY) P&DC
SYRACUSE (NY) P&DF
EUREKA (CA) MPO
YAKIMA (WA) PO
UTICA (NY) P&DF
GRAND JUNCTION (CO) MHA
MISSOULA (MT) MPO
PORTLAND (ME) P&DC
CASPER (WY) MPO
WEST PALM BEACH (FL) P&DC
BINGHAMTON (NY) P&DF
NORTH BAY (CA) P&DC
PENSACOLA (FL) P&DC
EASTERN MAINE (ME) P&DF
National Scrap Rate Today
GOAL
4

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OVERVIEW

- Damaged DVDs in the mail
  - 80% on the return trip
  - 90% cracked
- Culling has always been a key ingredient to holding damage down
- However – mail preparation and MTE is just as important

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GFL0073953

NETFLIX

Examples of Poor Practices

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NETFLIX

Examples of Poor Practices

Netflix Confidential

7

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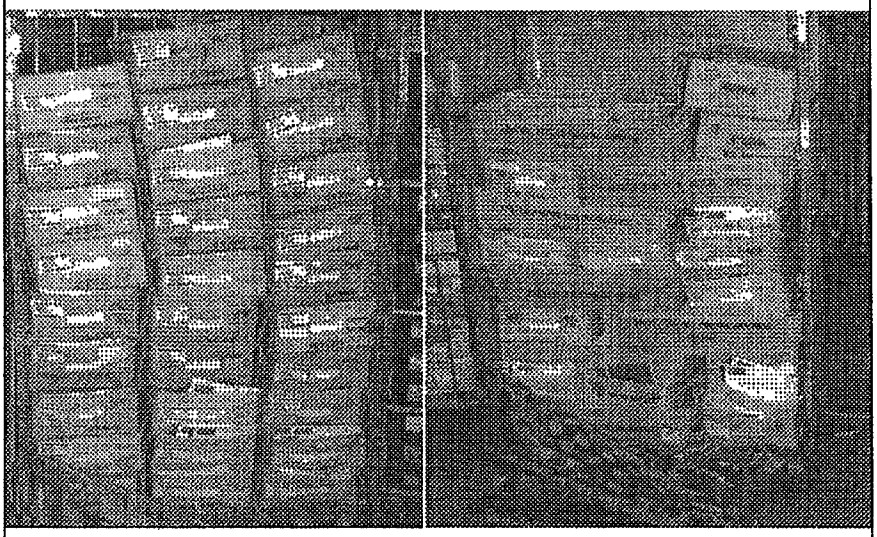
NETFLIX

Examples of Poor Practices



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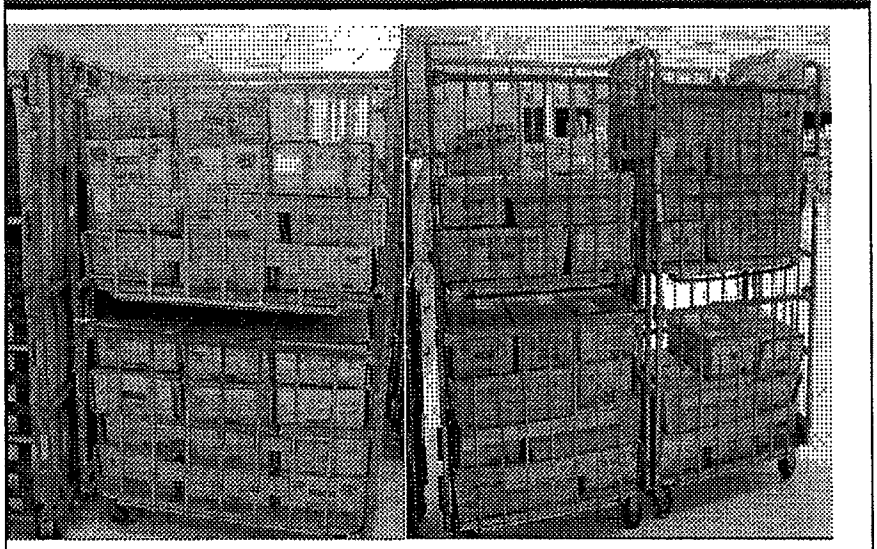
Good Mail Preparation



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NETFLIX

AFCS Culling

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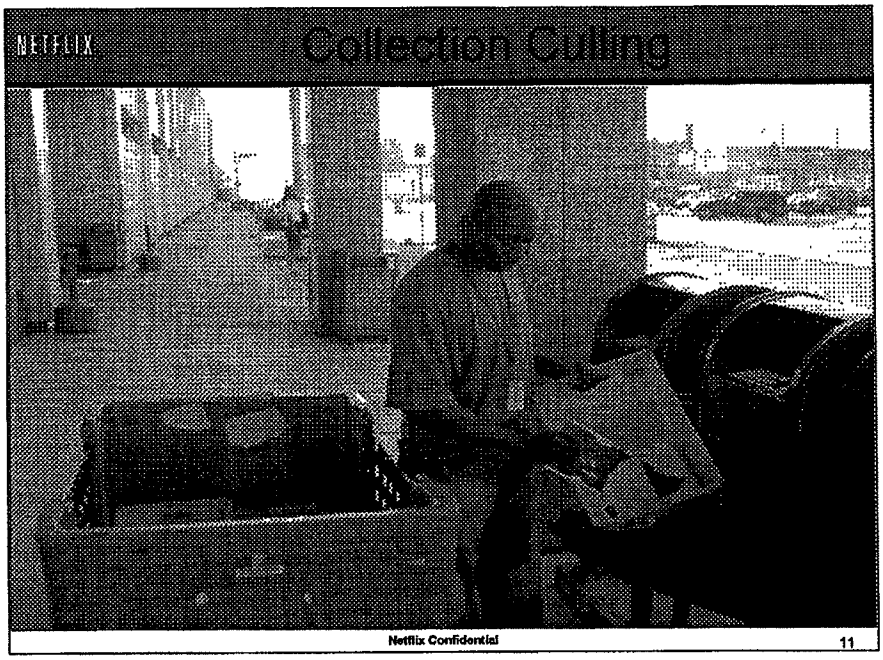

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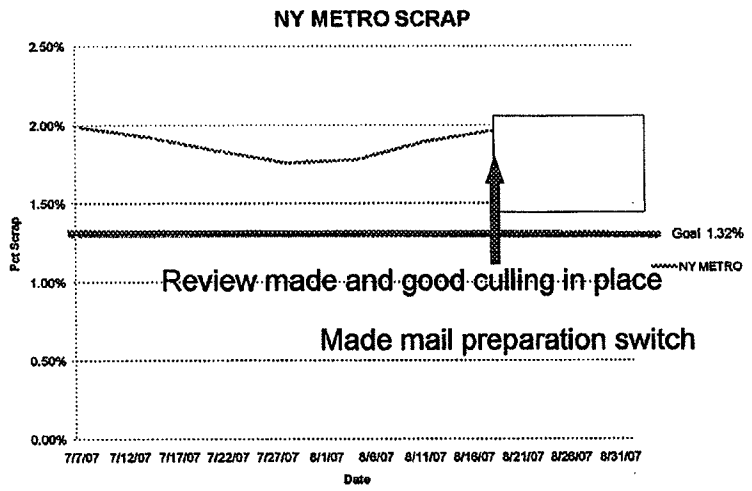
NETFLIX

P&DC Scrap Variation



Netflix Confidential

12

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NETFLIX Key Ingredients To A Standardized Process

- Culling By Collectors
- Culling By AOs & Stations
- Culling Before/After Dual Pass/Rough Cull
- Culling By AFCS Operator
- Exclusive Use of EMM Trays
- Always Sleeve
- Exclusive Use of Shelved APCs
- Bricklaid In APCs

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GFL0073961

To: US-131; US-159; US-088; US-014; US-066; US-156; US-152; US-125; US-077; US-207; US-154; US-023

US-025

-----Original Message-----
From: [redacted] - Washington, DC
Sent: Wednesday, February 09, 2005 2:37 PM
To: [redacted] - Washington, DC; [redacted] - Washington, DC; Horne, Cheryl B - Washington, DC; [redacted] - Washington, DC; [redacted] - Merrifield, VA - Contractor; [redacted] - Merrifield, VA; [redacted] - Merrifield, VA; [redacted] - Washington, DC; [redacted] - Washington, DC; [redacted] - Washington, DC; [redacted] - Washington, DC; [redacted] - Washington, DC; [redacted] - Washington, DC
Cc: [redacted] - Washington, DC; [redacted] - Washington, DC; [redacted] - Rosslyn, VA; [redacted] - Washington, DC; [redacted] - Washington, DC
Subject: Minutes of DVD mailer meeting - February 7

US-151

US-157

Below are my notes from Monday's DVD mailer meeting. As always, please let me know of any corrections or additions.

US-012 US-088

1. We introduced new group members [redacted] (Mailing Standards), [redacted] (Engineering – Flats), and [redacted]an (Engineering – Flats).
2. [redacted] reported that he had not completed the tests on the Engineering-designed letter piece, but that he will soon. He is also working on developing the document listing the criteria necessary for letter automation compatibility of DVD mailers. Mailing Standards will support this effort. US-159
3. We had a good discussion with the new Flats folks on the team. They were asked to work with [redacted] to develop similar (but much simpler) criteria for compatibility with flats automation equipment. One criteria will be for the pieces to be culled out of the letter processing stream. It was mentioned that smaller pieces (like the AOL disks) are more likely to jam than larger pieces. The potential for damage on the AFCS flats extractor was discussed and will be briefly examined. The flats group suggested a deadline of the end of March for their results - which would include size ranges and other criteria (paper type, weight, etc.) that would result in an acceptable piece for flats automation equipment. US-159
4. [redacted]e explained that Operations is looking to develop standards prohibiting the kind of DVD tray stacking that Netflix has complained about. US-068
5. [redacted] and [redacted] volunteered to edit the basic classification business proposal including the new flats option and then distribute it to the group. US-131
6. Because of delays in the testing of the letter piece and the addition of the flats option, our schedule is being pushed back a month or two. Subsequent to the meeting, we updated the schedule as follows: US-025
   End of March – testing and guidelines completed for letters and flats
   End of April – Classification and Federal Register notice completed and approved internally.
   End of May - Federal Register Notice issued. Classification filed at PRC.

Thanks very much for your good efforts and thoughts.

[redacted] -US-025

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Round-Trip Disc Mail (RDM) Work Group Minutes: 11 April 2005

The meeting began at 2 p.m. in Headquarters Conference Room 8621.
Members present:

Present	Members	Phone	Office
VS-152 X	[redacted]	202-268-[redacted]	Pricing and Pricing Strategy
VS-012 X		202-268-[redacted]	Mailing Standards
VS-014		703-280-[redacted]	Flat Mail Technology (Engineering)
VS-023 X		703-292-[redacted]	Sales
VS-156 X		202-268-[redacted]	Finance
VS-027 X		202-268-[redacted]	Pricing Strategy
VS-030		202-268-[redacted]	Pricing Strategy
VS-063 X		202-268-[redacted]	Operational Requirements
VS-066 X		202-268-[redacted]	Pricing Strategy
VS-068 X		202-268-[redacted]	Field Operations Standard Implementation
VS-073		703-280-[redacted]	Flat Mail Technology (Engineering)
VS-154		202-268-[redacted]	P&DC Operations
VS-084		202-268-[redacted]	Business Mail Acceptance
VS-077		202-268-[redacted]	Mailing Standards
VS-088		703-280-[redacted]	Flat Mail Technology (Engineering)
VS-153 X		202-268-[redacted]	Operational Requirements
VS-112		202-268-[redacted]	Law
VS-157 X		202-268-[redacted]	Law
VS-125 X		202-268-[redacted]	Product Management
VS-159		703-280-[redacted]	Letter Mail Technology (Engineering)
VS-131 X		202-268-[redacted]	Pricing
VS-136		703-280-[redacted]	Flat Mail Technology (Engineering)
VS155 X		202-268-[redacted]	Operational Requirements
VS-151 X		202-268-[redacted]	Operational Requirements
Guests			
VS-119	[redacted]	202-268-[redacted]	Manager, Business Evaluation

Agenda

1. **Engineering Reports and Physical Characteristics**
   -- Current testing procedures at local level (Team discussion)
   -- Stiffness criteria ([redacted] and [redacted]) VS-159 - VS-151
   -- Update on draft of DMM text for letter-size and flat-size mail ([redacted]) VS-012

2. **Planning Activities**
   --Telecoms with major RDM users ([redacted]r) VS-023
   --Activity plan ([redacted]n) VS-066
   --Business case update ([redacted]) VS-152
   --Subcommittee formation ([redacted]) VS-152
   --Rate Model update ([redacted]) VS-152

3. **Product Descriptions**
   --Product name trademarking update on contest ([redacted]r for [redacted]) VS-152 VS-112
   --RDM label design including FIMs ([redacted] for [redacted]) VS-066 VS-077

4. **Operational Issues**
   -- Mail Flow update (Team discussion)

Discussion Points and Tasks

1. Engineering Report and DMM Text

Testing Procedures US-047

The team was provided a photocopy of an internal memorandum on determining rate eligibility for mailpieces. The memorandum was dated February 11, 2004 and signed by [redacted] (manager of Mailing Standards) and [redacted] (manager of Business Mail Acceptance). It provides district managers of Business Mail Entry with procedures for determining rate eligibility for unusually designed mailpieces (which could include RDM pieces).

[redacted]

- **Task: Local Testing Procedures.** Review and determine needed revisions.
  Lead: [redacted]ll with [redacted]o; Due: 4/18/05.

Stiffness Criteria US012 US084

US151 [redacted] reported that [redacted] has attempted to collect information about the specifications on the Advance Facer Canceller System (AFCS) for trapping stiff (or rigid) pieces. No definitive explanation is yet available. [redacted] US-159

- **Task: Stiffness Criteria.** Work with [redacted] to determine actual specifications for working group to review and for possible addition to letter-size criteria.
  Lead: [redacted] with [redacted]; Due: 4/18/05.

DMM Text US-151 US-159

[redacted]

- **Task: DMM Text.** Present further DMM language for working group to review.
  Lead: [redacted] Due: 4/18/05.

US-012

2. Planning

Telecoms US-110 US-023

US-023 [redacted] briefly discussed the telecoms held with three of the four main mailers using the "experimental" two-way mail. [redacted]t conducted these telecoms, with participation from members of his staff, the appropriate sales representative for the account and [redacted] and [redacted]

The mailers appreciated the open communication and expressed interest in the timeline for the various activities leading up to the possibility of a minor classification filing with the Postal Rate Commission. The mailers also appreciated the proposed pricing design that would include both letters and flats and both nonpresorted and presorted mail preparation and corresponding rates. Tentative rates and envelope specifications, however, were not shared during the telecoms.

- **Task: Additional Telecom.** Arrange telecom with fourth RDM mailer.
  Lead: [redacted]; Due: 4/18/05.

Activity Plan US-023

US-066 [redacted] provided the team with an updated version of the RDM activity plan. She had already contacted several team members for additions and plan to complete her calls before next week. [redacted] reminded the team that each office would need to prepare a more comprehensive list for internal actions, especially as we start moving toward our target and internal committee reviews. Action items should include completion dates. US-066 US-119

US-027 [redacted] and [redacted] both pointed out the need to be prepared for reviews from the rate case advisory group (RCAG), rate case steering committee (RCSC), and then Executive Committee (EC). A comprehensive activity plan would be an invaluable asset for preparing for such reviews.

- **Task: Activity Plan Update.** Complete contacting remaining offices individually for additions to activity plan document.
  US-066 Lead: [redacted] Due: 4/18/05.

Business Case, Subcommittee, Rate Model US-125

US-152 [redacted] reported that he and [redacted] had completed four of the six sections of the business case form used by the Pricing and Classification Policy Committee (PCPC) and planned to complete the draft before the next weekly meeting. It was mentioned that our project would not need to go through PCPC, however, because it met the requirements of a cross-organizational team. The first subcommittee meeting for rate filing preparation is scheduled for 4/13/05. Part of that meeting will include looking at an appropriate rate model to pursue.

- **Task: Business Case.** Provide draft of progress on business case. Collect financial data to support business case, with volume and cost projections.
  Lead: [redacted] with [redacted] and [redacted]; Due: 4/18/05.
  US-152 US-125 US-156

3. Product Description

Product Name

US-112 [redacted] who was not able to attend the meeting, reported that she has received several product names. The team agreed to extend the "name-that-product" contest one more week.

- **Task: Name of Service.** Collect possible names for service from team members. Provide team with update on submitted proposals.
  Lead: [redacted]; Due: 4/18/05.

Label Design US-112 US-110

US-066 [redacted] has collected comments on the label design and will share them with [redacted] who was unable to attend the meeting. [redacted] FIM D does not cause such mail to bypass the cancellation operation altogether as originally believed.

- **Task: RDM Label Design.** Revise preliminary RDM design format based on comments from team.
  Lead: [redacted] with [redacted]; Due: 4/18/05.
  US-077 US-066

4. Operational Issues

Mail Flow

US-153 [redacted] agreed to have his team assist in developing a preliminary mail flow for incoming RDM. This information could prove valuable for any unusual elements in current processing of this mail.

No further action has occurred with any proposed national standard operating procedure (SOP) for processing this type of mail. It was reported that an SOP has been completed but awaits further senior management review as an interim solution for handling RDM. Any SOP would probably include best practices. At this point, the RDM work group has not formed a specific operational subcommittee to pursue this issue.

- **Task: Mail Flow.** Begin preliminary description of mail flow for RDM mail now in system.
  Lead: [redacted] and P&DC; Due: update on 4/18/05.
  US-153

Respectfully submitted,
Pricing Strategy

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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	[redacted]	202-268-[redacted]	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-034		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-125 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- [redacted]	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 [redacted] US-159

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Discussion Points and Tasks

VS 027

1. Pricing, Product, and Mailing Standards Update

VS 152

(a) Teleconferences with RDM Mailers

VS 066

[redacted] and [redacted] reported on the series of teleconferences that Pricing Strategy conducted from September 21 through September 26 with Netflix, Blockbuster, GameFly, the [redacted].

VS 023 [redacted] who also participated, coordinated the schedules for the associated account managers or sales specialists: [redacted] (for Blockbuster), [redacted] (for Netflix), and [redacted] (for GameFly). Other Postal Service participants included [redacted], [redacted], [redacted], and [redacted]. We are including notes from those teleconferences for reference.

GF-001

VS 151

VS 157

VS 153

BB-009

NF 010

VS-110

Netflix

September 21 Teleconference

Netflix participants:

- [redacted] Chief Operating Officer NF 013
- [redacted] Senior Director, Postal Operations NF-016
- [redacted] Attorney
- [redacted] Attorney [redacted]

VS110 [redacted], 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. [redacted] then detailed the major pricing and classification requirements including the testing and certification of participating mailpieces. VS110

NF 013 [redacted] 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:

- Automation. [redacted] 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).

  NF 013

  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.

NF-013

- 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.

  NF016

  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.

NF013

- Planet Codes and Special Rate Markings. [redacted] 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.

  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.

NF013

NF-013 [redacted] then enumerated several other points critical to Netflix (all of which focused in some way on costs):

NF-013

- Breakage. [redacted] 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. [redacted] 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.

NF-013

- New Envelope Designs. [redacted] 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:

- [redacted] Chief Operating Officer NF-013
- [redacted] Senior Director, Postal Operations NF-016
- [redacted] Attorney
- [redacted], Attorney [redacted]

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. [redacted] 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.

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. [redacted] 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. [redacted] also

NF013

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-151

US153 [redacted] an [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. US153

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.

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. NF-013

NF 013 [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.

NF013 [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]

September 22 Teleconference

[redacted] participant: [redacted] President

[redacted]

GameFly

September 22 Teleconference

GF-002

GameFly participant: [redacted]

GF002

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

Blockbuster

BB-016

September 23 Teleconference

Blockbuster participant: [redacted]

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

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 on 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 [redacted] our Business Service Network (BSN) records indicate many start-up problems with Blockbuster mailpieces not bearing postage found in collection boxes. BB016

BB016 [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

[redacted]

September 23 Teleconference

[redacted] 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]. Discuss issues with RDM team.
Lead: [redacted] Due: discuss at 10/17/2005 meeting.

US152

(b) Postage Statement Workaround for Prepaid Returns

US023 [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] PO-001

NF-010 [redacted] 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.

▶ **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

2. Engineering and Operations Update

(a) Test of 60-Pound Stock DVD Envelopes

US159 [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.

US159 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 runes. [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. US159 US159

US159 [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.

US159

Respectfully submitted,
Pricing Strategy

Agenda
Round-Trip Disc Mail (RDM) Workgroup
17 October 2005, 2:00 to 3:00 p.m.
Headquarters Conference Room 1P439

1. **Pricing, Product, and Mailing Standards Updates**
   -- Meeting with Postmaster General [redacted] US 110
   -- Operational meeting with [redacted] US 154
   -- Postage statement update ([redacted] o[redacted]) [redacted] PO-001; US 152
   -- Centralized permit postage payment for Blockbuster ([redacted]) US 152
   -- Visit to Netflix plant in Gaithersburg [redacted] US 152

2. **Engineering and Operations Update**
   -- Tests for 60-pound stock [redacted] US 159
   -- Development of "recommendations" publication [redacted] US.152

Comments:

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Action Items:

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The October 17 meeting began at 2 p.m. in Headquarters Conference Room 1P439.
▶ Next meeting (Netflix tours): Tuesday, November 1, and Wednesday, November 2, 9 a.m.; Netflix Fulfillment Center, 2 Choke Cherry Road, Rockville, MD; Telephone: (301) 977-1410.

	Present	Members	Phone	Office
US-152	X	[redacted]	202-268-[redacted]	Pricing and Pricing Strategy
US-012	X		202-268-[redacted]	Mailing Standards
US-023			703-292-[redacted]	Enterprise Sales Solutions
US-156	X		202-268-[redacted]	Finance, Business Evaluation
US-027	X		202-268-[redacted]	Pricing Strategy
US-030	X		202-268-[redacted]	Pricing Strategy
US-033			202-268-[redacted]	Implementation and Outreach
US-063	X		202-268-[redacted]	Operational Requirements and Integration
US-066	X		202-268-[redacted]	Pricing Strategy
US-068			202-268-[redacted]	Field Operations Standard Implementation
US-074			202-268-[redacted]	Pricing
US-154	X		202-268-[redacted]	P&DC Operations
US-084			202-268-[redacted]	Business Mail Acceptance
US-077			202-268-[redacted]	Mailing Standards
US-112			202-268-[redacted]	Legal Policy and Rates
US-157			202-268-[redacted]	Legal Policy and Rates
US-125			202-268-[redacted]	Product Management
US-159	X		703-280-[redacted]	Letter Mail Technology (Engineering)
US-131	X		202-268-[redacted]	Pricing
US-136			703-280-[redacted]	Flats Mail Technology (Engineering)
US-137			212-330-[redacted]	Pricing and Classification Service Center
US-155	X		202-268-[redacted]	Operational Requirements and Integration
US-151	X		202-268-[redacted]	Operational Requirements and Integration
	Guests			
US-110	X	[redacted]	202-268-[redacted]	Pricing Strategy

Agenda

NF016

1. **Pricing, Product, and Mailing Standards Updates**
   (a) Pricing Meeting with Postmaster General [redacted] -US-110
   (b) Operational Meeting with [redacted] US 154
   (c) Postage Statement Implementation [redacted] for [redacted] US-152; PO-001
   (d) Centralized Permit Postage Payment for Blockbuster [redacted] - US-152
   (e) Tour of Netflix Fulfillment Center in Rockville, Maryland [redacted] US-152

2. **Engineering and Operations Update**
   (a) Test of 60-Pound Stock DVD Envelopes [redacted] US-159
   (b) "Recommendations" Publication for DVD/CD Mailpieces [redacted] for [redacted]
   US-152; US-125

Discussion Points and Tasks

1. Pricing, Product, and Mailing Standards Update

(a) Pricing Meeting with Postmaster General

US110 US113

US-110 US-071 [redacted] discussed the highlights of the October 13 meeting between [redacted] and [redacted] and [redacted] regarding the proposed experimental classification for Round-trip Disc Mail (RDM). During the meeting, [redacted] briefly described his October 5 tour of the Netflix fulfillment center in San Jose, California, and his discussions with [redacted], and other members of the Netflix management team. US113

US113 [redacted] reported that Netflix explained how its operational system worked to integrate customer fulfillment with our entire postal network—such as our logistical infrastructure, acceptance operations, mail processing, and delivery methods—to optimize customer service. Netflix appreciated the cooperative spirit of the Postal Service but also continued to experience frustrations with certain operations and certain parts of the country. [redacted]

- [redacted]
- [redacted]

[redacted]

US113 [redacted] considered Netflix to be a success story for the Postal Service and was looking for cooperative efforts from the RMD mailers and the Postal Service to further that success. Some areas that we could explore include developing marking standards, codifying mailing standards for round-trip mail, and preparing standard operating procedures for business mail acceptance.

> ▶ **Task: Costing Study.** Participate in development of a cost study.
> Lead: [redacted], [redacted] Due: update at next meeting.

US-110 US-030

(b) Operational Meeting with Bill McComb

NF016

US-154 US-161 US162 [redacted] provided the work group with an overview of a meeting conducted on October 12 at Headquarters by [redacted] manager of Processing Operations with [redacted] senior director, Postal Operations for Netflix. [redacted] acting manager of P&DC Operations and [redacted] were also present at the meeting. The main issues discussed at the meeting included the following: US-154

- Examine the service network and overnight network in particular to determine where adjustments could be made to critical entry times and other clearance times within the pertaining to hubs in the national Netflix system.
- Review caller service times and availability of mail for Netflix.
- Continue reviewing possible causes of disc damage.

US-154

[redacted] reported that P&DC Operations would follow through with a review of the critical entry times and caller service hours to see where and how adjustment could be made.

> ▶ **Task: Operational Review.** Follow through with analysis of critical entry times and caller service hours at designated facilities.
> Lead: [redacted] Due: provide update at next meeting.

US-154

(c) Postage Statement Implementation

NF-010

US-152 [redacted] reported that [redacted], the national account manager for Netflix, and [redacted] -PO-001 [redacted] marketing specialist, had successfully worked with the largest RDM mailer to finalize its systems modifications that now use the new May 2005 edition of the First-Class Mail postage statement (PS Form 3600-R).

PO-001 - [redacted] worked with Business Mailer Support and Revenue and Volume Reporting in meeting the requirements for proper data collection, business mail acceptance, and RPW (revenue, volume, weight) compilation. [redacted] will issue another reminder in the "Business Mail Acceptance Newsletter" on October 27 to instruct business mail entry clerks how to enter data correctly into PostalOne! We will continue our work with the other RDM mailers to update their postage statement reporting.

PO-001 -

> ▶ **Task: Postage Statement Implementation.** Continue conversion process for RDM mailers.
> Lead: [redacted] [redacted] Due: provide update at next meeting.

US-152 PO-001

(d) Centralized Permit Postage Payment for Blockbuster

BB-015
BB-022
BB-023

We met on October 13 with [redacted] [redacted] and [redacted] to discuss the issue of Blockbuster employees handing prepaid permit imprint mail either to carriers coming by retail stores or allowing Blockbuster employees to take these small mailings to a retail window at a local postal unit such as a station or a branch. Blockbuster would be permitted to use such a system because of existing mailing standards that allow the aggregation of permit imprint mail from various sites to meet minimum volume requirements of 200 pieces or 50 pounds for each mailing.

BB-015

[redacted] mentioned that he would need to develop a set of requirements for implementing a centralized permit postage payment system, including using four-state codes to identify each mailpiece and creating a practical audit regimen. He also mentioned the need for funding to cover development costs in establishing a system that leveraged technology to perform audits automatically without the need for employee data collection.

BB-015

[redacted] believed that the system would match outgoing information for orders placed online and transmitted to the retail stores with the information obtained from the passive scanning of the barcodes on the outgoing mailpiece representing those orders. The development costs would arise from creating a way to match the manifest data with the four-state code data.

> ▶ **Task: Centralized Postage Payment System.** Continue working with Business Mail Support to find a systems solution.
> Lead: [redacted] Due: provide update at next meeting.

US-152

(e) Tour of Netflix Fulfillment Center in Rockville, Maryland

NF-016

[redacted] the senior director for postal operations for Netflix, has agreed to lead tours of the new automated Netflix fulfillment center ("hub") near the Gaithersburg Plant & Distribution Center (P&DC). The tours will take place at 9 a.m., on Tuesday, November 1, and Wednesday, November 2. Additional information and directions will be sent to the work group.

The new center is located in an office park building off Shady Grove Road at 2 Choke Cherry Road, Suite 50, Rockville, Maryland 20850. The center is in the back of the building on the lower level. The telephone number for the center is (301) 977-1410.

> ▶ **Task: Tour of Netflix Facilities.** Arrange tours.
> Lead: [redacted] Due: October 24, 2005.

US-152

2. Engineering and Operations Update

(a) Test of 60-Pound Stock DVD Envelopes

VS-159 [redacted] reported that he has thus far been able to test entirely 1,950 prototype samples out of the total 5,000 sample lot of the smaller and lighter prototype DVD envelopes he designed. The complete test requires three runs on the delivery point barcode sorter (DBCS) to simulate an outbound mailing, followed by the conversion (reconfiguration) of the same pieces into the return part of the mailing. These converted pieces are then run through the advanced facer-canceler system (AFCS), followed by three more runs on the DBCS.

Damage to discs contained in these 1,590 pieces is about 1.6% (based on a sampling of 370 pieces examined from the entire 1,950 pieces run, of which only 6 discs exhibited breakage). The 100 additional sample prototype pieces returned individually via the mail from a test conducted by Siemens showed about a 2.0% damage rate.

None of these tests, however, answers the question of whether certain discs (from various manufacturers) are prone to damage and others are not, and the question of whether damage occurs either at the beginning of processing or at a much later stage as a result of the cumulative effects of repetitive stress.

VS-159 [redacted] reported that the prototype samples were run on a different DBCS and, as a consequence, performed much better than previous runs. There were no jams this time in feeding the test samples into the equipment or in the processing of the samples, and the samples stacked well in the appropriate bins. The lighter weight 60-pound paper used for the prototype samples still leads to greater paper degradation than the heavier weight 70-pound paper.

▶ **Task: Test of 60-Pound Stock DVD Envelopes.** Continue testing procedures.
Lead: [redacted]. Due: provide update at next meeting.

VS-159

(b) "Recommendations" Publication for DVD/CD Mailpieces

The mailing industry as well as two RDM workgroup members—Barry Walsh and Frank Spencer—have suggested that we create and publish a set of guidelines on preparing mailpieces for optical disc mail. Last year, Product Development and Engineering, in conjunction with an MTAC USPS-Industry workgroup issued Publication 178, Recommendations for Designing Flat-Size Mail, which showed mailers ways to create flat-size mailpieces that processed well on current flat-sorting equipment.

[redacted]

▶ **Task: Recommendations Publication.** Determine feasibility of issuing such a publication.
Lead: [redacted]. Due: provide update at next meeting.

VS-125

Respectfully submitted,
Pricing Strategy

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 outbound and slightly under 1 ounce returning due to the tear-off address label.

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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: [redacted]

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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]