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ANSWER OF GAMEFLY, INC., WITNESS SANDER GLICK  
TO PUBLIC REPRESENTATIVE INTERROGATORY  
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**PR/GFL-T1-1.** On Page 5 of your testimony you state “the estimates of the cost of handling Netflix DVD mailers may be understated.” The data used in the estimation of the DVD mailer costs are from 2005.

- a. How does the age of the data used affect the accuracy of the results?
- b. Does the use of the 2005 Single Piece Under 1 oz allied costs for Inbound Mail accurately estimate the additional costs of setup associated with Netflix mail, especially Netflix only trays?
- c. Other than set up costs associated with culling Netflix mail, are there any other know operations specific to Netflix mail that are not modeled? If so, please explain what the likely costs are.

**Answer:**

a. Many inputs to Postal Service cost models (*e.g.*, wage rates, cost variabilities, and piggyback factors) are updated annually. While such updates may affect the *absolute* unit costs of handling Netflix and GameFly mail pieces, they should have a much smaller effect on the *relative* costs of handling the two companies’ mail. This is because many of the same inputs (*e.g.*, wage rates) are used to model costs for both GameFly and Netflix mail pieces. Hence, changes in such inputs would have a similar effect on the cost of each customer’s mail. For this reason, the age or vintage of the data is unlikely to undermine the main conclusion of my study: **[BEGIN USPS PROTECTED]**

**[END USPS PROTECTED]**

b. The USPS handling of Netflix inbound mail clearly differs in several respects from the USPS handling of the average less-than-one-ounce First-Class Mail Single-Piece letter. While Single-Piece Letters are generally sorted on automated letter equipment, the processing of Netflix mail can include the following:

- “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.”

GFL0001364.

Examples of USPS Standard Operating Procedures (“SOPs”) for handling Netflix pieces can be found at GFL0000527-GFL0000542. Given these processing differences, allied costs of a less-than-one-ounce Single-Piece letter provide an imperfect proxy for Netflix allied costs. Accordingly, the First-Class Mail Single-Piece letter proxy may understate the costs of setting up Netflix-only trays. On the other hand, Netflix inbound pieces are likely handled at fewer postal plants, on average, than Single-Piece letters. These potentially offsetting differences (among others) make it difficult to know whether this proxy understates or overstates Netflix allied costs. Despite these limitations, however, the less-than-one-ounce Single-Piece letter proxy may provide the best available estimate of Netflix-specific allied costs.

c. The Standard Operating Procedure (“SOP”) for containerizing Netflix inbound pieces is to stack sleeved EMM trays in brick laid orientation no more than four layers high in shelved General Purpose Mail Containers. GFL0000520-21. While the Netflix cost model includes costs to sleeve EMM trays, it does not explicitly model the cost of bricklaying these trays into shelved containers or subsequent operations. I do not know how this SOP affects allied costs for Netflix mail pieces.

Netflix costs may be understated in at least two important respects:

- **Culling.** Netflix inbound pieces are culled throughout postal operations. See GFL0001025. This means that clerks and mailhandlers and other USPS personnel must watch for Netflix inbound pieces in addition to performing their primary jobs. While the

size of the effect on cost is difficult to quantify, the effect on overall efficiency is likely to be negative. The manual culling of Netflix pieces may also drive up the Postal Service's cost of handling mail pieces sent by other DVD mailers (e.g., if an employee manually culls GameFly pieces with Netflix pieces, rather than allowing them to divert into the flats mailstream).

- **Jams and Other Processing Problems. [BEGIN USPS PROTECTED]**

**[END USPS PROTECTED]** the Netflix model may understate the costs of jams and other processing problems. For Netflix pieces that are processed on letter automation, these costs could be large. In FY 2005, the piggybacked hourly compensation for postal employees on a delivery barcode sorter ("DBCS") was more than \$60 or \$1 per minute. Calculated using the "Other Mail Processing" wage rate and DBCS piggyback factors from Docket No. R2006-, USPS-LR-L-48, FCM.xls, "WAGE RATES - PIGGYBACK FACTORS." Thus, a jam that causes ten minutes of nonproductive time (e.g., five minutes of nonproductive time for two employees) increases Postal Service costs by \$10.