

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

SIX-DAY TO FIVE-DAY CARRIER DELIVERY  
AND RELATED SERVICE CHANGES, 2010

Docket No. N2010-1

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS  
WHITEMAN TO INTERROGATORIES OF  
AMERICAN POSTAL WORKERS UNION, AFL-CIO  
APWU/USPS-T9-1-8  
(June 21, 2010)

The United States Postal Service hereby files the responses of witness Whiteman to the following interrogatories of the American Postal Workers Union, AFL-CIO: APWU/USPS-T9-1-8, filed on May, 28, 2010.

Each interrogatory is stated verbatim and followed by the response.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

R. Andrew German  
Managing Counsel, Pricing and  
Product Development

Daniel J. Foucheaux, Jr.  
Chief Counsel, Pricing and Product  
Support

Kenneth N. Hollies  
Michael T. Tidwell  
Attorneys

475 L'Enfant Plaza West, S.W.  
Washington, D.C. 20260-1137  
(202) 268-3083; Fax -3084

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**APWU/USPS-T9-1:** The focus groups you discuss were presented with an option of a 10 percent rate increase or 5-day delivery in order to reduce what was presented to the group as a “massive deficit of \$7 billion this year. And, it will face a similar deficit next year.”

a) Is the Postal Service planning for a 10 percent exigency case? If not, why were consumers presented with only this one option against which to evaluate a reduction in delivery days?

b) Were consumers made aware that the Postal Service intends to file an exigency rate case later this year even if it decides to go ahead with the 5-day delivery plan?

c) Were these consumers ever presented with any version of the Postal Services’ forecast of a \$200+ billion cumulative budget deficit, similar to the one presented on March 2, 2010?

d) Current USPS financials show that the Postal Service’s original projection of a \$7 billion deficit for this year is somewhat unlikely. Were the focus groups ever told that there was any doubt about the accuracy of that financial forecast?

**RESPONSE:**

a-b. I am not involved in the planning for any potential price increase and thus do not have any official information. During the focus groups, we provided participants in the focus groups two alternatives that the Postal Service could use to resolve its financial problem. One alternative was implementation of five-day delivery and the other was a significant price increase. The research design accordingly assessed how customers would react to implementation of five-day delivery as an alternative to a significant price increase. When the groups were conducted, no decision or announcement about the possibility of the filing of an exigent rate case had been made. As a result, informing respondents about a forthcoming exigent case was not then a possibility.

c. No. The focus groups were conducted months before the March 2 presentations.

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d. No. The current financial projections did not exist when the focus groups were designed or conducted.

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**APWU/USPS-T9-2:** On page 3 [17-19] of your testimony you state that “focus groups and interviews discussed the impact five-day delivery would have on consumers and businesses and how they would adapt to the change in service.” In Appendix A you indicate that respondents were provided with a three point explanation of why the Postal Service was moving from six- to five-day delivery and one of those points was “To accomplish this, the Postal Service is developing a plan to transition from six- to five day delivery.” Both of those statements ask the customer to predispose themselves to the assumption that a five-day delivery schedule is a given. Was the Postal Service’s primary focus for this task studying the customer’s ability to adapt to such a change?

**RESPONSE:**

See the lines of testimony you cite from page 3 as well as later on that page, at lines 22-24, “We used focus groups to speak with customers about their behavior, perceptions, and expected responses to changes described in the operational concept.”

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**APWU/USPS-T9-3:** In making your estimates of revenue impact, you appear to have focused on making the estimates from the mail senders' perspective. Did you make any attempt to estimate how the reductions in mail volume will be distributed across mail routes?

- a) Is there any reason to believe that mail volume losses will be spread equally across all mail routes?
- b) Based on the type of mail that you estimate will be lost, isn't it more likely to reduce the number of pieces delivered to households on the more profitable routes? If this possibility was evaluated please provide any documents generated from that research.
- c) Was any analysis done to estimates how many routes that are currently break-even or money making routes would be turned into money-losing routes due to these volume losses? If so please provide any documents generated from that research.

**RESPONSE:**

a. No. We did not design the quantitative research to develop an estimate of the volume impact "across mail routes."

b-c No analysis of how volume reductions across routes or households might be distributed was planned or undertaken in the market research.

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**APWU/USPS-T9-4:** You appear to have used customer responses to estimate volume losses using a FY2009 baseline.

- a) Is that correct?
- b) Were customers asked to make their estimates assuming their 2009 mailings as a baseline?
- c) Were any alternative scenarios considered by either you or the customers about potential impacts if the economy improved? If so please provide those estimates.
- d) Did the customer provide the likelihood of change measure? If so, were they given instructions to base it on their 2009 experiences or were they to base it on their expected 2010 experiences?

**RESPONSE:**

- a. Yes.
- b. Yes, both commercial customers and consumers were asked questions which established FY2009 as the base line. See USPS-T-8, Appendix F (Business Segments Questionnaire), questions Q1 and Q4; Appendix G, (Consumer Questionnaire) questions Q2a, Q4a, Q5a-d; Q6a-d. Since we conducted these interviews in October 2009 or the start of FY 2010, the use of “the past 12 months” was consistent with FY2009.
- c. No.
- d. Yes. For the commercial organizations it was addressed in Q10 (USPS-T-8 at 104). For consumers it was addressed in Q5a-d (USPS-T-8 at 170).

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**APWU/USPS-T9-5:** On page 3 [4-5] of your testimony you state that consumers would increase their use of Priority Mail to ensure timely delivery.

- a) Were consumers made aware that Priority Mail would only be delivered on a 5-day schedule?
- b) This use of Priority Mail represents an increased lack of confidence in the Postal Service's service.
  - i. What type of consumers indicated they would make this choice?
  - ii. What percentage of consumers indicated they would make this choice?

**RESPONSE:**

- a. Yes. USPS-T-9, Appendix A.
- b. I disagree with your claim that "This use of Priority Mail represents an increased lack of confidence in the Postal Service's service."
  - i. We did not collect data on consumer types.
  - ii. This information is not available from the qualitative research to which this question refers. However, based on the quantitative research (see USPS-T-8 at 173), five percent of consumers indicated their Priority Mail volume would increase in a five-day environment.

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**APWU/USPS-T9-6:** On page 4 [20-24] of your testimony you state “[c]onsumers did acknowledge that Saturday provided them an opportunity to receive at home to receive (sic) packages and accountable items such as Certified Mail™. However, if the Postal Service kept retail units opened [sic] on Saturday, this would allow them to have continued access for picking up packages and accountable items.” Did consumers indicate that these were two options were interchangeable and of equal value to them?

**RESPONSE:**

No. However, we can say that both options are perceived as useful by consumers.

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**APWU/USPS-T9-7:** On page 3 [24-26] you state that focus groups are not statistically representative of customers but allow an in-depth understanding of how customers react to change. On page 8 [3-5] you state that executives of organizations representing the Postal Service's top accounts provided information on targeted customers [sic] groups [sic] reactions to a change to 5-day delivery but stated that those were not a statistically representative sample.

- a) When making your revenue and volume estimates, did you base all of your work on a separate statistically representative sample or did you extrapolate from information provided by the focus groups and executive interviews?
- b) What was the reaction of the executives of large pharmacy benefit management companies (PBMs) such as Medco Health Solutions to the idea of five-day delivery?
- c) Did any executive or other representative of a large PBM company express concerns about dropping Saturday delivery and, if so, what were those concerns?
- d) Did any executive or other representative of a large PBM company state that his company would have to find alternative means of delivery if the Postal Service stops Saturday delivery?

**RESPONSE:**

a. Estimates are based on quantitative research. USPS-T-8; *see also*, USPS-T-9, Section III (Quantitative Market Research), starting at p. 10. .

b. No PBM representatives are known to have been involved in the market research. .

As is explained in witness Pulcrano's testimony, USPS-T-1, at pages 7 -8, the Postal Service briefed the mailing industry, including shippers of medicines on its plans to implement five-day delivery. I have been informed that these companies indicate they would prefer not to see five-day delivery implemented, but generally said that they would adjust their operations if five-day delivery was implemented<sup>1</sup>.

Since many prescriptions are refills for 60 or 90 day supplies, one can intuitively

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<sup>1</sup> I have also been informed that Mr. Underkloffer of Medco confirmed this in the Commission's Las Vegas field hearing.  
<http://prc.gov/Docs/68/68194/Las%20Vegas%20field%20hearing%20transcript.pdf>

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presume that they could adjust their operations. Based on input from PMBs, the

Postal Service provides shippers of medicines the following information:

- **Medicines** — Mailers of medicines, especially laboratory specimens or items shipped in dry ice, will be strongly encouraged to schedule arrival at the DDU Monday through Friday. Mailers needing Saturday delivery of medicines have the option to use Express Mail. If an item arrives at a DDU after the critical entry time on Friday, the Postal Service will contact the recipient to arrange for the item to be picked up Friday or Saturday.

See, [http://www.usps.com/communications/five-daydelivery/plan/c3\\_1.htm](http://www.usps.com/communications/five-daydelivery/plan/c3_1.htm).

c-d. See the response to APWU/USPS-T9-5(b).

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**APWU/USPS-T9-8:** On page 5 [18-21] you state that customers are generally willing to accept a reduction in service if it will help solve the Postal Service's financial problems and it is more than a temporary solution. On page 8 of your testimony you state "[a] common expectation was that the move to five-day delivery could reduce the need to increase prices as frequently as in the past few years." In your opinion, were the customers' reactions on which you based your estimated volume and revenue losses predicated on the customers' presumption that this change would resolve most of the Postal Service's problems and reduce the frequency of its rate increases?

**RESPONSE:**

The market research did not address this question directly. As stated in my testimony, USPS-T-9, pages 3-4, "the qualitative research taught us that customers will accept five-day delivery with the understanding that it is necessary to long term stability for the Postal Service. Conversely, customers would not accept a significant price increase because it would not (by itself) ensure long term stability."

The quantitative research provided us responses from commercial customers on what they had mailed and shipped in the past 12 months, what they projected they would mail and ship in the next 12 months, and what they projected they would mail and ship in the next 12 months if we implemented five-day delivery. This research also provided responses from consumers on what they had mailed and shipped in the past 12 months and what they would have mailed and shipped in the past 12 months if we had implemented five-day delivery.

In describing five-day delivery, we noted that "this would remove delivery costs and help bring the financial picture into better balance." (USPS-T-9, Appendix A, lines 12-13) I cannot state with certainty that customers' responses were, or

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were not, predicated on a presumption that this change “would resolve most of the Postal Service’s problems and reduce the frequency of its rate increases.”

We certainly never told them so. As a result, I believe that most customers understand five-day delivery would be a key strategy to help the Postal Service resolve its financial difficulty.