

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

RESPONSES OF UNITED STATES POSTAL SERVICE WITNESS
WHITEMAN TO INTERROGATORIES OF
NATIONAL NEWSPAPER ASSOCIATION,
NNA/USPS-T9-1-12
(June 22, 2010)

The United States Postal Service hereby files the responses of witness Whiteman to the following interrogatories of National Newspaper Association, NNA/USPS-T9-1-12, filed on June 7, 2010.

Each interrogatory is stated verbatim and followed by the response.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

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RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS
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NNA/USPS T9-1

In your testimony on p. 8, you describe a conclusion about the attitudes of businesses that need Saturday delivery, which was reached as part of the Postal Service's qualitative research:

"Companies who do need Saturday delivery indicated that they would use a premium service...

- Most see the proposal as a fundamental business decision and recognize it may be necessary in light of the economic situation the Postal Service faces. They are potentially more accepting of it now than they would have been in other years given the current recession and our economic situation.

- a. Does "it" in the bulleted sentence mean 5 day delivery or the necessity of businesses' paying Express Mail rates as a substitute for First-Class mail rates?
- b. Is the "fundamental business decision" you name here a reference to the Postal Service's decision or the businesses' accepting of premium rates in order to handle their own business needs?
- c. Does it seem counter-intuitive to you that businesses making a business decision in a "current recession" would be more accepting of a premium price rather than less accepting?

RESPONSE:

- a. "It" refers to the implementation of Five-Day Delivery.
- b. The "fundamental business decision" refers to the implementation of Five-Day Delivery
- c. At all times, customers have had the ability to assess their needs and make decisions on what postal services to use. This would include a decision to use First-Class Mail, Priority Mail, or Express Mail. The implementation of Five-Day Delivery will have no effect on the ability of customers to choose among these services to meet their needs. They will continue to be able to consider the speed of service and the price of the service they need.

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NNA/USPS T9-2

Please refer to your response to GCA/USPS T9-6. When the questions for the qualitative market research were formulated, did you believe the Postal Service would enact no price increase in the foreseeable future?

RESPONSE:

I have not been involved in the planning for any potential price increase and thus did not have any official information at the time we developed the plans for the focus groups.

During the focus groups, we provided the participants two alternatives which the Postal Service could implement to resolve its financial problem. One alternative was implementation of five-day delivery and the other was a significant price increase. We did this in order to assess how customers would react to the implementation of five-day delivery as an alternative to a significant price increase. At the time that we developed the discussion guide for the focus groups and when the groups were conducted, there was no decision or announcement about the possibility of the filing of an exigent rate case. As a result, there was nothing that could have been included in the design of the focus groups about such a filing. We tested customers' reaction to five-day delivery and a significant price increase, which we defined as a 10 percent increase. See my response to NNA/USPS-T-9-2.

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NNA/USPS T9-3

What was the basis of the Postal Service's choice of a 10 percent price increase as an alternative to 5 day delivery, when formulating questions for the consumer or business studies?

RESPONSE:

As noted in my response to NNA/USPS T9-2, we conducted the research to assess how customers would react to the implementation of five-day delivery as an alternative to a significant price increase. As the revenue of the Postal Service was around \$70 billion, I felt that a 10 percent, which would generate \$7 billion in revenues, would be considered significant.

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NNA/USPS T9-4

If the focus groups or interviewees in the market research studies had been presented with a third alternative, such as cost-cutting by the Postal Service without a material reduction in services, do you believe you would have received different responses? If so, please explain why no such alternative was discussed?

RESPONSE:

See the Response of witness Pulcrano to NNA/USPS-T-1-11.

Implementation of the Saturday delivery plan is a significant cost-cutting effort. Customers in the research perceived this change in service as a way to ensure the financial viability of the Postal Service.

During the qualitative market research focus groups there was a discussion of the actions the Postal Service could take to ensure its financial viability.

Additional cost cutting measures beyond eliminating Saturday delivery, collections, and processing were discussed by a few customers. These few discussed reducing the number of Postal Service employees. Most customers did not perceive that any other alternative would produce sufficiently significant savings to ensure the financial viability of the Postal Service.

As we did not include any discussion of cost cutting with a material reduction in service by the Postal Service as an option for customers to consider, I am unable to provide the likely response of customers to that option. However, based on the discussions in the focus groups, I think it is reasonable to assume that the reaction would not have been the same as the reactions to the five-Day Delivery and the 10 percent price increase.

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Even given that, I did not include this as an option as no “cost-cutting option without a material reduction in service” had been identified as a realistic option to assess in research.

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NNA/USPS T9-5

Do you believe participants in the market research studies were sensitive to the potential impact upon the Postal Service workforce if a strategy for further cost-cutting without service reductions were suggested by the Postal Service? If your response is yes, please explain the basis of your response.

RESPONSE:

From the discussion during the focus groups, it was clear that some of the participants assumed that there could be impact on employees, including employees losing their jobs, from implementation of Five-Day Delivery. I would presume that participants made some assumptions on the potential impact on employees if we had presented an option “for further cost-cutting without service reductions.” Some made that assertion in discussing possible steps that the Postal Service could take to ensure its future financial viability. See my response to NNA/USPS-T-9-4.

However, the participants were not presented with any information on the specific human resource actions that the Postal Service would take in implementing Five-Day Delivery. As a result, the comments they made were not based on shared factual information. This would also have been the case if we had presented an option “for further cost-cutting without service reductions.”

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NNA/USPS T9-6

Please see the following statement on p 7 of your testimony: “At the same time, customers recognize that the Postal Service delivers a huge volume of mail at a relatively low cost.”

- a. Please provide any documents upon which you relied to form this opinion.
- b. Do you believe the customers referred to in this statement primarily had the first-class stamp in mind? If not, please explain which rates you believe the customers to which you refer had in mind.

RESPONSE:

- a. This statement reflects what I have learned over many years as a marketing executive: customers perceive the Postal Service as providing highly reliable service at an affordable price and recognize that we do so while delivering large volumes of mail on a daily basis.

This statement was directly supported by comments in the focus groups.

Below are examples of specific quotes from various transcripts contained in LR –N2010-12-Market Research Materials Responsive to DFC/USPS-

T8-1.¹ Each quote indicates the specific transcript for reference.

Male: I think I value the level of packages they deliver successfully on time, packages and mail. I think they're doing volumes, and volumes, and volumes of pieces of mail that we probably couldn't even comprehend or deal with. Opinion Research Corp-USPS 5 Day Work Delivery Atl Low Income Ctr CityRedacted.pdf, pg 20, line 5.

Male: I would say what primarily drives people to the post office is the price in my business. It's an inexpensive way to get out a lot of information. Opinion Research Corp-USPS 5 Day Work Delivery NY Bus Standard MailersRedacted.pdf, pg 5, line 4

¹ NNA is also free to examine the transcripts for whatever purpose it chooses.

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Male: That too. I think if you talk about what they do well is they move a lot of stuff and they do it fairly inexpensive. There are not really a lot of options at that price level. It's effective. Opinion Research Corp-USPS 5 Day Work Delivery NY Bus Standard MailersRedacted.pdf, pg 24, line 12

Male: If you look at it the big picture, in my business it has to be done. The value is there. Like we all agree, all the effort that goes in to move all this stuff all over our country, and I recently was on trip. I was standing in an airport looking out the window, and I see these bags of mail going in the belly of a plane. It takes a lot of time and effort to move all this stuff. Who knows how big this mountain is. Whatever that mountain is, obviously the revenue's got to go up. They got to figure out a way. I think the people, including me, I'm going to keep paying it. I think it's a bargain. Opinion Research Corp-USPS 5 Day Work Delivery-Consumer High Income SuburbanRedacted.pdf, Pg 28, line 32.

- b. For consumers this statement definitely refers to First-Class Mail. For commercial customers, it also would include Standard Mail, Periodicals Mail, and the various package services.

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NNA/USPS T9-7

Please confirm that the Postal Service sometimes uses the term “customer” interchangeably to refer to consumers who receive mail as well as consumers or businesses that send mail.

RESPONSE:

Confirmed.

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NNA/USPS T9-8

Would the Postal Service consider an individual that receives mail but never sends mail (for example, conducts all personal business online) to be a customer?

RESPONSE:

Yes.

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NNA/USPS T9-9

On page 8 of your testimony, you refer to interviewees involved with National and Premier accounts, and provide the following initial reaction to the 5 day proposal:

“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.”

- a. Does the “past few years” mean the years from 2007-2009?
- b. Please confirm that the price cap instituted by the Postal Accountability and Enhancement Act has governed rate increases for the “past few years.”
- c. Do you believe that in the respondents’ views, annual price-cap level increases equated to “frequent” price increases?

RESPONSE:

- a. The statement “past few years” would include the years 2007-2009.
- b. The Postal Service made its first price adjustment for market-dominant products under the price cap mechanism in May 2008 (that change was based on a cap calculation using calendar year 2007 CPI data). However, the last price change under the old mechanism was in May 2007.
- c. We did not address specifically how customers interpreted the impact of annual price increases. However, a common comment by customers is that the Postal Service raises its prices frequently. Further, since the implementation of the Postal Accountability and Enhancement Act we have implemented price changes for market dominant products separately from competitive products, thus enhancing the perception that we raise price frequently.

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NNA/USPS T9-10

On p 9 of your testimony, you discuss

“Customers who rely on the Postal Service to deliver newspapers on Saturday were not sure how to respond to the major challenge five-day delivery poses to their business model.”

- a. How many customers in this category were contacted by the Postal Service through any of the market research studies?
- b. How did the Postal Service identify the customers in this category?
- c. Did these customers include publishers of the following newspaper publishing frequencies:
 - i. Weekly issue mailings
 - ii. 2-3 times weekly issue mailings
 - iii. 6 day issue mailings
- d. In this context does “customer” mean only a mailer, and never a recipient?
- e. Were the respondents in this category aware that the Postal Service had selected Saturday as the non-delivery day?
- f. Did any of the respondents request that the Postal Service consider a Monday or Tuesday as the non-delivery day?
- g. Did any of the respondents mention non-Periodicals mail entered into the mailstream by their companies, such as ECRS-rate shoppers, or free publications whose mailings were part of their business model?
- h. Did any of the respondents tell the interviewers that their mailings would be diverted to private delivery options in the event of 5 day mail service?

RESPONSE:

- a. There were no newspaper mailers in the focus groups and two publishers in the in-depth interviews. Opinion Research also interviewed customers from 163 publishing organizations in the quantitative research and interviewed 261 customers who had responsibility for Periodicals applications.
- b. Opinion Research used a list of National and Premier Accounts from which to recruit customers for the in-depth interviews. Opinion Research interviewed two customers from publishing organizations.

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For the quantitative research, Opinion Research used a list of commercial customers segmented by National, Premier, and Preferred Accounts.

Below I describe the process used to select customers for interviews.

From the list of National Accounts provided to Opinion Research, we interviewed 59 customers at 50 National Accounts from whom we requested data for all applications and products for which they had responsibility. Among these 59 customers, 12 provided information on Periodicals Mail.

From the list of Premier Accounts provided to Opinion Research, we interviewed 679 customers. To select specific accounts for an interview, each account was randomly assigned to represent one of the Postal Service products it uses (as indicated by the existence of past 12-month volumes). When contacting individuals at the companies, we screened to identify the individual at the account most responsible for a specific application. Among these 679 customers, 96 provided information on Periodicals Mail.

From the list of Preferred Accounts provided to Opinion Research, we interviewed 979 customers. Since these are small companies, one decision maker could typically speak for all applications and products used by the company. Therefore, each respondent was asked about all

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applications and products used. Among these 979 customers, 136 provided information on Periodicals Mail.

- c. The sampling process was not designed to recruit publishers based on their frequency of mailing and we did not collect data which would indicate the frequency of mailing for any respondent.
- d. In context of the quote, customer refers to the mailer.
- e. Yes.
- f. Neither of the two publishers in the in-depth interviews mentioned the option of having either Monday or Tuesday as the non-delivery day.
- g. Yes.
- h. Yes.

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NNA/USPS T9-11

Please refer to your statement on p. 9: "Most indicated that they would have serious problems making earlier deposit times on Saturday or Sunday."

- a. Did the Postal Service tell these respondents that earlier Critical Entry Times would be an element in the 5-day plan?
- b. Has the Postal Service determined that earlier Critical Entry Times will be required in a 5-day delivery scenario? If so, please explain. If not, please explain why this question was asked.

RESPONSE:

- a. The Operating Concept provided to National, Premier, and Preferred accounts, which are the accounts who make use of our Bulk Mail entry units, included the following.
 - Bulk mail entry units will be closed Saturday. However, detached mail units (DMUs) currently open Saturday and/or Sunday will remain open.
 - Mail will continue to be accepted and verified at DMUs Saturday and/or Sunday.
 - Incoming bulk mail can continue to be drop-shipped at plants Saturday and Sunday and at delivery units Saturday. However, time slots for dropping mail will be shortened. Mail drop-shipped at a plant Saturday or Sunday will be processed Monday. Standard Mail drop-shipped at a delivery unit Saturday will be delivered by Tuesday.

We believe that the third point was read as indicating that earlier Critical Entry Times would be an element in the 5-day plan. However, this concept was changed in the outreach process to time slots 'might be' changed.

- b. No. We included this in the research in order to assess the needs of those customers who deposit mail at Bulk Mail Entry facilities and the potential impact which earlier hours could have on their operations. We were able to provide information to our operations group as it developed the final plan of action.

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NNA/USPS T9-12

With respect to the calculations for volume, revenue and contribution loss estimates in the 5-day delivery plan:

- a. Did the Postal Service consider during the survey design asking a question of the newspaper customers you referenced on p. 9 whether they would remove any product from the mail stream[?];
- b. Did the Postal Service consider asking whether any of the newspaper customers would remove a Standard ECRS product from the mail stream[?]
- c. If either or both of these questions were posed, please provide the question as formulated and the response received[?]
- d. If the questions were not asked, did the Postal Service consider any potential volume/revenue loss to derive solely from Periodicals newspaper mail that might be diverted from the mailstream?
- e. Did the Postal Service factor in the present calculation for Periodicals mail to be “under water” in the sense that this mail may not be covering incremental cost when considering the potential impact to volume/revenue loss?
- f. Did the Postal Service consider the so-called “ECSI” values embodied in 39 USC 3622(c)(11) as an element to include in any way in questioning of respondents to its research, either quantitative or qualitative? If so, please explain how such consideration weighed in the design or analysis of marketing studies.

RESPONSE:

- a. The questionnaire was designed so that customers could provide us volume information in a Five-Day Delivery environment. Their answers would include any expectations that they “would remove any product from the mail stream.”
- b. The questionnaire was designed so that customers could provide us volume in a Five-Day Delivery environment. Their answers would include any expectations that they “would remove a” Standard ECRS product from the mail stream.”
- c. Neither of these questions was posed explicitly, as noted above.
- d. As commercial customers were able to provide us information on their current use and expected use of all postal services, the volume questions

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would have provided them an opportunity to indicate volumes which they would shift from one postal service to another or volumes which they would divert to a non-postal service.

e. No.

f. No.