

USPS-T-2

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

COMPLAINT OF GAMEFLY, INC.

Docket No. C2009-1

**DIRECT TESTIMONY OF
LARRY J. BELAIR
ON BEHALF OF THE
UNITED STATES POSTAL SERVICE**

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Autobiographical Sketch

My name is Larry J. Belair. Since December 2009, I have served as Senior Plant Manager for the United States Postal Service, San Diego District. My responsibilities include the administration of policy and program oversight for mail processing operations within the San Diego District, which includes two processing and distributions centers, one processing and distribution facility, one independent delivery distribution center, and approximately 2000 employees.

A second generation postal employee, I began my career in 1994 as a Parcel Post Distribution Machine Operator at the Minneapolis Processing and Distribution Center. Over the past 16 years, I have served in a variety of leadership positions including, most recently, Manager, In-Plant Support Pacific Area; Manager, In-Plant Support Saint Paul P&DC; and Manager, Distribution Operations at Minneapolis P&DC.

I studied Economics, and Housing in Urban Studies, at the University of Minnesota-Minneapolis and St. John's University in Collegeville, MN. I have participated in the Advanced Leadership Program (ALP) and Executive Leadership Program (ELP) sponsored by the United States Postal Service.

As Manager, In-Plant Support for the Pacific Area, I had the responsibility to review, initiate and implement measures that enhance cost savings, operational efficiency, and process improvement with the goal of providing premier, cost effective service to customers while strengthening the value of all postal product lines. Led by the Pacific Area Manager of Operations Support, we achieved these objectives by working closely with District and local leadership

teams representing field operations management. We fostered collaboration among field operations and Operational Industrial Engineers (OIEs), using Lean Six Sigma (LSS) principles to identify mail flow improvements for each district and actively tracking progress toward goals, thereby maximizing performance.

The development and empowerment of District and local leadership teams increased employee commitment to efficient customer service through improved operational practices. Some key successes included the centralization and development of standardized web applications, field strategy development related to cost reductions and improved operational efficiencies (*e.g.*, overtime usage, complement control, budget targets, service performance goals, mail conditions, percentage of mail to service standard in delivery, DPS percentages and manual mail percentages), and Senior Operations Manager (SOM) training material. I also facilitated the development and implementation of field operations training that encourages employee responsibility for identifying and implementing cost reduction and service improvement strategies. The success of field operations collaboration and use of LSS principles helped rank the Pacific Area number one nationally in (1) tour compression (*i.e.*, reducing workhours during non-peak timeframes) and employee migration to tour hours when more mail was “in-house”; (2) automated flat processing; (3) reducing the amount of legacy (and aging) Mail Processing Equipment; (4) Lean Six Sigma certified staff; and (5) reducing within plant Function 1 workhours compared to SPLY--in fact for two consecutive years. These activities resulted in an operational cost savings of more than \$150 million for the Postal Service.

As Senior Plant Manager of the San Diego District, I continue working with field and area associates on cost reduction, operational improvements and superior customer service. I actively engage my employees with collaborative processes that encourage participation in strategic planning and reliance upon the expertise of seasoned operations managers, OIEs, and LSS subject matter experts. As a result, field managers drive process development, compliance with operational standards, resource management and service improvement.

The continuance and further development of these strategies have ranked San Diego District Plants: (1) number two nationally (of 79 districts) year-to-date in Voice of the Employee survey; (2) number one in Pacific Area and top five nationally in 2-Day EXFC (External First-Class Mail measurement); (3) number one in Pacific Area and top five nationally in 3-Day EXFC service; (4) number two in Pacific Area and top 10 nationally within combined Delivery Confirmation Priority Mail Retail; (5) number one in Pacific Area and 10 nationally in Priority Mail Open and Distribute (PMOD), and finally (6) number one in Pacific Area in overtime avoidance. Those national performance indicators speak to the dedication, commitment, and teamwork I and my team bring to work each day to capture efficiencies and provide exceptional customer service.

1 **1. Purpose of Testimony.**
2

3 The purpose of my testimony is to provide an overview of how and why letter and
4 flat shaped mail containing a DVD is processed both on the outbound trip from a DVD
5 round trip mailer to customers and then inbound from customers back to a mailer's
6 processing facility. My experience with the Postal Service ranges from a position as a
7 front line manager to an operations executive (and is detailed above). That experience
8 makes me an expert on the flow of DVDs through the mail and able to explain why
9 various operational activities are undertaken for DVD mail.

10 I served as a front line manager of distribution and processing operations when
11 the DVD market began to develop. I am uniquely situated, because of my experience
12 managing operations and resolving challenges with a wide variety of customers, and
13 therefore able to provide insight on how general changes in the mail mix affect postal
14 operations, and how operations change when machinery is deployed or customer
15 mailing patterns shift. For example, in early 2000, as an operations manager in
16 Minneapolis, we averaged one tray of outgoing Netflix mail per day. When I left
17 Minneapolis, we were averaging more than one hundred trays per day. And that meant
18 managing the same growth in return volume.

19 As a hands on manager, I have learned from my experience and that of my
20 colleagues. Under the leadership of the Postmaster General and the Deputy
21 Postmaster General, we have cut costs saving millions of workhours while improving
22 efficiency and maintaining service to the American people. I can accordingly explain
23 how and why local decisions are made in mail processing operations every day.
24 Specific decisions may be prompted by reviewing available data and identifying where

1 operational improvement is needed. Sometimes change evolves through trial and error,
2 while other change may derive from the benefit of a colleague's experience or a
3 suggestion from a senior manager. I also interact with customers, who may bring some
4 issue to my attention that, upon examination, can lead to an operational change.
5 Issues, challenges, or concerns brought to our attention from any of these sources
6 constitute opportunities. Typically, we work collectively through issues brought to our
7 attention to determine whether some change is appropriate. Such is the nature of the
8 work in operations. This process of analyzing and reacting to change can be used to
9 explain the various ways in which DVD mail is processed today.

10 **2. Are you familiar with the mailing practices of companies that**
11 **rent DVDs to their customers through the mail?**
12

13 Yes, I am aware various DVD mailers utilize the Postal Service within their
14 supply chain to provide transport of DVDs to and from their fulfillment and return
15 centers. Both Netflix and GameFly have their corporate headquarters in California, so I
16 have had interaction with representatives of both companies. It has been my
17 experience that GameFly infrequently requests meetings with postal managers, even at
18 the area office level, meeting with us once or twice a year. It is my understanding that
19 GameFly manages their service requests through their Business Service Network
20 (BSN) representatives. Netflix has requested meetings with area and local postal
21 managers more frequently, which I expect may be related to the number of distribution
22 centers they have around the country. It should be noted that both GameFly and Netflix
23 have former Postal Service executives in their organizations and both take advantage of
24 that postal talent and knowledge.

25

1 **3. From a Postal Service operations perspective, please describe**
2 **generally how DVD mail enters the postal system, both outbound**
3 **from the DVD rental company to a customer and inbound from**
4 **customer back to the DVD rental company, and how it is processed**
5 **through the mail. Please explain any significant variations in**
6 **patterns of mail processing that might arise and what effects such**
7 **processing may have on the DVD mail.**

8
9 Outbound DVDs, which may be letter shaped (Netflix, Blockbuster and other
10 DVD mailers) or flat shaped (GameFly alone) are tendered to postal facilities at different
11 levels of presort, such as 5-digit, 3-digit, SCF and Mixed (or residual) mail. Depending
12 on the presort level of the handling unit (letter or flat tray), the contents may be sorted at
13 origin to the destination facility, or the handling unit itself is transported to destination.
14 The pieces are processed in the most efficient manner possible, based on shape, size,
15 weight, mail class and mailer requests. Once mail arrives at the destination facility,
16 specific steps include 3- and 5-digit destinating letter trays or to a lesser extent flats in
17 flats trays (tubs) prepared by the mailer are then processed on automation equipment.
18 For example, letter-shape DVDs are processed on letter-sorting equipment such as
19 Delivery Barcode Sorters (DBCS) and merged with other letters in the delivery point
20 sequence (DPS) environment. DPS is dispatched daily to the customer service
21 operation for delivery (usually) by a letter carrier. Conversely, 3- and 5-digit destinating
22 volume in flat tubs prepared by the mailer is processed on Automated Flat Sorting
23 Machines (AFSM 100s) and merged with other flats into a carrier-route sort. Such
24 volume is dispatched daily to the customer service operation for distribution mail clerks
25 to disperse to letter carriers who then place flats into delivery sequence order for
26 delivery. With the introduction of the Flats Sequencing Systems (FSS), flats can also be
27 sorted via automation into delivery sequence order.

1 Return DVDs are mailed in an envelope provided by the DVD rental company;
2 renters enter such pieces into the mail any way they choose, including blue collection
3 boxes, delivery receptacles at the customer's residence or business, at a Post Office
4 retail counter or collection chute, by giving it to a postal employee, or various other
5 ways. Many inbound DVD mailpieces begin their return from the delivery unit that
6 originally delivered the piece to the rental customer. Each inbound DVD mailpiece is
7 taken to a processing center where it is sorted to a destination processing center by the
8 most efficient method available. If sorted on automation equipment, any CONFIRM
9 scans would be sent to the DVD rental company indicating a specific customer's DVD
10 has begun its return trip.

11 When volume densities of a single DVD rental company's pieces warrant, postal
12 employees may segregate all of that company's pieces (that are located—some are not
13 found) in separate trays so they can avoid downstream handling. Segregation can
14 begin as far upstream as the rental customer's delivery unit. Any segregated pieces are
15 consolidated together, and travel on the same transportation as the rest of the mail.
16 Upon arrival, mail processing operations simply sleeve the trays and route containers to
17 a consolidated dispatch operation for mailer pickup through caller service. Some of the
18 time, sleeved trays of segregated pieces must be transported to a subsequent mail
19 processing facility for caller service pickup. Mailers who do not utilize caller service
20 from a processing facility, receive return mail from Post Office customer service or
21 delivery unit personnel. Some return pieces never get segregated, so those residual
22 pieces (usually letter shaped) are processed with the rest of the First-Class Mail single
23 piece mail, addressed below.

1 Each of the major DVD mailers uses different mailing envelopes and different
2 types of tracking services through the CONFIRM program. Both Blockbuster and
3 GameFly utilize Business Reply Mail for their return mailpieces, which requires an
4 accounting step to assess postage due fees; while Netflix utilizes Permit Reply mail
5 where return postage is prepaid and the postage due assessment step is not required.
6 Consequently, it is not important to retain a count of the Netflix return pieces prepared
7 for customer pickup. As trays of Netflix mail are filled at delivery units, they can be
8 transported directly through the processing plant into the staging area for pickup without
9 any intermediate handlings of any of the individual pieces. Likewise, at the plant, as
10 trays of Netflix mail are filled, they can be dispatched to the staging area for pickup
11 without any further postal handling and the associated cost of that handling. This also
12 allows the mail to be available to the customer earlier in the day for pickup, which can
13 help ensure satisfaction of Netflix' "one day" model of return processing by placing in
14 that day's outgoing mailing a returned DVD being sent to a new user. While it may
15 seem counterintuitive that isolating Netflix early in the collections process constitutes a
16 cost savings, it is true that removing the significant volume those pieces represent from
17 the cancellation operation improves efficiency in three ways. First, processing on the
18 AFCS takes less time because less volume needs to be processed. Second, it also
19 improves the efficiency of downstream operations such as clearance through the DBCS,
20 which takes less time. Third it cuts down on jams DVD mail may cause. Because
21 processing operations must generally be completed in smaller time windows in today's
22 environment, these advantages have become more important than ever.

1 **4. Please describe the general nature of the First-Class Mail**
2 **single-piece mailstream, including the flow of collection and drop-**
3 **box mail from the lowest level through the postal system.**
4

5 When a customer deposits a single piece of First-Class Mail into a collection box
6 the following occurs. Volumes are extracted from a collection box by a Postal Service
7 letter carrier, customer services (retail) operation or contract employee. The mail is
8 prepped at the delivery unit in accordance with local mail preparation standard
9 operating procedures. The various mail separations are consolidated for dispatch in a
10 single vehicle to a centralized mail processing facility. There, upon arrival, consolidated
11 volumes go through a “culling” unit where the individual containers are split and routed
12 to down flow operations based upon mail type, class, shape and depth of sort. For
13 letters, mixed volumes are routed through the dual pass rough cull and AFCS operation
14 for identification and initial sortation. Subsequent sortation occurs on one of several
15 mail processing equipment platforms depending on various factors including weight,
16 shape, indicia and mail preparation (barcode/non-barcode, FIM, packaging). High
17 density volumes for a single destination address (e.g., the local water utility’s bill
18 payments) can be placed into an individual handling unit such as a tray or tub, for
19 operational purposes and then routed to subsequent consolidation and dispatching
20 operations for transit.

21 Local mail generated from the automation equipment platforms mentioned above
22 is subsequently processed to delivery point sequence, carrier route, or firm sort.
23 Processed volumes are dispatched to local delivery units for delivery by a customer
24 services retail associate, letter carrier or pickup by a customer.

25 Outbound mail is routed to a consolidated dispatch unit for transit to a

1 subsequent facility that performs delivery point sequence or other sorts as described
2 above.

3 Flat volumes prepared from collection mail by the delivery unit in a flat tray are
4 routed directly to an Automated Flat Sorting Machine (AFSM 100) for primary
5 processing

6 Local mail separated by the AFSM 100, and destined for the same service area,
7 is processed to a carrier route sort and dispatched to a local delivery unit for delivery.

8 Outbound mail, not destined for the service area, is routed to a consolidated dispatch
9 unit for transport to a subsequent facility that performs a carrier route sort for pickup by
10 a customer or is dispatched to local delivery units for delivery by a customer services
11 retail associate, letter carrier or pickup by a customer.

12 Mixed volumes of flats, letters and small parcels are processed through the dual
13 pass rough cull where flats are extracted for subsequent processing on the AFSM 100.

14 Challenges occur often, such as seasonal events. On those occasions, we
15 institute procedures that help us maintain service levels during peak periods. Such
16 procedures may alter handling of single piece First-Class Mail. One notable seasonal
17 event was the recent 2010 Census mailing. Another example is elections, when mailed
18 ballot materials may be isolated for future downstream or upstream handling. Tax
19 season is another example where single piece First-Class Mail addressed to a single
20 customer is separated from other mail as close to origin as possible. In such
21 circumstances, the fewer number of times each mailpiece is touched generates greater
22 overall efficiency for the operation.

1 **5. Are you familiar with respective DVD rental companies who**
2 **send and receive DVDs as single piece First-Class Mail? Please**
3 **identify all such companies and estimate the relative proportions of**
4 **DVD mail that each represents.**

5
6 Yes, I am familiar with a several DVD mailers, three of whom utilize the Postal
7 Service within their supply chain. Here are the relative volumes we found.

- 8 • Netflix (>97%) • Blockbuster (2%) • GameFly (<1%)

9 **6. How is Netflix, Blockbuster, and GameFly mail processed in**
10 **the field?**

11
12 Based on observation in processing facilities where I have worked, I have
13 observed mostly Netflix and a smaller number of Blockbuster envelopes in the mail; I
14 have seen very few GameFly mailpieces or those of other DVD companies being
15 processed anywhere. GameFly pieces are invisible, due to their relatively low volume
16 and anonymous design. In San Diego, the low volume of GameFly mailpieces is
17 insufficient to warrant assignment of a unique stacker or holdout for their flat shaped
18 returns. The mailpieces are mixed in flat tray containers with other flat mailpieces
19 destined for Los Angeles and then processed as previously described, and ultimately
20 separated for delivery to GameFly. In other locations, especially ones closer to their
21 processing centers, there may be enough volume to allow GameFly mailpieces to be
22 captured and segregated from other Los Angeles flat mail. I understand that some
23 nearby plants may assist the host plant by holding out Gamefly pieces, but only if the
24 volume warrants it.

1 **7. GameFly mails at rates for two-ounce, First-Class Mail flats.**
2 **By contrast, Netflix sends and prepays for DVD mail returned to it by**
3 **its customers at the single-piece, one ounce rate for letters. Please**
4 **describe any differences in handling and processing these two**
5 **customers' mail.**

6
7 Netflix pieces are processed in the letters mailstream, while GameFly's are
8 processed and handled in the flats mailstream. On the outbound trip, such pieces
9 would converge only with a carrier or in a delivery receptacle. On the return trip, both
10 could appear together in collection mail and would be separated either by manual
11 culling of Netflix pieces or by the AFCS. Once separated by manual culling or the
12 AFCS, GameFly pieces would stay in the automated flats mailstream, while Netflix
13 pieces would either get moved in trays or stay in the automated letters mailstream.
14 Letters are processed using various types or generations of letter-sorting equipment
15 and flats are sorted using flat sorters. Both letter and flat sorting systems process to the
16 finest possible sort. Because GameFly's pieces are returned as postage due, they must
17 undergo a procedure to account for the postage due fees before the pieces are
18 released to GameFly. Netflix pieces, if culled, would be tendered via caller service in
19 sleeved trays; if processed through the DBCS, pieces would be containerized in the
20 same way and tendered at the same caller service location.

21 **8. Please explain why a particular mailer might choose to use a**
22 **First-Class Mail flat, as opposed to a First-Class Mail letter.**

23
24 According to the Domestic Mail Manual, the physical characteristics of the piece
25 may require that the piece be mailed as a flat. The physical dimensions of length (more
26 than 11.5 inches long), width (more than 6 1/8 inches tall), thickness (more than ¼ inch
27 thick) and weight (more than 3.3 ounces) mean that a piece would not qualify as a
28 letter. Other physical characteristics such as rigidity and uniform thickness play a part

1 in determining the processing category of a mailpiece.

2 Beyond these dimensional requirements, the business needs of the mailer would
3 drive the class and shape. A Periodicals mailer, or Standard Mail direct marketer, who
4 chooses a flat versus a letter would do so to target its customer, or to meet customer
5 expectations. Postage prices, which are also driven by shape, can influence mailers'
6 decisions since letters cost less. A commercial mailer may be aware of differences in
7 automation technology used by the Postal Service to process letter versus flat mail, and
8 choose one or the other accordingly. GameFly makes this claim, asserting that it avoids
9 damage to its mailpiece contents by using flats. Yet GameFly has never used letter
10 shaped pieces for its DVDs, and I understand its breakage rate is quite similar to Netflix'
11 breakage rate. So whatever else is true, GameFly has always chosen flats for its
12 business model, a choice that any mailer is free to make as one strategy in a business
13 where some breakage in the mail is routinely incurred.

14 From a practical standpoint and to the best of my knowledge, most DVDs are
15 currently mailed as letters. And many are easily recognizable as mailpieces containing
16 DVDs. I also understand loss prevention is an issue for some DVD mailers, which is
17 why a DVD mailer might choose to "hide in plain sight" and opt for a less visible or
18 conspicuous mailpiece. A less conspicuous mailpiece that adds cardboard to protect
19 the contents in the somewhat less rigorous path through flats automation could well
20 explain use of a flat rather than a letter for mailing DVDs.

1 **9. What factors or criteria determine how DVD return mail is**
2 **processed, including possible culling and manual or machine**
3 **processing? Do managers at the local level evaluate DVD return mail**
4 **involving particular mailers to determine what processing it**
5 **receives?**
6

7 What is relevant for DVD mailers is relevant for all mailers. Earlier in my
8 testimony, I referenced a Census mailing, tax returns and voter ballots as examples
9 where culling at the initial collection point may add to operating efficiencies. When
10 significant volume for a particular addressee is identified in the collection volumes from
11 delivery units, carriers or collection operations, the possibility of prepping it into a letter
12 tray or flat tray (tub) arises. Doing so helps avoid downstream handling costs by
13 processing facilities, since the containerized returns can be dispatched directly to the
14 destination delivery point. The Postal Service acknowledges that service requests
15 made by mailers can also influence local decisions, particularly for local mailers. The
16 Postal Service need to optimize processing efficiency extends to ensuring that
17 automation technology operates at expected rates of throughput to meet operational
18 goals. In general, mailpiece shape and weight dictates most operational decisions. As
19 an example, Blockbuster's mail is prepared as letters which are then processed within
20 the letter automation environment, while GameFly's volume is prepared and usually
21 processed within the flats automated environment.

22 It is quite possible that mail, which appears to be identical, can be handled in
23 different ways. Let me provide an example. In my service area, a mailer uses flat rate
24 boxes to ship its product. Flat rate boxes are typically processed on our automated
25 parcel sorters. In this instance, the product is extremely dense with the result that
26 packages can each weigh more than 40 pounds. Because of this weight, we have

1 worked with the mailer to ensure the packages are prepared and presented for mailing
2 under specific time and place conditions so that it cannot be confused with other, similar
3 appearing flat rate boxes. Through these mailer specific guidelines, we are able to
4 isolate the packages for processing in the most efficient manner; and thereby also
5 ensure the safety of our employees who are not surprised by the weight and are
6 accordingly better prepared to handle these pieces prior to lifting. While on the surface,
7 the flat rate boxes appear identical, the contents require very different handling.
8 Without such tailored operating procedures, we risk the safety and health of our
9 employees, and also damage to mail processing equipment.

10 **10. Please assess the relative importance of these factors:**
11 **(1) Volume; (2) Visibility; (3) Physical mailpiece characteristics.**

12
13 Any or all three of these attributes can lead to the identification and possible
14 separation from an automation mailstream of similar high volume mail. Visual cues are
15 used by employees while mechanical separation (by automation) enables, for example,
16 separation of flats and letters at the AFCS. Volume and visibility are likely the most
17 important factors enabling separation of like pieces for direct dispatch. When a
18 mailpiece is easily identifiable in significant volume, removing mailpieces from the
19 collection mailstream and subsequent cancellation operations reduces downstream
20 handling that otherwise would require multiple processing (automation and non-
21 automation) steps. When more groups of similar mail are captured and extracted from
22 other mail volume the overall clearing of all mail can often be completed sooner. As
23 mentioned above with the flat rate box example, sometimes the physical characteristics
24 of mailpieces encourage a nonstandard type of handling that is more effective and
25 efficient.

1 **11. In making decisions affecting processing of DVDs, are local**
2 **managers influenced by the identities of particular mailers or**
3 **recipients?**
4

5 As witness Seanor explains, we encourage input from customers, and joint
6 attention to detail can lead to efficiency gains for both the mailer and the Postal Service.
7 But the identity of a mailer itself does not play a role. Postal operations personnel are
8 well aware first of all that operational imperatives can and must drive decisions, and
9 that's exactly what has been happening in the last few years as immense costs have
10 been eliminated from mail processing. Second of all, operations personnel are quite
11 aware of the need to treat customers fairly. We hope that this case provides a lesson
12 that is driven home to the rest of the mailing community; we collaborate extensively in
13 making decisions, and there can be a lot of give and take in that process which, taken
14 out of context, may at first blush look a little odd. But in the end, we make decisions in
15 operations for the reasons that improve our business performance.

16 **12. How do DVDs get damaged in the mailstream?**

17 How DVDs get damaged, whether in mail processing or in handling at either end
18 of a trip through the mail, is not always evident because of the nature of DVDs and how
19 they are packaged. While I understand that older Postal Service Engineering tests
20 found damage occurring in letter automation equipment, both DVDs themselves and
21 how mail processing equipment is set up and maintained have continued to evolve
22 since that testing took place. Witness Lundahl explains that DVD manufacture can
23 decrease the likelihood of damage; Netflix has used this information to create more
24 flexible, less brittle DVDs for its own mailing. Witness Lundahl also explains how
25 attention to processing equipment can help to minimize breakage. Since DVD mailers

1 have their own processing equipment in addition to what the Postal Service uses to
2 process DVDs, both mailers and the Postal Service are in positions to capitalize upon
3 that knowledge and drive down DVD damage even more. But for more detail about how
4 DVDs get damaged, I defer to Mr. Lundahl who has studied this topic from an
5 engineering perspective.

6 The facts of this case also illustrate how DVD damage is something of a moving
7 target. Over time, successive GameFly mailpiece designs have helped diminish
8 breakage (and theft), while Netflix experience also shows diminishing breakage over
9 time. GameFly uses a heavier mailpiece that provides additional protection to a DVD
10 compared to other DVD mailers; GameFly also uses flats automation, which, as noted,
11 can be gentler to DVDs than letter processing. Yet despite quite different business
12 models, both GameFly and Netflix today report quite similar overall breakage rates. So
13 we know that damage can be impacted by the physical characteristics of the DVD, how
14 DVDs are packaged (material, design, thickness, rigidity, and size), processing path and
15 number of times processed; but I leave to Mr. Lundahl any more specific explanations of
16 how DVD mail can be damaged during processing.

17 **13. Are you aware of any other ways that DVDs can be damaged**
18 **other than during machine processing?**

19 Yes. The one national point of guidance for DVD processing focused upon
20 minimizing damage that occurred when trays or tubs of DVDs were stacked improperly,
21 essentially by crushing DVDs at the bottom. More specifically, stacked flat trays (tubs)
22 of DVDs must not nest within one another without lids or sleeves. For that matter,
23 DVDs are handled by humans outside the mailstream, which necessarily implies that
24 some breakage occurs accidentally. I also understand that DVD breakage can be
25

1 cumulative; a modest flaw that still permits a DVD to play can increase the potential for
2 automated processing to worsen that damage. DVD mailers clearly understand that
3 breakage during transport from company to customer, and back from customer to
4 company is possible such that today some breakage is a cost of doing business.
5 Please refer to the testimony of Rob Lundahl, USPS-T-4, for more specific information.

6 **14. To what extent do local managers factor the potential for**
7 **breakage of the DVDs into a determination of whether to provide**
8 **manual processing of return mail?**
9

10 Managers do not factor the potential for DVD damage into processing decisions
11 for the simple reason that their actions cannot have much impact upon breakage, which
12 occurs regardless of how DVDs are processed and which is usually not visible from the
13 outside of a mailpiece. Managers' primary focus is on efficient clearance of all available
14 mail in the current processing window. Managers may consider the potential for DVD
15 mail to cause machine jams, which delays processing of mail. But to my understanding
16 jams do not necessarily equate to breakage.

17 More generally, Postal Service packaging requirements go a long way to
18 elimination of damage incurred during mail processing. Nonetheless, insurance is
19 available for mailers who want protection for mailpiece content, with the availability of
20 insurance dependent upon the quality of the packaging. Yet postal officials care a great
21 deal about avoiding damage to any mail for the simple reason that customers do not like
22 breakage, whether they are mailers or recipients. Consequently, local managers will
23 factor damage potential and safety into their general decisions about how to process
24 mail, as exemplified above in the discussion about heavy weight flat rate boxes. Mail
25 processing personnel necessarily build up experience with mailpieces of many types.

1 Managers also pay attention if they are made aware that excess breakage is occurring
2 locally, but their focus would be upon eliminating the anomaly, not changing how DVD
3 mail is processed.

4 The Postal Service does not routinely track damage to mail that it is unable to
5 observe unless mailers/recipients report that information. A facility can report an
6 irregularity in the Electronic Mail Improvement Reporting (eMIR) system. Any mailpiece
7 that is regularly causing damage is identified and entered into the eMIRs application for
8 action and resolution by responsible parties (both postal personnel and mailers are
9 notified). Further examples of issues that may be recorded include Periodical and
10 Standard Mail flat bundles that have poor strapping, which can lead to bundle breakage.
11 Poorly prepared bundles can separate and burst open at the point of induction, causing
12 damage and delay of mail service. Postal generated reports often relate to mail
13 preparation and mail makeup irregularities. But reports of DVD mail damage are difficult
14 to associate with the multiple automated mail systems described above, including the
15 Dual Pass Rough Cull, AFCS, DBCS, and AFSM machines. Generally, the Postal
16 Service, and more specifically plant personnel, would be unaware of damage issues
17 unless identified by the recipient or mailers. Postal employees, of course, are not
18 allowed to open processed mail, look for and act upon damage found.

19 **15. In mail processing decisions, what is the role of damage to**
20 **mail versus damage to machines and disruption of operations (delay,**
21 **maintenance costs, etc.)?**
22

23 All of these factors are considered together when making mail processing
24 decisions. However, as explained above, damage to DVD mail is typically not visible
25 which makes it difficult to account for. Witness Lundahl's testimony, USPS-T-4, does

1 touch on types of maintenance that can help avoid damage to DVD mail. But
2 maintenance of mail processing equipment is important to machine up time, so
3 maintenance is scheduled and performed regularly. Management's primary
4 responsibility is to sustain efficient processing of the mail by maintaining machine
5 performance while minimizing damage to the mail; this is why it is imperative to have
6 physical mailpiece characteristics match that of automation capabilities, particularly
7 when a mailer is claiming automation prices. The sometimes awkward fit between mail
8 processing equipment designed before DVDs existed lies, in one sense, at the heart of
9 this docket. Discussion among personnel regarding what, if anything, to do that would
10 improve the fit between DVD mail and processing equipment was a matter of active,
11 ongoing debate, as GameFly's direct case documents. Newer mail processing
12 equipment, such as the AFCS 200 better accommodates DVD mail.

13 **16. Do you notice a consistent amount of breakage among DVD**
14 **mail processed on automated letter machines, regardless of the type**
15 **of DVD (video v. game) or mailpiece?**
16

17 As previously noted, damage to DVD mail is difficult to discern. Information from
18 customers (especially Netflix) shows some breakage, but it is minimal and a known cost
19 of using the mail to conduct a DVD rental business. I understand, based on reports
20 provided by Netflix and the information provided during a recent Postal Forum meeting
21 with Gamefly that the breakage rates are comparable. If excessive breakage is
22 identified, we do try to identify the source and eliminate any problem identified.

23 **17.. Are mailers aware that DVD damage can occur in mail**
24 **processing?**
25

26 Yes, I would say that low damage rates are common knowledge. Rates around
27 one percent have been reported recently by Netflix, and more recently by GameFly. As

1 such, it is a known cost of doing business through the mail, at least given the packaging
2 DVD round trip mailers use. More elaborate and protective packaging should be able to
3 eliminate breakage altogether, although postage would likely increase. I am informed
4 that Postal Service Engineering developed packaging for DVDs transported through the
5 mail, but for what I expect are their own good business reasons, no mailer is currently
6 using that option.

7 **18. What role does theft play in mailer decisions to mail DVDs?**

8
9 Mailers choose to use the mail, or not, for their own business reasons. Theft of
10 mail has long been recognized by the law, which is why criminal sanctions for theft have
11 been on the books for centuries. Mailers must make business decisions based on their
12 particular needs. I am informed that GameFly changed its mailing envelope to one that
13 is not distinctive after being informed that its previous envelope was being targeted by
14 thieves. I also understand that GameFly's theft rate is higher than its breakage rate. So
15 one can conclude that GameFly is aware of theft, howsoever that fits into its business
16 decisions. I do know that the mailers identified in this particular case have provided
17 updates to the Postal Service regarding this issue through their loss prevention
18 representatives during Postal Forums meetings, Service Request Activity Detail reports
19 filed with their Business Service Network representative or via direct communication
20 with a particular facility. If the customer is experiencing high loss in a particular area
21 generally the mailer will involve the Inspection Service or Office of Inspector General
22 special agents for assistance.

1 **19. What role does theft prevention play in local mail processing**
2 **decisions?**

3
4 None. Processing of DVDs does not vary because DVDs—and everything else
5 in the mail—can conceivably be stolen. Anti-theft measures such as Inspection Service
6 line of sight cameras or lookout galleries, restricted security access to facilities,
7 background checks of all postal employees, and a zero-tolerance policy for pilfering are
8 in place throughout every operation in every postal facility. Employees are aware that
9 theft of mail is grounds for removal from the Postal Service and other possible legal
10 ramifications.

11 **20. What, if any, role has theft played in processing decisions**
12 **involving Netflix, Blockbuster, GameFly mail?**

13
14 In an effort to reduce loss (and breakage) during transport, I am aware Netflix
15 requested that their product be sleeved by the return facilities prior to dispatch, although
16 this was not a recent request. Theft may occur from within the Postal Service but also
17 by mailers' contractors and personnel. However I understand that GameFly chose to
18 make its DVD package less conspicuous in an effort to reduce theft and encourage
19 automated processing (thereby avoiding manual handling) of their mailpieces; with the
20 belief and anticipation that less manual handling of their mailpieces would help curb
21 identification of the envelope as containing gaming discs.

22 **21. What actions can a DVD mailer take to reduce theft?**

23
24 DVD mailers can and do provide any information that assists in identifying the
25 point of loss, such as IMb or CONFIRM tracking information, to postal management, the
26 Inspection Service or the Office of the Inspector General.

27

1 CONCLUSION

2 The Postal Service faces a challenging mail processing environment that
3 requires active oversight and rapid response to changing conditions in every plant. Its
4 decisions regarding the processing of respective mailers' DVD mailpieces are driven by,
5 and consistent with, its efforts to maintain an efficient system of collection, sorting, and
6 delivery of the mail nationwide. The Postal Regulatory Commission should accordingly
7 conclude that Postal Service processing of DVD mail is prudent and consistent with the
8 mandate to provide an efficient system for the processing of mail, and that no undue
9 discrimination can be found in how it handles, and how it decides to handle, DVD
10 mailpieces entered as First-Class Mail.

11