

USPS-T-3

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

COMPLAINT OF GAMEFLY, INC.

Docket No. C2009-1

**DIRECT TESTIMONY OF
TROY R. SEANOR
ON BEHALF OF THE
UNITED STATES POSTAL SERVICE**

TABLE OF CONTENTS

Table of Contents	i
Autobiographical Sketch	ii
Direct Testimony	1
Conclusion	22

Autobiographical Sketch

My name is Troy R. Seanor. I have 17 years with the Postal Service, all of which has been in processing and distribution operations. The last four years, I have held the position of Senior Plant Manager in two Districts, Central Pennsylvania and Cincinnati, Ohio respectively. I have currently taken on the challenge of coordinating all plant operations in the Eastern Area as the Manager, In-Plant Support. In addition, I have supervised and managed distribution operations directly for eight years, served as an acting plant manager in Roanoke, Virginia and Manager, In Plant Support in Columbus, Ohio. I have graduated from the Advanced Leadership Program (ALP) and Plant and Distribution Management (PDM) program sponsored by the Postal Service. This experience enables me to describe in detail how decisions are made about the processing of all kinds of mail, including those factors field managers consider when alternate processing paths may be available. While efficient processing of all mail within applicable time constraints constitutes the primary goal, the various processing paths available with the equipment present in a facility for the wide range of mail shapes, weights, and volumes amidst various customer expectations for delivery make processing decisions more complicated than a layman might expect. Prior to joining the Postal Service, I worked for United Parcel Service for six years. I was also a field executive for U-Haul International for three years.

1 DIRECT TESTIMONY

2 **1. Purpose of Testimony.**

3 This matter revolves around First-Class Mail letters and flats sent by round trip
4 DVD mailers to customers who rent, use and then return by mail those DVDs enveloped
5 in packaging provided by, and with postage paid by, the DVD rental company. I am
6 given to understand the primary focus is upon the return pieces sent to rental
7 companies GameFly and Netflix, and to a lesser extent, Blockbuster. I am aware of the
8 Complaint filed by GameFly with the Postal Regulatory Commission. My testimony
9 accordingly explains Headquarters and Area involvement in decisions regarding
10 movement of mail, including pieces containing DVDs, from the loading dock, through
11 processing operations, to dispatch. My testimony explains the mail processing
12 decisions made in each plant every day, what factors impact those decisions, and why
13 processing of GameFly and Netflix (or Blockbuster) mailpieces is not identical. I also
14 explain why such differences are predictable, consistent with operational imperatives,
15 efficient and reasonable.

16
17 **2. Have you reviewed the testimony of witness Belair in this**
18 **proceeding?**

19 Yes.

20
21 **Do you disagree with any of witness Belair's testimony?**

22 No.
23
24
25

1 **3. From your perspective as an Area operations manager, and**
2 **more broadly a field manager, would you add anything to Witness**
3 **Belair’s testimony?**
4

5 I would reiterate Mr. Belair’s description of mail processing decisions as dynamic,
6 so that local management decisions regarding the most efficient methods for processing
7 mail, including mail containing DVDs, are the subject of continuous discussion among
8 field officials and may need to change quickly because of some happenstance. We are
9 always looking for ways to improve mail processing efficiency. When two plants are of
10 similar size, comparable mail volume, or facing related challenges in any particular
11 operation, methods used in one facility can be replicated in others. The mix of mail
12 going through any facility changes continuously as does—at a slower pace—the
13 capabilities of that facility and the people who work in it. The Area Operations office
14 holds periodic reviews of service issues based on detailed service data, including what
15 may be provided by mailers, in which we look for improvement opportunities applicable
16 on a local or area-wide basis.

17
18 **4. What role does local discretion play in mail processing**
19 **decisions that affect the processing of DVD mail, including decisions**
20 **to cull DVD return mail and process it manually?**
21

22 Local plant management is empowered to develop local operating procedures
23 given their own unique operating conditions. Factors a local plant manager may
24 consider include available equipment, mail flow (volume, service commitment shape
25 and weight), and destination (which may include delivery). No two facilities are exactly
26 alike; differences arise among mail arrival profiles, mail base (volume, shape, or class
27 characteristics), and equipment type and quantity. However, similarities among facilities
28 do allow for the sharing of best practices; management’s ongoing challenge is to figure

1 out what works best in each location, and how operations in each facility may need to
2 change over time. National guidelines serve to help ensure operations conform to
3 service standards and budget targets. Decisions regarding the culling of DVD mail
4 depend upon factors such as volume, density, how easily the mailpiece can be
5 identified and captured (aided by visibility and easy access), and consideration of
6 benefits versus costs (with time being a critical element of the latter).

7 While field managers are heavily data driven, they do not rely upon analysis by
8 economists or statistical studies as I understand may happen at Headquarters or here
9 at the Commission to discuss operations. Field managers rely upon expertise
10 developed over the course of a career that involves endless trial and error or success,
11 followed by exploration of better alternatives or best practices identified by colleagues.
12 Each plant manager reviews performance reports daily to determine where
13 improvements may be made in his or her operation. Many tools have been built to
14 provide area, district and local managers data that is instrumental to decision-making.
15 And, I suppose, to be fair, many of these tools were built with the assistance of experts
16 that would have included economists and statisticians. In general, formal economic
17 studies are not useful to field managers, but I understand that many of the data sources
18 we use to drive our decisions also end up being used in Commission proceedings. Run
19 Plan Generator and End Of Run are two programs used in real time and for historical
20 performance reviews. Both give a good account to front line management as to how
21 long machines should be required to run a given volume. Field managers use planning
22 tools to decide and schedule staffing levels, expected clearance times, and productivity
23 achievements. MPE Watch is a real time tool for monitoring machine performance and

1 gives the front line managers the ability to see jam issues or even potential operator
2 induced errors such as poor mail flow, bin sweeping, and jam clearing time. MPSOM or
3 Mail Processing Staffing Opportunity Model gets used daily and weekly for productivity
4 and human capital management by front line managers; it factors levels of leave,
5 productivity achievement, and performance against expected targets (including other
6 facilities), and even historic volume levels.

7 The field commonly refers to this and other information to drive what we call "The
8 24 hour clock". This clock relies on volume data from MODS and ODIS to assist in
9 calculating operational time. The timekeeping database or TACS as well as MODS is
10 used to accurately track work hour usage to specific operations and times during the
11 day. All of this information combined with the current state of the economy and
12 electronic diversion have brought substantial pressure to bear on the time assigned to
13 the AFCS operation.

14 A good example is an AFCS operational window. Carriers now return later as
15 dictated by DOIS and CDPOM pivoting, so mail picked up on routes presents a later
16 arrival profile. The end of the operational window has also moved up thanks to the
17 increase in letter shaped ad mail and the use of DPS is necessary to drive efficiency.
18 Then carriers need to get back on the streets earlier on the next day. Five years ago a
19 normal AFCS operation would run from 1500 to 2200. In today's environment, the
20 operation is limited to 1700-2100. As such, strategic diversion of mailpieces out of the
21 tighter AFCS window leads to overall benefits in meeting outgoing operational clearance
22 times, while facilitating early DPS dispatch in the morning with its benefits for carriers.
23 and their ability to complete delivery through pivoting routes. The end result is what we

1 have seen in financial performance and expense reductions over SPLY in FLASH year
2 over year. FLASH also gives a clear picture of the decrease in AFCS and dock
3 operation expenses together with the high use of automation.

4 Our decisions affect the flow of mail, from collection or induction anywhere in the
5 domestic service area to delivery or handoff to other posts and contractors; they are
6 made based on our experience, available data, and regular discussion with one
7 another. Consequently, from senior leadership to local managers, all in operations are
8 constantly making decisions that hone and improve our efficiency. These
9 improvements have enabled the Postal Service to take out billions of dollars in costs
10 from its operations, year after year, as the Postmaster General has made good clear
11 when communicating with the Governors, Congress, the press, and this Commission.

12 As a manager in the field, I am able to state with great confidence that we have a
13 good feel, for example, of what consequences flow from machines becoming jammed,
14 how to clear jams quickly, and what measures are or are not worth taking to avoid jams.
15 While what works in one place may or may not work in another, communication with
16 colleagues and others both up and down the chain of command helps to increase our
17 understanding of what will work best, where, and when. We face the consequences of
18 our mail processing decisions every day, with constant feedback taking such forms as:
19 overtime; service failures; decreased work hours; timely, efficient and complete
20 processing of all available mail; planned time for maintenance and cleaning; or high
21 levels of customer and employee satisfaction. Our focus is on timely and efficient
22 processing of mail. For DVD mail, this focus encompasses both the outbound and
23 return trips.

1 I understand that processing of mail containing DVDs is a central issue in the
2 Gamefly complaint case. I also understand that one reason I am testifying is to explain
3 to the Commission why the methods used for processing Netflix mail can and should
4 differ reasonably from how the Postal Service processes GameFly mail pieces. Netflix
5 (and Blockbuster) enter DVD mail as single ounce First-Class Mail letters, unlike
6 GameFly's two ounce First-Class Mail flats. Since mail processing operations generally
7 diverge based on mail piece shape, in this case letters versus flats, their processing
8 must differ. While letters could generally be processed on flats processing machines,
9 the converse is not true. Flats do not process well in the automated letters mail stream.
10 I am informed that GameFly has never entered DVD mail as letters throughout its
11 history.

12 I understand that one issue being considered in this case is why Netflix return
13 mail is sometimes separated from other mail and put in trays or tubs. Netflix's
14 distinctive mailpiece markings and sheer volume make the piece easier to identify
15 when, for example, mailpieces are prepped prior to reaching the Advance Facer
16 Cancellor System (AFCS). In many locations, a lot of Netflix DVD pieces mean that they
17 constitute a large proportion of, or a high density within, the mail stream; this can be
18 true in collection mail or later in processing. By culling, we essentially handle the pieces
19 once, putting them into letter trays and flat trays or tubs. The containers can be
20 transported directly to the dispatch area for collection by Netflix without further
21 processing. As Mr. Belair describes general mail flow, the firm (unique mailer specific)
22 containers can then be transported directly to the processing facility and moved to the
23 dispatch area for collection by Netflix. Because of cycle time sensitivities, Netflix

1 generally picks its mail up (Caller Service) many times per day at those plants
2 processing a lot of Netflix mail. So, culling is the one time a single piece is touched.
3 We release the containers containing pieces directly to Netflix, which finalizes delivery
4 Now, this general story is not always true, but I do understand from Headquarters
5 Operations that on average, Netflix pieces average less than 70 miles through the mail,
6 so most pieces are not going through more than one plant. GameFly return pieces
7 present a different profile, averaging over 459 miles per piece through the mail from
8 origin to the destination Gamefly processing site.

9 Where culling of Netflix by a delivery unit or local facility is done, operations has
10 concluded that this efficient handling makes good business sense, as it can save
11 additional downstream processing costs. In some locations, separation of Netflix mail
12 can begin in the delivery unit. If the carriers drop the collection pieces into a unique tub
13 or tray, this eliminates the need for any subsequent AFCS or other automated letter
14 sortation. This helps overall clearance of all originating mail in the narrow processing
15 window. Operations would not be doing this if it added any overall time (cost) in field
16 operations. A large plant can handle somewhere between seven and twelve thousand
17 Netflix DVDs nightly. If a good portion of this volume can be trayed the first time it is
18 handled, the savings will compound by reducing overall handling costs and enabling the
19 facility to achieve overall clearance time targets.

20

21 **5. Who makes, and at what level, are mail processing decisions**
22 **made?**

23

24 The local Plant Manager is fundamentally responsible for all processing
25 operations that occur in a facility. The District Manager and Senior Plant Manager have

1 oversight of this decision together because they control the immediate actions of field
2 personnel in delivery units and at the processing facilities. They, too, are accountable
3 for the results.

4
5 **6. What is the role of Area Standard Operating Procedures (SOP)**
6 **or Headquarters' directives, if they exist, on local management**
7 **processing decisions?**

8
9 Generally, Headquarters issues SOPs only if national issues are identified. One
10 recent example was changes to Plant Verified Drop Shipment procedures associated
11 with SOX compliance reviews. Headquarters and Area offices often review operating
12 procedures that are developed locally and then assist with replication of any beneficial
13 operating procedures to other sites where equipment, processing operations, and mail
14 conditions are similar. Headquarters and the Area do not adopt every local SOP for
15 national or area use. As the Area office identifies opportunities, it will direct its plants to
16 comply with certain standard practices.

17 Last year the USPS embarked on a national Network Distribution Center initiative
18 for consolidation of all non-preferential volumes, *i.e.*, parcel post and standard volumes.
19 There were a series of national, area, and local mail preparation guidelines and
20 transportation schedule SOPs written and enforced to the letter. There was minimal
21 room for local deviation as the program was national and compressed consolidation and
22 outgoing processing to just a couple dozen sites. The benefits were two fold. We saved
23 the transportation costs by consolidating trips and we achieved the consistent
24 movement of the targeted volumes on a more timely basis. The success is evidenced
25 by the dramatic increase in package service scores in recent months.

26

1 **7. Please describe generally what conditions or criteria influence**
2 **how Netflix, Blockbuster, GameFly, and other DVD rental companies'**
3 **mail is processed.**
4

5 As Witness Belair states, processing equipment, volume, visibility, the physical
6 mail piece characteristics and any requested tracking services (such as Confirm)
7 influence processing methods. Netflix (and Blockbuster) mail DVDs as single ounce
8 First-Class Mail letters. GameFly mails two ounce First-Class Mail flats. This shape
9 distinction dictates different processing paths. Within those categories, volume and
10 physical characteristics play a role.

11 Netflix pieces can become a large proportion of an overall mail stream while en
12 route back to one of Netflix' processing centers. Because of their visibility and the fact
13 that all Netflix pieces in a given location go to a particular Netflix plant (regardless of
14 address), Netflix pieces may be separated from other mail and trayed. They need not
15 undergo further processing, which helps us complete that day's processing of all mail
16 earlier than would otherwise be the case; this minimizes work hours.

17 Because segregation of high density mail constitutes prudent management, it is
18 not unusual. We do the same with local, state and federal tax returns on or about April
19 15 every year. Press reports have often shown postal workers with tubs or trays
20 accepting returns curbside from motorists who need not park and enter the facility (or
21 overflow collection boxes). In addition to providing good press, curbside service has
22 helped the Postal Service to complete the processing of that day's mail earlier—the
23 essence of a win/win situation.

24 We routinely separate other high density mail at times, including Blockbuster
25 pieces as their density peaks in the mail, generally as it approaches its destination.

1 Other common examples include census forms and election materials such as ballots.
2 We separate high density pieces from others because that permits the Postal Service to
3 conclude that day's workload earlier; it also helps us clear that mail from the system
4 rapidly, which amounts to quick delivery for the recipient.

5
6 **8. To what extent is the processing of DVD mail involving Netflix,**
7 **Blockbuster, GameFly, or other DVD rental companies affected by**
8 **Headquarters or area guidelines or directives?**
9

10 I have not seen any Headquarters directives requiring the manual handling of
11 DVD mail. The SOPs or guidelines that have been issued from Headquarters,
12 concerning the handling of DVD mail, relate to the traying (or containerization) and
13 dispatch of those mails. My understanding is that the guidelines were issued to
14 decrease the possibility of mailpiece damage, due to the way letter trays or flats trays
15 (tubs) were stacked without the appropriate tray sleeve or lid. Because it was perceived
16 as a "national" issue with reports from internal downstream plants across the country,
17 Headquarters issued the instructions. Generally speaking, if Headquarters issues
18 guidelines or directives, they will pertain to broader issues, such as clearance times,
19 mail class service standards or critical entry times and specific unique procedures
20 relative to a product, like Priority Mail Open and Distribute

21
22 **9. Are you aware of any local offices where Netflix (or**
23 **Blockbuster) DVD mail is not culled out and processed manually?**
24

25 I am aware that some plants do not attempt to cull the DVDs from the AFCS
26 buffer ledge. As far as delivery unit collection operations, given the dense volume, I
27 believe most units separate Netflix as mailpieces are picked up as outgoing mail from
28 the customers and then placed into the designated container with other collection mail

1 prepared for dispatch to the processing plant. My knowledge is based on what I see
2 coming into the processing facilities. However, recently, while conducting a facility
3 review in Buffalo NY, I learned that some delivery units (and processing facilities) do not
4 separate Netflix mailpieces because they lack the adequate volume to make the
5 process efficient.

6 **10. In those offices where Netflix return pieces are not culled,**
7 **please explain why such mail is processed on machines, rather than**
8 **culled out and processed manually.**
9

10 Let me note first that the existence of such offices exemplifies the point that
11 processing is an inherently local decision made based on local conditions. Since
12 volume or density is a critical input to decisions, I expect that density is lower in such
13 locations. As noted above in my Buffalo example, if the amount of mail from any mailer
14 in the collection mailstream is not sufficiently dense, and attempts to cull and extract the
15 mail provide no value or increased efficiency, then the practice is not utilized.
16 Therefore, if the positive impact on mail processing operations is minimal, machine
17 handling is deemed optimal and more appropriate.

18 In some processing facilities, plant managers focus on optimal stacker utilization
19 and sweeping, and less on buffer grooming. Buffer grooming is a practice that
20 essentially preps the mail feeding into the AFCS. Today, the buffer area allows
21 grooming of mailpieces (by mail processing personnel) to extract and cull mail from
22 subsequent downstream processing. The newly designed AFCS 200 will not have a
23 buffer area built into its layout. Deployment across the country of AFCS 200 is
24 scheduled to begin this fiscal year and will run until 2011.

1 While some plant managers have opted not to establish grooming practices,
2 most plants allow buffer grooming as long as the stackers remain clear. Essentially,
3 plant managers are aligning mail processing equipment operators and mailhandlers to
4 different locations at the machine, including some from which culling cannot occur.
5 These instructions embody the principle that processing decisions are inherently local
6 and defined based on local operating conditions.

7 **11. GameFly contends that Netflix has unusual and unwarranted**
8 **access to local management officials and that Netflix unduly**
9 **influences local management's mail processing decisions. What is**
10 **the role generally of particular mailers in influencing local**
11 **processing decisions?**

12
13 My experience is that local processes are in place for every postal customer to
14 communicate concerns or issues. In fact, all business commercial mailers have access
15 to Business Services Network (BSN) representatives or to the Business Mail Entry Unit
16 managers.

17 Mailers do not themselves make local processing decisions, although many
18 attempt to influence practices for their specific mail. These types of discussions, across
19 all mailer and mail types, are not new. As I and my fellow witnesses have attempted to
20 establish, mail processing decisions are made locally with respect to many factors,
21 including mail volume and local operating conditions. Where it is advantageous to the
22 Postal Service, in terms of processing operations efficiency, local management is
23 empowered to alter operations based upon discussion with customers. Ideally,
24 customer discussions can produce alternative work methods that suit both the Postal
25 Service and the mailer, thereby producing an overall efficient, optimized supply chain.

1 I would note that Netflix has the same access to my plant personnel as any
2 customer, whether that customer is a church group or Fortune 500 company. In my
3 extensive interaction with the local Plant Managers and knowledge of Eastern Area
4 facilities, we take pride and welcome interaction with all mailers and we do react to
5 specific credible and actionable data, such as discussions that relate to the major mailer
6 scorecard. Discussion amongst Postal Managers relies upon data provided by Confirm,
7 IMb, Planet Code seeding, and even good old reporting-type results obtained from
8 individual recipients.

9 I am informed that GameFly sometimes makes known its preference that its
10 pieces be handled on the AFSM 100 flat sorters; if that equipment exists in a particular
11 location, that preference would also match postal priorities. GameFly therefore does
12 undertake efforts to communicate its preferences to local management. Furthermore,
13 its mailpieces are labeled so as to request AFSM 100 processing, as well.

14

15 **12. How does Netflix interact with local managers at the local level**
16 **so as to influence processing decisions?**

17

18 I am aware that, in the past, Netflix has taken tours of processing facilities and
19 spoken with local postal management regarding how to alter Netflix processing
20 procedures and streamline operations. As previously noted, such communication to
21 better leveraging and enhanced efficiency for both postal and Netflix operations. This is
22 not exclusive to Netflix.

23 For example, a large mailer in the Central Pennsylvania District, Book of the
24 Month Club, distributes books worldwide. Their returns operation is massive on a daily
25 basis, because they ship books to their customers on an automatic basis and the

1 customers then have to return them if they do not want to be charged. The company
2 held many quarterly meetings with Postal Service staff, held in their facilities and ours.
3 We worked with them to implement efficiency strategies such as mail piece weight
4 averaging for returns so we would only have to rate individual pieces once a month. We
5 also set up transportation directly out of their facility to save cross dock handling at the
6 host plant.

7 Another example is QVC returns, where we set up accountable scanning in their
8 facility for a time to ensure that customers sending the returns received the services
9 they paid for. We toured the QVC plant and located space where we could set up a
10 detached mail unit (DMU). They have also toured many of our facilities as well. On one
11 trip to QVC, we were even afforded the opportunity to tour their studios in Westchester
12 and watch live production. We discussed their scheduling and production requirements.
13 They shared some very specific (and proprietary) information on how they can predict or
14 project work load headed for the Postal Service, which we appreciated receiving.

15 I am aware that Netflix also sends their internally developed service performance
16 reports to District and Plant Managers once per week. Along with the various postal
17 generated performance reports, Netflix data coupled with other mailer provided data are
18 utilized in internal service performance reviews.

19 Field management looks constantly for issues requiring attention. Such issues
20 can be identified by any customer's report of service performance issues, so it would be
21 a mistake for managers to ignore that information. Hence each is reviewed for
22 actionable data. Netflix sends reports to postal managers on delivery and return
23 performance, since their business model is heavily targeted on overnight performance.

1 Their damage report is also sent weekly, so it become part of the information we use to
2 analyze operations for possible improvement opportunities and to help identify trends.

3
4
5
6
7

13. How does Blockbuster interact with local managers at the local level so as to influence processing decisions?

8 I have never seen or interacted with Blockbuster management. However,
9 Blockbuster is afforded the same access as any other mailer.

9
10
11
12

14. How does Gamefly interact?

13 I have never seen or interacted with GameFly management. However, GameFly
14 would also be afforded the same access as any other mailer. To that end, I am
15 informed that GameFly has met with local plant management and personnel in my Area,
16 inasmuch as one of their four distribution locations is located in Pittsburgh. I also am
17 told that GameFly has met with postal leadership at the National Postal Forum, but I
18 was not present during those meetings. Nor have I seen any Service Activity Requests
19 for GameFly from the Business Service Network (BSN)

19
20
21
22
23

15. How do other DVD rental companies interact with the Postal Service?

24 I am unaware of some specific interactions with other DVD companies in my
25 Area. However, as previously stated in this testimony, all business commercial mailers
26 have access to Business Services Network (BSN) representatives and to the Business
27 Mail Entry Unit managers who also facilitate customer related matters.

27
28
29
30
31

16. Are there any other special accommodations afforded to Netflix or Blockbuster beyond decisions to cull out return DVDs and process them manually?

1
2 Neither Blockbuster nor Netflix is afforded any special accommodations. To
3 summarize Mr. Belair's testimony and my own, Netflix handling is not determined by its
4 being a customer's preferred method. Rather, the Postal Service, specifically each local
5 plant manager, decides how best to make that plant's operations the most efficient
6 possible. Netflix mailpieces are highly visible and in significant volume, so much so,
7 that Netflix mailpieces are easily shifted from avoidable downstream handling in most,
8 but not all, locations. If Netflix mail was not so easily identifiable and readily separable
9 through normal day-to-day procedures, postal managers would allow the mailpieces to
10 flow through the mailstream and automated mail processing procedures. When
11 combined with the terms of Netflix Caller Service agreement, under which Netflix
12 repeatedly during a business day relieves the Postal Service of accumulated mailpiece
13 volume prepped for the Netflix truck at many locations, Netflix saves the postal service
14 transportation cost while allowing us to reuse floorspace each pickup empties.

15
16 **17. Are there other preferences afforded large mailers generally?**

17
18 Customer Service Agreements (CSA) allow certain customized options for large
19 mailers in a local area or at multiple plants. CSAs are tailored to the needs of the
20 individual company and the Postal Service. Most commonly, these agreements specify
21 mailer specific arrangements that drive efficiency for both parties. In general, such
22 agreements specify load and unload times, as origin or drop-shipping mailers or as
23 recipients of large volumes, to avoid delays and costs in their and postal operations.
24 CSAs can also provide for DMUs in customer facilities which verify and accept mail
25 before mail is drop shipped to various entry points.

1
2 **18. GameFly contends that it has specifically been told that its**
3 **mail will not be given manual processing as a matter of course. Has**
4 **GameFly, or any other mailer, been specifically denied manual**
5 **processing by managers in the field?**
6

7 To my knowledge, which encompasses the various positions I have held and the
8 extensive communication that takes place across operations, GameFly has neither
9 requested nor been denied manual processing. However, as previously explained,
10 culling occurs for the Postal Service's own reasons, not simply as an accommodation
11 for customers. While the act of culling may be manual, it also precludes the need for
12 later automated or manual processing. So it is not "manual processing" as that term
13 may be used to describe the manual processing, from one end of the postal system to
14 another, necessary to the maintenance of security for accountable mail.

15 In addition, I my understand that GameFly pays for CONFIRM Service, which
16 cannot be provided if the mail is processed manually. Also, since mailpiece visibility is a
17 prerequisite to processing as most Netflix return pieces are, and GameFly reportedly
18 made its mailpiece more anonymous looking after learning that its visible pieces were
19 being targeted by thieves, a request for the style of processing afforded Netflix pieces—
20 if that constitutes manual processing—seems contrary to GameFly's own interests.
21 Given GameFly's desire to have its mail run on postal automation, and its willingness to
22 purchase CONFIRM thereby leveraging automated mail processing equipment scans,
23 and its interest in avoiding theft; it is not clear to my why GameFly would request any
24 form of manual processing.

25 **19. Are there capacity constraints on local processing decisions**
26 **to provide culling or manual processing of DVD return mail?**
27

1 Yes. The Postal Service operates on a 24-hour clock. Generally all outgoing or
2 originating operations in a processing facility must be complete and dispatched by 2230.
3 Many Post Office retail units do not close until 1700. By the time trucks arrive from
4 delivery units to a mail processing facility, the operating window to meet clearance
5 dispatch times is very narrow. Facilities where high density mailings can be efficiently
6 isolated, thereby avoiding additional handling, can cut significant time off of their
7 clearance. Even by shifting seven to ten thousand pieces of Netflix directly to dispatch
8 can save 10-15 minutes or more from the AFCS operations and, more broadly, overall
9 originating clearance time.

10

11 **20. Would the Postal Service have the capacity or capability to cull**
12 **out GameFly's return DVD mail for processing as it does for Netflix**
13 **return DVD mail?**

14

15 Yes, if certain conditions are met and the volume or density was sufficient to
16 make it economical. The mailpiece design would need to make pieces readily
17 identifiable, and perhaps in the letters rather than flats mail stream. The general
18 principles I describe that explain why Netflix return letters and other high density types
19 of mail are culled and removed from subsequent processing steps also apply to the flats
20 mailstream, but with the different equipment used to sort flats the economies would
21 work out quite differently. I expect that a network of caller service pickup points
22 comparable to what Netflix uses would also be necessary to attain the economies that
23 the Postal Service realizes with Netflix. The extent of such manual processing would be
24 dictated by the density of GameFly mail in respective plants, just as it is with Netflix.

25

26 **21. Would the Postal Service have the capacity to cull out all**

27 **qualifying DVD return mail?**

1 Given the necessity of sufficient density and the role volume plays in postal
2 operational efficiency, it is unlikely that the Postal Service would be able to cull all DVD
3 return mail. From the point of collection through mail processing, it is not economically
4 feasible for carriers or mail processing employees to go through every piece of mail,
5 although separating one or more groups of highly visible pieces that are known to
6 aggregate to substantial volume in the local processing plant is plausible and
7 reasonable. The lower the density of a particular, visible mailpiece in a mailstream, the
8 more time would be needed to isolate most pieces. So attempting to cull all DVD pieces
9 would likely prove inefficient because it would consume considerable time (especially in
10 the AFCS operation) in the finite processing window to extract those pieces that were
11 missed by the delivery unit. At some point, this would interfere with the efficiency of the
12 operation and add rather than subtract processing costs.

13
14 **22. If one could choose those pieces excluded from culling, which**
15 **would they be and what criteria would determine that mail getting**
16 **excluded?**

17
18 The ease with which each piece could be identified and the density in the
19 mailstream to afford efficiency gains are important facilitating factors. So pieces that
20 are difficult to identify and with low overall density in the mail would be the appropriate
21 pieces to exclude; these would be handled most efficiently when automation is used.

22 A similar example is tax returns. The carriers and delivery units generally try to
23 do their best to tray these up before dispatch to the processing facility. This process is
24 administered for local, state and federal returns, each of which has a distinctive
25 envelope and label. By culling and separating these mailpieces, it speeds the handling
26 and dispatch to the respective tax offices and saves handling in the plants. Another

1 example involves Pennsylvania, where we have an antlerless deer hunting season
2 which requires a special license. These applications are in large pink envelopes and
3 easily identified by postal personnel. The delivery units keep these mailpieces isolated
4 prior to dispatch to the processing facility, allowing the Postal Service to capture savings
5 in avoided downstream handling.

6 **23. GameFly contends that allowing operations decisions about**
7 **how to process Netflix' mail to the field, given how Netflix mail is**
8 **now handled, amounts to illegal discrimination against GameFly,**
9 **none of whose mail is culled early on its return trip to GameFly. Do**
10 **you have an opinion about the fairness or unfairness of how the two**
11 **companies' return pieces are processed?**
12

13 Yes. Processing decisions vary depending upon location, operating space,
14 equipment, mail arrival times, what is in the mail, and the density of pieces that might be
15 considered for culling to avoid downstream processing, as I have explained above. The
16 Postal Service decides in each location how best to process all mail then requiring
17 processing—that is the Postal Service's job to figure out, given its obligation to maintain
18 an efficient system of collection, sorting and delivery of mail nationwide. The similarity
19 across the nation—or those parts of the nation where I have worked—in how Netflix
20 mail is processed reflects a lot of local decisions on what is most efficient and therefore
21 best for the Postal Service. Separation of high density mail intended for a single
22 recipient is a frequent and common method for increasing the overall efficiency of mail
23 processing.

24 GameFly enters quite different mail, aside from its DVD content, that follows a
25 quite different processing path from Netflix mail. So the fact that it is not processed as
26 Netflix mail is processed cannot be surprising. If GameFly managed to follow Netflix'
27 model, using easily identifiable single piece letter shaped mail, we could do for GameFly

1 what we do for Netflix, and to a lesser extent do for Blockbuster, if as a consequence
2 the decision on how best to handle GameFly mail presented field managers with the
3 same decision context that we face today for Netflix. GameFly mails fewer pieces
4 today, meaning that the density Netflix achieves in some delivery units (during the
5 return trip), would not be achieved for GameFly until pieces get closer to GameFly
6 processing facilities. But as GameFly total volume or density approaches that of Netflix,
7 we would face for GameFly the same decision we face today for Netflix and extracting
8 GameFly pieces from the mail could be the same as happens for Netflix today.

9 I have already provided an example that illustrates my point. When we cull tax
10 returns on tax day, we separate federal, state and local returns from the general flow of
11 mail, and from one another. So there is every reason to think that if GameFly became
12 similarly situated to Netflix, processing of GameFly mail can and would closely resemble
13 what we do today for Netflix return DVD mail pieces.

14

15 **24. Have you reviewed the letter from Andrew German to David**
16 **Levy dated May 17, 2010, regarding the processing of GameFly DVD**
17 **mail?**

18 Yes.

19 **Are the conditions stated in Mr. German's letter reasonable**
20 **requirements for the processing of GameFly's DVD manually?**

21 Yes, as I understand the conditions specified in the letter.

22 **If GameFly were to meet the conditions stated in the letter, would the**
23 **Postal Service be able to provide manual processing of Gamefly's**
24 **DVD mail?**

25 Yes, as I understand the conditions and how those relate to efficient mail
26 flow.

27

28 **25. Please explain the future mail processing environment as it**
29 **will affect the processing of Netflix, Blockbuster, and GameFly return**
30 **mail.**

31

1 Given recent dramatic volume declines, the Postal Service will continue looking
2 for opportunities to right-size its facilities and equipment, and will also enhance
3 automation technology. For example, with deployment of the AFCS 200 (the first
4 processing step for letter shape collection mail), the new machine will no longer have a
5 buffer area accessible by the operator and therefore does not allow pieces to be culled
6 for manual processing prior to facing/cancelling. However, one added feature is that the
7 machine can better handle thicker and less flexible pieces such as mail containing
8 DVDs. The machine has been observed to process DVDs with fewer jams than the
9 current AFCS equipment.

10 In addition, the deployment of the Flat Sequencing System (FSS) equipment will
11 allow Gamefly flats to be placed in delivery sequence order, when they are mailed to
12 ZIP Codes whose mail will be processed on FSS equipment.

13

14

CONCLUSION

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