

UNITED STATES OF AMERICA
POSTAL REGULATORY COMMISSION
WASHINGTON, D.C. 20268-0001

Estimating Volume Changes from
Pricing Incentive Programs

Docket No. RM2010-9

CHAIRMAN'S INFORMATION REQUEST NO. 1

(Issued August 13, 2010)

On July 23, 2010, the Public Representative filed a motion requesting the Commission to issue an information request, which was attached to the Motion.¹ The Commission ruled on the Motion in Order No. 516, finding that clarification of the Postal Service's initial comments is warranted.²

In response to the Motion, the Postal Service provided answers to questions 1.a., 4, and 6.³ The response to question 1.a. indicates that the Postal Service would use the methodology applied in Docket No. R2009-3 until a better method is established. However, the data collection report in Docket No. R2009-5 (filed July 26, 2010, revised July 29, 2010) introduces a methodology for estimating "loyalty growth" that relies on an average "loyalty growth" percentage from three fiscal quarters of volume data. This new methodology stands in contrast to the (single fiscal quarter) "spring threshold" method used in the Docket No. R2009-3 data collection report. The answer to question 1.a. does not appear to be consistent with the new methodology employed in the Docket No. R2009-5 data collection report.

¹ Public Representative Motion for Issuance of Information Request and Adjustment to Procedural Schedule, July 23, 2010 (Motion).

² Order on Motion of the Public Representative for Issuance of Information Request and Adjustment to Procedural Schedule, August 13, 2010 (Order No. 516).

³ Response of the United States Postal Service in Opposition to the Public Representative's Motion for Issuance of Information Request and Adjustment to Procedural Schedule, August 3, 2010, at 2-3 (Response).

The Postal Service is requested to respond to the following questions to clarify its preferred methodology for estimating contribution from pricing incentive programs. The Postal Service is also requested to provide responses to questions 1b.–d., 2-3, and 8 from Attachment A to the Motion, which are reproduced, with corrections, below. Responses should be provided no later than September 10, 2010.

1. The following questions concern differences between methods used in the data collection reports filed in Docket Nos. R2009-3 and R2009-5.
 - a. Please confirm that applying the methodology used in each report to the input data of the other would not generate the same results.
 - b. If not confirmed, please demonstrate that the application of the methodology used in each report to the input data of the other report produces the same estimated effect on Postal Service contribution. Please also demonstrate that the convergent results are not a coincidence, and that applying each method to any given set of input data would consistently generate the same results.
 - c. If confirmed, please identify which of the methods the Postal Service believes produces the most reliable results. Please explain all reasons for that preference.
 - d. The Postal Service has stated that “the more appropriate way to proceed would be to allow the Postal Service to present its proposed methodology during the comment period.”⁴ Please identify what methodology (*e.g.*, Docket Nos. R2009-3 or R2009-5) the Postal Service is proposing. Please explain all reasons for the preference.

⁴ Response of the United States Postal Service in Opposition to Motion of the Public Representative Requesting Adjustment to Procedural Schedule, June 18, 2010, at 2.

2. Please refer to the “loyalty growth” analysis on page 3 of the Docket No. R2009-5 data collection report (filed July 26, 2010). The table shows the “average loyalty percentage” as calculated based on volume trends for winter (Jan—Mar), spring (Apr—June), and summer (July—Sept). In the spreadsheet containing individual mailer volumes (First-Class Mail Incentive—Order 299—20100504.xls), the individual tabs state in a footnote that “MSP volume data were collected for the following months: Oct—Dec. 2007, Sept. 2008—Jan. 2009, Sept. 2009—Jan. 2010.”
 - a. Please provide a revised spreadsheet with Mail Service Providers (MSP) volumes for each month, consistent with the data collection plan. See Docket No. R2009-5, Order No. 299, November 16, 2009, at 19. If the required data are not available, please explain.
 - b. MSP volumes are the only volumes reported for many mailers and make up the majority of the volume of many more mailers. Please explain the rationale for the assumption that mailer volume trends for periods that exclude MSP volumes can be meaningfully applied to the fall period, which includes MSP volumes. Please include an explanation of how trends were calculated for mailers with no non-MSP volumes as well as any adjustments made to the non-MSP volumes of mailers that also sent MSP volumes.
 - c. Please provide the spreadsheet containing the calculation of the figures presented in the “loyalty growth” table (Loyalty Analysis.xls).
3. Please refer to the Docket No. R2009-5 data collection report, (filed July 26, 2010, revised July 29, 2010).
 - a. Please provide separately reported data for each company involved in an acquisition or merger during the data collection period on (i) a pre-acquisition or pre-merger basis, and (ii) for the combined company, on

a post-acquisition or post-merger basis, with appropriate links between the sheets for each company involved in the acquisition or merger. See Docket No. R2009-5, Order No. 299, November 16, 2009, at 19.

- b. Please provide a spreadsheet with a crosswalk linking the mailer's generic identification number to the identity of each mailer. The Postal Service may request that the spreadsheet be granted protective conditions. See Docket No. R2009-5, Order No. 299, November 16, 2009, at 19 n. 22.
4. Would different methodologies be appropriate for "loyalty growth" initiatives as compared to prospecting initiatives? If so, please elaborate.
5. The Postal Service's non-empirical proposal mentions the importance of customer growth rates outside of the incentive period to estimate leakage volume. To estimate additional contribution from the pricing incentive in Docket No. R2009-3, the Postal Service provided the following formula:

<u>Theoretical Spring Sale</u>		
1 Spring 2008 Volume	8,075,371,963	Actual Apr 08 - Jun 08 volume of 923 rebate eligible mailers
2 Spring 2009 Threshold	6,451,844,292	Aggregate Apr 09 - Jun 08 thresholds of these 923 mailers
3 Spring 2009 Volume	6,158,630,167	Actual Apr 09 -Jun 09 volumes of these 923 accounts
4 Loyalty Volume (Growth Above Threshold)	570,815,567	Total rebate eligible volume when Summer Sale 2009 rules are applied
5 As Percentage (high est)	7.07%	Row 4/ Row 1

The method is then applied to the 2009 Summer Volume (July-September) to estimate the volume resulting from growth before the implementation of Docket No. R2009-3, as follows:

<u>Actual Summer Sale Data</u>		
6 Summer 2009 (Jul-Sep) Volume	6,795,063,650	As reported in Docket No. R2009-3
7 Total October Adjustment	96,134,934	As reported in Docket No. R2009-3
8 Summer Sale Incremental Volume (as of Feb, 2010)	995,265,167	As reported in Docket No. R2009-3
9 Additional Incremental Volume from Accounts Still Being Processed	10,000,000	
10 Estimated Summer Sale Incremental Volume at End of Program	1,005,265,167	Estimated
11 incremental Volume Due to Loyalty	384,180,788	Line 6 * Line 5 - Line 7
12 Incremental Volume Due to New Growth	621,084,380	Line 10- Line 11
13 Percentage of Incremental Volume Due to New Growth	61.8%	Line 12/ Line 10

- a. Line 4, "Loyalty Volume," is calculated as an aggregate for all mailers participating in the Summer Sale.
 - i. How many mailers with "Loyalty Volume" did not receive a rebate?
 - ii. Of the 570,815,567 pieces in "Loyalty Volume" how much volume was sent by mailers that did not receive a rebate?
 - b. Why does the volume growth of mailers that experience volume growth before the incentive period but not during the incentive period affect the amount of leakage volume?
 - c. In line 11, why is the October Adjustment Volume (line 7) variable subtracted from the product of Summer Sale 2009 Volume and Loyalty Volume as a percentage of Spring 2009 Volume (Line 6 x Line 5)?
6. The following table uses the same method as question 1, but only uses data from mailers that received rebates.

Theoretical Spring Sale			
1	Spring 2008 (Apr-Jun) Volume	4,382,104,164	Actual Apr 08-Jun 08 vol. of mailers w ith rebate
2	Loyalty Volume (Grow th Above Threshold)	413,118,365	
3	As Percentage (high est)	9.43%	Percent of volume that is "Loyalty"
Actual Summer Sale Data			
4	Summer 2009 (Jul-Sep) Volume	4,548,126,736	As reported in Docket No. R2009-3
5	Total October Adjustment	96,134,934	As reported in Docket No. R2009-3
6	Summer Sale Incremental Volume (as of Feb, 2010)	995,265,167	As reported in Docket No. R2009-3
7	Additional Incremental Volume from Accounts Still Being Processed	10,000,000	Estimated
8	Estimated Summer Sale Incremental Volume at End of Program	1,005,265,167	
9	Incremental Volume Due to Loyalty	428,769,972	Line 3 * Line 4
10	Incremental Volume Due to New Grow th	576,495,195	Line 8 - Line 9
11	Percentage of Incremental Volume Due to New Grow th	57.3%	Line 10 / Line 8

- a. Please describe the advantages of the method proposed in Docket No. R2009-3, Pricing Incentive Program data collection report, using "loyalty growth" information from mailers that did not receive discounts.
- b. This method does not include the "October Adjustment" volume in the calculation of "Incremental Volume Due to Loyalty." Please explain how the inclusion of that variable would improve the accuracy.

7. The following table contains a Same Period Last Year (SPLY) analysis, similar to the method proposed for Docket No. R2010-3, using the Docket No. R2009-3 analysis.

Theoretical Spring Sale		
1 Spring 2008 (Apr-Jun) Volume	4,382,104,164	Actual Apr 08-Jun 08 vol. of mailers w ith rebate
2 Growth above SPLY	147,918,630	
3 As Percentage (high est)	3.38%	Percent of volume that is "Loyalty"
Actual Summer Sale Data		
4 Summer 2009 (Jul-Sep) Volume	4,548,126,736	As reported in Docket No. R2009-3
5 Summer 2008 (Jul-Sep) Volume	4,349,019,918	As reported in Docket No. R2009-3
6 Volume growth above SPLY	199,106,818	Line 4 - Line 5
7 Incremental Volume Due to Loyalty	153,522,749	Line 3 * Line 4
8 Incremental Volume Due to New Growth	45,584,069	Line 6 - Line 7
9 Percentage of Incremental Volume Due to New Growth	21.8%	Line 8 / (Line 6 + 10,000,000)
rebate vol	1,005,265,167	
line 9 x rebate vol	219,141,956	
elasticity incremental vol	217,493,471	

- a. The data contained in the file "Summer Sale 2 –Loyalty Analysis_Redacted.xls" do not contain mailer identification for 33 mailers (such as "800072B") when compared to "PRC Report V1.xls." The above table does not include information on 33 mailers. Please provide a table with the above information for all mailers who earned rebates in Docket No. R2009-3.
- b. Please discuss the benefits of the Postal Service proposed methodology as compared to a method using growth over SPLY volumes.
- c. The "Percentage of Incremental Volume Due to New Growth" using this method is 21.8%. Assuming that the mailers who mailed less than SPLY volumes can attribute that same percentage (21.8%) of their incremental volumes above threshold, the estimate of incremental volume attributable to the discount closely matches the elasticity estimate yielded by the Commission's current methodology. Please discuss the benefits of this

version of the Postal Service's proposed methodology as compared to the Commission's accepted methodology.

8. In Docket Nos. R2009-3, R2009-4, R2009-5 and R2010-3, the Postal Service stated that Short-Run Attributable Costs were lower than the Long-Run Attributable Costs estimated in Docket No. ACR2009.
 - a. Does the Postal Service believe that incremental mail from mailers eligible for these programs has lower attributable costs? If so, please provide all studies estimating this effect.
 - b. Does the Postal Service believe that this phenomenon will continue?
 - c. Has the Postal Service measured the effect of the decreased attributable cost of incremental pieces on the attributable costs of the products with volumes incentivized by these programs? If so, please provide all studies estimating this effect.

By the Chairman.

Ruth Y. Goldway