

DOCKET SECTION

BEFORE THE
POSTAL RATE COMMISSION
WASHINGTON, D.C. 20268

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Postal Rate and Fee Changes, 1997

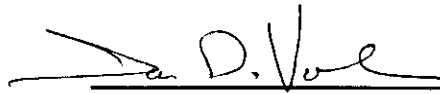
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Docket No. R97-1

RESPONSE OF RECORDING INDUSTRY ASSOCIATION OF AMERICA
WITNESS MONASTRO TO INTERROGATORIES OF
UNITED STATES POSTAL SERVICE
(USPS/RIAA, et al.-T2-1-6)

The Recording Industry Association of America ("RIAA") hereby provides the responses of witness Joe Monastro to the following interrogatories of the United States Postal Service, filed on January 28, 1998: USPS/RIAA, et al. T2-1-6.

The interrogatories are stated verbatim and followed by the responses.

Respectfully submitted,



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Counsel to RIAA, et al.

February 10, 1998

**RESPONSE OF WITNESS MONASTRO (RIAA et al.-T2)
TO POSTAL SERVICE INTERROGATORIES**

USPS/RIAA et al.-T2-1. Please refer to page 4, lines 4-7, of your testimony. You state: "Merchandise Return Label Service has been intended as a response to the problem of resealed parcels, but experience has shown -- and our recent investigation confirms -- that this service is cost effective only in case of very expensive products."

- (a) Please describe the investigation you conducted concerning Merchandise Return Service and the procedures you used in that investigation.
- (b) Please provide all information, analyses, and results of this investigation.
- (c) Please describe in detail the "experience" that shows that Merchandise Return Service is "cost effective *only* in the case of very expensive products." (emphasis added).
- (d) By "this service is only cost effective in the case of very expensive products," whose costs are you referring to, the mailers or the customers?
- (e) How is using a Merchandise Return Service label more expensive to use than taking the parcel to the post office and paying for the postage at the window?

Response:

(a) The problem of parcels that are inappropriately and unnecessarily routed by the Postal Service to the mail recovery centers and subsequently sold at auction, I am told, has existed since the mid-1970s at least. The investigation referred to in my testimony began with an onsite visit to the San Francisco Mail Recovery Center in February, 1997. This visit was by an ad-hoc group of interested mailers, including my

company, Columbia House, Fingerhut, Time Warner, Cosmetique and others. A subsequent visit by the informal working group (which I did not personally attend) was made, in May 1997 to the St. Paul Mail Recovery Center. The attached comparison of MRC auction sales provides some information as to the nature of the products being sold at the auctions. That the existing system for dealing with resealed parcels is not working was abundantly clear at both of these auctions. Although the MRC is supposed to return to mailers any parcels which can be identified as having originated from that mailer, there were a significant number of parcels in San Francisco bearing the BMG label, not only on the carton but also on the product, that were in the process of being stripped and sorted for auction; and the other members of the small parcel working group found the same problem exists both at San Francisco and at St. Paul. As a result, a MTAC work group was formed dedicated to resolving the open parcel issue. There were a number of formal and informal meetings, several of which were attended by counsel for the Postal Service. My August 4 letter of 1997 (attached) and the Executive Summary of the Fall MTAC Work Group Meeting further sheds some light on the discussions between the Postal Service and mailers concerning this issue.

(b) See response to (a) above.

(c) The statement that Merchandise Return Service is cost effective only in the case of very expensive products is based upon the information that we developed through the informal working group and the experience of the companies whose representatives attended that working group. The fundamental problem with Merchandise Return Service is that the Postal Service charges a 30 cents per piece fee

over and above the cost of return postage. Because the cost of administering the Merchandise Return Service bears no relationship to the per piece fee its purpose is, to say the least, unclear. In any event, the existence of the fee simply means that it is cost effective for mailers to use Merchandise Return Service only where the recovery value of the product is very high as is the case of certain very expensive collectibles, electronic equipment and the like. This conclusion is borne out by my experience and the experiences of other members of the MTAC working group.

(d) The mailers.

(e) The problem of resealed parcels exists because customers do not always take their pieces to the post office for return to the mailer after they have been opened and because the Postal Service refuses to return these pieces to the mailer even though the mailer has guaranteed returned postage. As I pointed out in my testimony, customers do not want to go to the trouble of requesting a Merchandise Return Label on relatively low priced items; and the delay between such a request and the shippers actual receipt of the parcel creates billing and accounting issues leading to consumer dissatisfaction.

USPS/RIAA et al.-T2-2. Please refer to page 6 of your testimony. Please confirm that the proposed Bulk Merchandise Re-deposit Service is an optional service.

Response: Confirmed that no mailer would be required to take Bulk Merchandise Re-deposit Service. However, it is our expectation that Bulk Merchandise Re-deposit

Service would be available only to those mailers who also request that their parcels be returned if they prove undeliverable as addressed.

USPS/RIAA et al.-T2-3. Please refer to page 8 of your testimony. Please confirm that under your proposal, the annual minimum pieces of returned parcels is 10,000 pieces per site. If not, please explain.

Response: Confirmed. The annual minimum piece arrangement is identical to that for BPRS.

USPS/RIAA et al.-T2-4.

- (a) Is it your understanding that the Postal Service would incur some costs for billing and trust fund accounting in operating the proposed Bulk Merchandise Re-deposit Service?
- (b) Please explain why you did not propose a per-piece fee for billing and trust fund accounting similar to the fee paid to cover business Reply Mail billing and trust fund accounting.

Response:

- (a) Whatever cost the Postal Service incurs for billing and trust fund accounting in connection with Bulk Merchandise Re-deposit Service should and would be recovered through the annual accounting fee.
- (b) There are two reasons why we did not propose a per piece fee for billing and trust fund accounting. The billing and trust fund accounting fee should be

recovered, through the annual charge. Second, and more importantly, the imposition of a fee for Bulk Merchandise Re-deposit Service would amount to a triple charge. Under the re-deposit service, the mail is being returned in bulk but the Postal Service is being paid at the otherwise applicable single piece rates. The mail is also being returned together with undeliverable as addressed mail, as to which there is also a trust fund accounting system and the Postal Service incurs no additional costs. Finally, the Postal Service persistently claims that the auctions are very costly to operate and do not recover the Postal Service's costs of operation; the re-deposit service will enable the Postal Service to reduce these mail recovery operating costs and the savings should be reflected in the rates for the service.

USPS/RIAA et al.-T2-5. Please refer to page 7 of your testimony. You state: "Bulk Merchandise Re-Deposit Service will provide the Postal Service with a revenue stream that is directly and explicitly related to the cost of accepting, processing and transporting the mail."

- (a) Do you have any cost data to show that this proposed service will cover its costs?
- (b) If so, please present this data and explain in detail any procedures you used to collect it.
- (c) If you cannot present any cost data, please explain fully how you reached the conclusion that the proposed service would cover its costs.

Response:

(a) The cost data to respond to this question would be uniquely within the control of the Postal Service and has never been shared with us. I note, however, that the single piece rate that mailers would pay would almost certainly exceed the average revenue per piece that the Postal Service now receives at auction. Surely, therefore, the Postal Service will not be worse off under our proposal than it is today.

(b) Not applicable.

(c) As I have explained in response to interrogatory 4 above, the re-deposit service will save the Postal Service and provide a revenue stream that is computed by applying single piece rates to a bulk service. As I also pointed out, since the mail will be accounted for as a part of the bulk processing rating system the Postal Service now uses for undeliverable as addressed.

USPS/RIAA et al.-T2-6. Please refer to page 8 of your testimony. You state: "Rating pieces at the single piece rate will provide more than sufficient margin to assure that no other category of mailers is burdened with costs that they did not cause."

(a) Please present any and all cost data you have to support this statement.

(b) Please explain the assumptions you made to arrive at this conclusion.

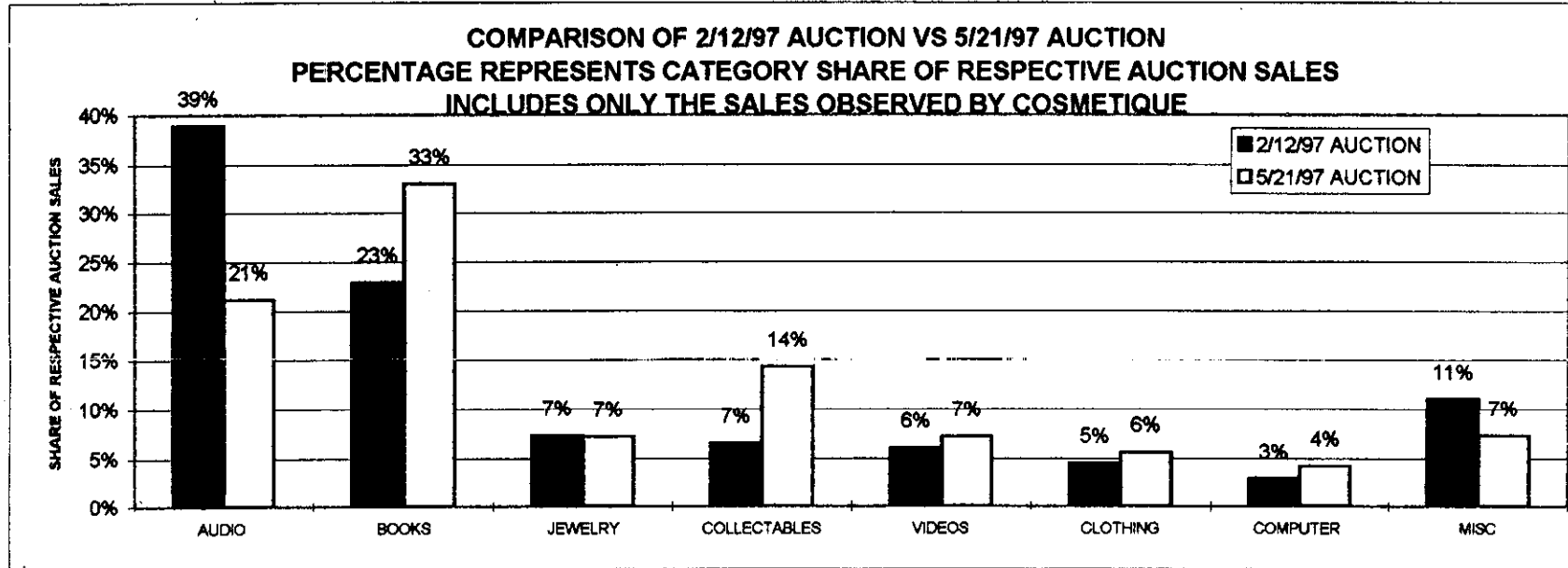
Response:

(a) and (b): See my response to interrogatories 4 and 5 above.

COMPARISON OF MRC AUCTION SALES - 2/12/97 AUCTION VS 5/21/97 AUCTION DATA COLLECTED BY COSMETIQUE AT THE ST. PAUL MAIL RECOVERY CENTER BY PRODUCT CATEGORY

Note: Cosmetique observed the sale of 103 auction lots on 2/12 and 100 lots on 5/21.

| PRODUCT CATEGORY | 2/12/97 AUCTION | | 5/21/97 AUCTION | | COMPARE % OF SALES 5/21/97 VS 2/12/97 |
|------------------------|-----------------|------------------------|-----------------|------------------------|--|
| | SALES \$ | CATEGORY % OF SALES | SALES \$ | CATEGORY % OF SALES | |
| AUDIO (CD'S AND TAPES) | \$ 29,140 | 39% | \$ 15,700 | 21% | (18%) |
| BOOKS | \$ 17,200 | 23% | \$ 24,560 | 33% | 10% |
| JEWELRY | \$ 5,480 | 7% | \$ 5,320 | 7% | (0%) |
| COLLECTABLES | \$ 4,860 | 7% | \$ 10,570 | 14% | 8% |
| VIDEOS | \$ 4,500 | 6% | \$ 5,340 | 7% | 1% |
| CLOTHING | \$ 3,370 | 5% | \$ 4,160 | 6% | 1% |
| COMPUTER SUPPLIES | \$ 2,170 | 3% | \$ 3,080 | 4% | 1% |
| MISCELLANEOUS | \$ 8,280 | 11% | \$ 5,430 | 7% | (4%) |
| TOTAL | \$ 75,000 | 100% | \$ 74,160 | 100% | |





Joseph A. Monastro
Senior Director
Lettershop & Postal Affairs

August 4, 1997

Mr. Arthur Porwick
Director, Customer Service Support
United States Postal Service
475 L'Enfant Plaza SW
Washington, DC 20260

Via Fax: 202-268-4970

RE: Opened Returned Parcels

Dear Art:

As head of the MTAC workgroup dedicated to resolving the opened parcel issue, I would like to provide you with the following update on our progress.

On Friday, July 25, 1997, I conducted a teleconference with representatives from BMG/Doubleday, Columbia House and Cosmetique. The group concluded that persons who deposit opened/resealed parcels in the mail should pay the postage. However, when such postage-less deposits occur, we agree that it's impractical for the USPS to go back to the customer to collect the postage due. It is also wrong for the USPS to trash the parcel and/or auction its contents. Instead, the USPS should seek payment of the postage from the original mailer readily identified by the return address who is more than willing to pay the postage - a procedure that has been working successfully for many years.

In summary, the operational procedure already employed at the Mail Recovery Centers, and recently expanded to the Bulk Mail Centers, should be expanded to the entire postal system, all the way down to the carrier level. This procedure directs the USPS to return the opened parcel to the mailer for postage due. This will allow the original mailers to receive their product in a timely fashion and the USPS will collect the appropriate postage on the opened parcels without the expense of creating new procedures and/or endorsements. It would also eliminate any need for further workgroup meetings between Industry and USPS staff.

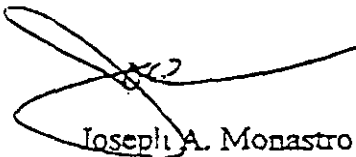
page 7

The following is what we would like to see implemented.

1. If a returned parcel is already in the mailstream, all the mailers want that parcel back and are willing to pay the postage due regardless if opened or unopened. This would include opened return parcels redeposited by the customer into a public mailbox or their home mailbox, but not at the Post Office window.
2. Customers who present the parcel for return at the window of their local Post Office will continue to pay the return postage.

We are very interested in your feedback. Please call me with your comments or questions.

Sincerely,



Joseph A. Monastro

JAM/1fm

cc: Jerry Cerasale-DMA
Gene Del Polito-AMMA
June Giugni-Cosmetique
Bill Hoyt-Consultant
Ken Hunter-USPS
Allen Kane-USPS
Rick Kanka-Cosmetique
Lloyd Karls-Fingerhut
Clif Knight-BMG
Bill McKee-Columbia House
Rocky Mathews-USPS
Jon Mulford-Consultant
Barry Reiss-Columbia House
Kathy Siviter-AMMA

**OPENED/RESEALED PARCELS ISSUE
EXECUTIVE SUMMARY
FALL MTAC WORKGROUP MEETING 1997**

Customer satisfaction is of the utmost importance to the USPS and the mailing industry. Resolution of the opened/resealed parcel issue is an opportunity to improve the present level of customer service thus increasing customer retention and industry sales. In addition, this issue contains significant sources of incremental revenue for the USPS.

A customer return can come in 3 basic types:

- 1) Postage paid by customer - the parcel can be opened or unopened.
- 2) Unopened - the postage is paid by mailer according to the endorsement.
- 3) Opened/resealed and deposited into the mailstream without postage affixed.

This MTAC workgroup does not propose any changes to procedures for types 1 or 2. However, the 3rd type, opened/resealed, has presented serious problems for the customers, mailers and the USPS. The current DMM states that opened/resealed parcels are considered deficient of postage and should be either returned to the customer or be discarded. Discarding could mean either actual disposal or forwarding the parcels to the Mail Recovery Centers for auctioning.

The above described DMM procedures are impractical for all parties and are not usually followed by the USPS. In fact, the vast majority (an estimated 90%) of opened/resealed parcels are already being returned to the original mailer who pays the postage due. The key point is that as many as 10% are discarded or lost even though the mailer would have paid the postage. These lost parcels undoubtedly include valuable customer correspondence which will never reach the mailer. As a result, customer claims occur and the public loses faith in the mail order industry and the USPS.

The USPS has taken some steps to address this issue beginning with the Mail Recovery Center (MRC) program piloted by the Inspection Service that enables mailers to recover a small percentage of the "lost" parcels. Although the MRC program is a step in the right direction, the mailers and the USPS agree a more global solution is needed.

The USPS has recommended use of Merchandise Return Labels as solution to the opened/resealed parcels. Although, this recommendation does address the claims and procedural problems, it also has shown to increase return rates and postage costs which makes this alternative unacceptable to the mailers.

The mailers have countered with a recommendation that basically states that if an opened/resealed parcel is deposited into the mailstream, it should be returned to the mailer who will pay the postage. As stated above, this is already what happens 90% of the time so this would not seem to be a significant change for the USPS. In fact, this procedure is already in place at the MRC's and has been expanded to Bulk Mail Centers.

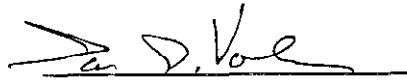
The USPS has concerns regarding the proposal of the mailers so it has been decided that an MTAC workgroup be designated to address this issue.

At present, there appears to be 4 alternatives for consideration:

- 1) Status Quo-The mailers will continue to recover 90% of opened/resealed parcels with 10% lost.
- 2) The DMM procedure - Opened/resealed parcels are either returned to the customer or discarded.
- 3) The USPS proposal - Expand the use of Merchandise Return Label.
- 4) The Mailers' proposal - Opened/resealed parcels already in the mailstream are forwarded back to mailers.

CERTIFICATE OF SERVICE

I hereby certify that I have on this date served this document upon all participants of record in this proceeding in accordance with section 12 of the rules of practice.



Ian D. Volner

DATE: February 10, 1998