

# DOCKET SECTION

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

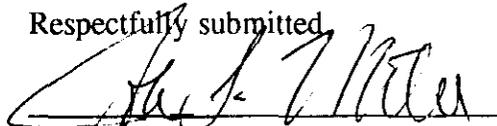
POSTAL RATE AND FEE CHANGES, 1997 )

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Docket No. R97-171

RESPONSE OF NASHUA PHOTO INC., DISTRICT PHOTO INC.,  
MYSTIC COLOR LAB, SEATTLE FILMWORKS, INC.,  
AND MERCK-MEDCO MANAGED CARE, L.L.C.  
TO FIRST SET OF INTERROGATORIES  
OF UNITED STATES POSTAL SERVICE (USPS/NDMS-T3-44-45)  
(February 18, 1998)

Pursuant to sections 25 and 26 of the Postal Rate Commission rules of practice, Nashua Photo Inc., District Photo Inc., Mystic Color Lab, Seattle FilmWorks, Inc., and Merck-Medco Managed Care, L.L.C., hereby provide the responses of witness John Haldi to the following interrogatories of the United States Postal Service: USPS/NDMS-T3-44-45, served on February 4, 1998. Each interrogatory is stated verbatim and is followed by the response.

Respectfully submitted,



William J. Olson

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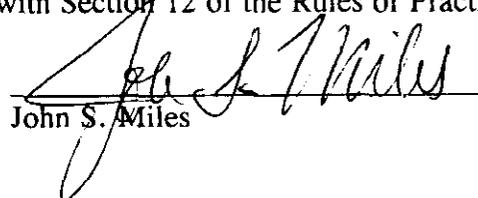
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Counsel for Nashua Photo Inc., District Photo Inc.,  
Mystic Color Lab, Seattle FilmWorks, Inc., and  
Merck-Medco Managed Care, L.L.C.

## CERTIFICATE OF SERVICE

I hereby certify that I have this day served the foregoing document upon all participants of record in this proceeding in accordance with Section 12 of the Rules of Practice.



John S. Miles

February 18, 1998

**USPS/NDMS-T3-44**

Please refer to your response to USPS/NDMS-T3-17 where you state that "Parcels, by contrast, are still sorted on the SPBS".

- (a) Please provide the basis for this understanding.
- (b) Is it your testimony that all Standard Mail (A) parcels are sorted at plants (P&DC)? If not, please provide an estimate of the percentage.
- (c) Are you aware that machines other than an SPBS can sort Standard Mail (A) parcels at plants? If so, please describe them and list the nationally representative percentage you believe receive piece sortation on them by machine.
- (d) Is it your testimony that no Standard Mail A parcels receive piece sortation on BMC Parcel Sorting Machines (PSMs)? If your answer is no, please provide the nationally representative percentage you believe do.
- (e) Are you aware that PSMs have barcode readers?

**Response:**

Before answering the specific questions posed by your interrogatory, I would like to make it clear that at all places where my response to USPS/NDMS-T3-17 mentioned "parcels," it should be interpreted as referring to Standard A parcels that weigh less than 16 ounces.

- (a) It is my understanding that small parcel bundle sorter (SPBS) machines are installed at all P&DCs, and that at least some BMCs are also equipped with one or more SPBS's. It is also my understanding that the SPBS is the preferred machine for sorting small parcels.

(b) No. Some Standard Mail A parcels may be sorted at BMCs. However, since most Standard Mail A parcels are made up to 3 digits, they can be sent directly from BMCs to P&DCs, without sortation at the BMC. Some Standard Mail A parcels are dropshipped directly to P&DCs in order to bypass the BMCs and expedite delivery. I do not have data that would enable me to estimate the precise volume of Standard Mail A parcels sorted at P&DCs (as opposed to BMCs), but I would expect it to be a substantial majority of all Standard Mail A parcels.

(c), (d), and (e) Specifications for the FSM 1000 indicate that it can sort some mailpieces whose dimensions exceed the maximum dimensions for flat-shaped pieces. It is my understanding, however, that at this time the Postal Service generally does not use the FSM 1000 for sorting anything other than flats. Hence, I estimate that the nationally representative percentage that currently receives piece sortation on the FSM 1000 is negligible.

Parcel sorting machines (PSMs) can also be used to sort parcels that weigh less than 1 pound; *e.g.*, Standard Mail A parcels. PSMs are equipped with a barcode reader that can read interleaf barcodes (but not the postnet code used for letters and flats). When sorting parcels that are not barcoded, PSMs must be operated in a manual mode. Since most PSMs are at BMCs, only Standard A parcels that are sorted at BMCs would be processed on PSMs. Since most

Standard A parcels are not sorted at BMCs (see response to part b), I expect that only a small percentage are sorted on PSMs. The Postal Service has not offered shippers of Standard Mail A parcels any discount or other encouragement to barcode their parcels. Moreover, when a mailer is preparing labels for Standard Mail A packages that can turn out to be either flats or parcels, even if the mailer were inclined to assist the Postal Service by preprinting a barcode, the mailer would have trouble determining which barcode to use. This "confusion," which can be solved only by the Postal Service, helps illustrate the point that I was trying to make in my response to USPS/NDMS-T3-17. Namely, to the extent that Standard Mail A parcels may have a somewhat higher unit cost of handling, it is because the Postal Service has not directed much attention or investment to increase the mechanized sorting of such parcels.

**USPS/NDMS-T3-45**

Please refer to your response to USPS-NDMS-T3-26(a).

- (a) Is it your testimony that price is the key decision making criterion for customers deciding whether or not to have their film developed by mail? If so, do you believe that 10 cents will cause them to pursue other options? Please provide any evidence you might have to support your claims.
- (b) Are other factors, such as convenience, timeliness, quality, or reliability, of equal or greater importance than price for customers deciding whether to have their film developed by mail?
- (c) Please provide the rates that UPS would charge for delivering developed film packages of the type your clients send. Would you characterize the difference between those rates and the rates you now pay as "staggering" or something different? Please explain.
- (d) Please estimate for your clients' businesses the percentage of total costs that the 10-cent surcharge would comprise.

**Response:**

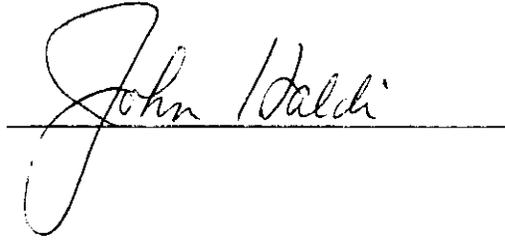
- (a) Photo-finishing is a highly price competitive business, but prices can be and often are reduced in a number of different ways; *e.g.*, a second set of prints is offered "free," or a new roll of film is offered "free" (or at a greatly reduced price only when purchased in conjunction with development), larger prints are offered for the same price as smaller prints, etc. Customers of through-the-mail photofinishers are probably more price-conscious than the average consumer (see response to part b, *infra*). The demand for photofinishing is in the nature of a classic "continuous" demand function, hence I would predict that a 10-cent increase in the price would cause a loss of some customers.

- (b) All four of the factors which you list play a role in the consumers' choice of photofinishers. The country has a plethora of places that offer photofinishing services. Most large cities have some establishments that develop film on site and have prints available for pickup within one hour, or same-day service (in before 11:00 a.m., back in the afternoon). Where same-day service is not available, overnight service is fairly common. Consumers who place a high value on timeliness would not give any consideration to a through-the-mail photofinisher because even under the best circumstances a round-trip through the mail requires several days. With respect to convenience, the mail may be considered reasonably convenient, but on an almost daily basis a great many customers pass by an equally convenient photofinishing drop-off location such as a drug store, Wal-Mart, etc. Through-the-mail photofinishers must (and do) compete chiefly on the basis of price, quality and reliability.
- (c) *I have no idea how much UPS would charge for delivering my clients' developed film, as I am aware that UPS is known to offer volume discounts. Using their published rates (Rate Chart effective 2/1/97), UPS would charge from \$3.44 to \$4.19 for a 1-pound UPS Ground package delivered to a residence, and from \$3.50 to \$4.80 for a 2-pound UPS Ground package delivered to a residence, depending on distance. Unless these rates were deeply discounted, the effect on costs of switching to UPS would be staggering.*

- (d) Assuming you mean postage costs, the 10 cent surcharge alone would increase total postage costs for my photofinisher clients by approximately 10 to 13 percent. In terms of postage costs for Standard A Mail only, the surcharge represents an increase that averages about 25 percent. While the surcharge by itself represents a significant increase, the cumulative effect on NDMS of all of the Postal Service's proposed increases they would be forced to pay — *i.e.*, the First-Class Mail nonstandard surcharge plus the 1-cent increase in the rate for the first ounce of First-Class Mail; the proposed Priority Mail rate increase; along with the Standard Mail A surcharge and rate increases for the Standard Mail A Regular subclass — would amount to "rate shock" vis-a-vis an average proposed increase of only 4.5 percent. The Postal Service's proposed rates, applied to 1997 volumes and mailing costs would increase total mailing costs for my through-the-mail photofinisher clients by 18 to 21 percent.

DECLARATION

I, John Haldi, declare under penalty of perjury that the foregoing answers are true and correct, to the best of my knowledge, information, and belief.

A handwritten signature in cursive script that reads "John Haldi". The signature is written above a solid horizontal line.

Dated: February 18, 1998