POSTAL REGULATORY COMMISSION

In the Matter of: SIX-DAY TO FIVE-DAY STREET DELIVERY AND RELATED SERVICE
Docket No.: N2010-1

Suite 200
Postal Regulatory Commission
901 New York Avenue, N.W.
Washington, D.C.

Volume VIII
Monday, September 13, 2010

The above-entitled matter came on for a hearing, pursuant to notice, at 9:33 a.m.

BEFORE:
HON. RUTH Y. GOLDWAY, Chairman
HON. TONY HAMMOND, Vice Chairman
HON. DAN G. BLAIR, Commissioner
HON. NANCY E. LANGLEY, Commissioner
HON. MARK D. ACTON, Commissioner

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CHAIRMAN GOLDWAY: Good morning. The hearing will come to order.

Today the Commission, the Postal Regulatory Commission will receive rebuttal testimony concerning the Postal Service's plan to eliminate Saturday delivery and related service changes in Docket No. N2010-1. Today is September 13, 2010.

I am Ruth Goldway, Chairman of the Postal Regulatory Commission. Joining me on the dais this morning are Vice Chairman Hammond and Commissioners Acton, Blair and Langley.

Do any of my colleagues wish to comment at this time?

(No response.)

CHAIRMAN GOLDWAY: I want to alert those in the audience today that this prehearing conference is being webcast. In order to reduce potential confusion, I would ask that counsel wait to be recognized before speaking and to identify yourself when commenting. After you are recognized, please speak clearly so that our hearing microphones may pick up your remarks.

Does any participant have a procedural

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matter to discuss before we begin?

MR. DECHIARA: Peter D. Dechiara from the law firm of Cohen Weiss & Simon for the National Association of Letter Carriers.

Your Honor, I just wanted to raise the matter concerning the order of the presentation of the National Association of Letter Carrier witnesses. We would prefer to present Dr. Riley who is our fifth witness first this morning, followed by Dr. Crew who is our fourth witness.

I have spoken to the Postal Service counsel about that with the order and the Postal Service indicates that they have no objections, so I would ask the Commission for permission to present Dr. Riley first, followed by Dr. Crew.

CHAIRMAN GOLDWAY: As long as there is no objection, I think it would be just fine to switch the order of the proceedings. Thank you.

MR. DECHIARA: Thank you.

CHAIRMAN GOLDWAY: Presiding Officer's Ruling 25, Schedule for Witnesses offered by the National Association of Letter Carriers to appear today, no request to examine Witness Young or Witness DeMatteo were filed. And Ruling 27 excuses them from appearing in person.
So as the first order of business, Mr. Dechiara, will you please provide the reporter with two copies of the testimony of William H. Young and Stephen DeMatteo so that they may be admitted into evidence?

MR. DECHIARA: Yes, Madam Chairman, I will do that, and I for the witnesses who are not appearing I have an affirmation that I will attach to their testimony which will confirm that their testimony is true and accurate to the best of their knowledge, and that all testimonies would have been the same had they attended the hearing.

CHAIRMAN GOLDWAY: Are there any objections to the admission of this testimony, and any library reference responsive with that testimony?

Hearing no objections, the testimony of William H. Young and Stephen DeMatteo is admitted into evidence and is to be transcribed.

(The documents referred to were marked for identification as Exhibit No. NALC-T-2, and NALC-T-3 were received in evidence.)
BEFORE THE
POSTAL REGULATORY COMMISSION

SIX-DAY TO FIVE-DAY STREET DELIVERY
AND RELATED SERVICE CHANGES, 2010

Docket No. N2010-1

AFFIRMATION OF WILLIAM H. YOUNG (NALC-T2)
REGARDING WRITTEN TESTIMONY

I, William H. Young, hereby affirm under penalty of perjury that my written
 testimony filed with the Commission in the above-referenced proceeding is true and accurate to
the best of my knowledge, and that my oral testimony would have been the same had I attended
the hearing.
Dated: September 7, 2010

William H. Young
WILLIAM H. YOUNG
My name is William H. Young. I submit this testimony on behalf of Intervenor National Association of Letter Carriers, AFL-CIO ("NALC"), which serves as the collective bargaining representative of a nationwide bargaining unit of city letter carriers employed by the United States Postal Service ("USPS"). I served as NALC’s President from 2002 to 2009.

In November 2006, during the last round of bargaining between NALC and USPS for a new collective bargaining agreement ("CBA"), NALC made an offer to USPS that included a package of proposed savings. In its offer, NALC proposed a separate workforce of letter carriers to delivery mail on Saturday, with all other letter carriers working only on weekdays.

Under NALC’s proposal, the Saturday letter carrier workforce would have been composed in part of letter carriers who had retired from delivering mail full-time but who wanted to continue to work for USPS one day per week. NALC believed that there was a substantial number of retirees who might be interested in such a Saturday-only position.

Under NALC’s proposal, to the extent Saturday positions remained available after retirees were hired, the Saturday workforce would have consisted of new hires hired from the USPS hiring register who agreed to take a position delivering mail one day per week until full-time positions with USPS became available.
Under NALC’s proposal, the retirees in the Saturday workforce would have been paid at Step 0 pay under the CBA. However, USPS would have saved a substantial amount employing them since they were already retired; USPS would not have needed to make pension or retiree health contributions on their behalf. USPS would also have saved a substantial amount employing new hires who worked on Saturdays only. These new hires would have earned entry-level Step A pay under the CBA so long as they were part of the Saturday workforce. Moreover, under NALC’s proposal, these new employees would not have been entitled to pension, health, annual leave and other benefits.

NALC estimated that its proposal would have saved USPS several hundred million dollars annually, assuming that the new Saturday workforce were composed half of retired letter carriers and half of new hires. During negotiations, NALC shared this savings estimate with USPS and USPS did not dispute it.

Although NALC’s proposal would have substantially reduced the cost of Saturday deliveries, USPS did not accept it.
BEFORE THE
POSTAL REGULATORY COMMISSION

SIX-DAY TO FIVE-DAY STREET DELIVERY
AND RELATED SERVICE CHANGES, 2010

AFFIRMATION OF STEPHEN DeMATTEO (NALC-T3)
REGARDING WRITTEN TESTIMONY

I, Stephen DeMatteo, hereby affirm under penalty of perjury that my written testimony filed with the Commission in the above-referenced proceeding is true and accurate to the best of my knowledge, and that my oral testimony would have been the same had I attended the hearing.

Dated: September 2__, 2010

STEPHEN DeMATTEO
BEFORE THE
POSTAL REGULATORY COMMISSION

SIX-DAY TO FIVE-DAY STREET DELIVERY
AND RELATED SERVICE CHANGES, 2010

DIRECT TESTIMONY OF STEPHEN DeMATTEO ON BEHALF OF THE NATIONAL ASSOCIATION OF LETTER CARRIERS, AFL-CIO

My name is Stephen DeMatteo. I submit this testimony on behalf of Intervenor National Association of Letter Carriers, AFL-CIO ("NALC"), which serves as the collective bargaining representative of a nationwide bargaining unit of city letter carriers employed by the United States Postal Service ("USPS"). I have been employed by NALC as a Research Analyst since June 2008. I have a Bachelor of Science degree from Georgetown University.

The purpose of my testimony is to sponsor two exhibits that I prepared and that are contained in the following Library References of the NALC:

1. NALC-LR-N2010-1/17: Average Overtime Hours, Normal Tuesdays and Tuesdays After a Monday Holiday, FY 2008, FY 2009


The first Library Reference, NALC-LR-N2010-1/17, uses data from NALC/USPS-T3-5 and NALC/USPS-T3-6 regarding city letter carrier overtime hours in FY 2008 and FY 2009. To create the chart that appears in the Library Reference, showing the average overtime hours for each year for normal Tuesdays and for Tuesdays after a Monday holiday, I divided the total overtime hours supplied in NALC/USPS-T3-5 and NALC/USPS-T3-6 by the number of normal Tuesdays and the number Tuesdays after a Monday holiday for each...
respective year.

The second Library Reference, NALC-LR-N2010-1/18, uses data from USPS’s Annual Reports for the years indicated on the chart, and provides the operating margin for each year. For purposes of this second Library Reference, operating margin is defined as operating income/(loss) divided by revenue.
CHAIRMAN GOLDWAY: Mr. Dechiara, will you identify your witness now so that I can swear him in?

MR. DECHIARA: Yes. Madam Chairman, the National Association of Letter Carriers calls as its next witness Dr. Michael J. Riley.

MR. RILEY: Good morning.

CHAIRMAN GOLDWAY: Good morning.

Whereupon,

MICHAEL J. RILEY

having been duly sworn, was called as a witness and was examined and testified as follows:

CHAIRMAN GOLDWAY: Thank you. You may sit down.

DIRECT EXAMINATION

BY MR. DECHIARA:

Q Good morning, Dr. Riley. I have placed before you a copy of a document, two copies of a document that is entitled Direct Testimony of Dr. Michael J. Riley on behalf of the National Association of Letter Carriers, AFL-CIO.

Do you have the two copies of that document in front of you?

A I do.

Q Are you familiar with that document?

A Yes.

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Q. And is that your written direct testimony in this proceeding?
A. Yes.
Q. If you were to testify orally today on direct examination, with the contents of your oral direct testimony be the same as what's set forth in your written direct testimony?
A. Yes.

MR. DECHIARA: Madam Chairman, the National Association of Letter Carriers moves the admission of the written direct testimony of Dr. Michael J. Riley.

CHAIRMAN GOLDWAY: Is there any objection? Hearing none I will direct counsel to provide the reporter with two copies of the corrected testimony of Mr. Michael Riley, and that testimony will be received into evidence and will be transcribed.

(The documents referred to was marked for identification as Exhibit No. NALC-T-5 and was received in evidence.)
BEFORE THE
POSTAL REGULATORY COMMISSION

SIX-DAY TO FIVE-DAY STREET DELIVERY
AND RELATED SERVICE CHANGES, 2010

Docket No. N2010-1

DIRECT TESTIMONY

OF

DR. MICHAEL J. RILEY

ON BEHALF OF

THE NATIONAL ASSOCIATION OF LETTER CARRIERS, AFL-CIO
I. AUTOBIOGRAPHICAL SKETCH

My name is Michael J. Riley, DBA. I am a Professor in the Business and Executive Programs of the Graduate School of Management and Technology at the University of Maryland University College.

From August 1993 to July 1998, I held the position of Chief Financial Officer (CFO) and Senior Vice President of the U.S. Postal Service. While I was CFO, the Postal Service overcame the biggest deficit in its history and posted billions in profits. During my tenure, the Postal Service's Finance Department received the first Alexander Hamilton Award given by Treasury and Risk Management magazine. Also during my tenure as CFO, then Vice President Al Gore touted our successful efforts to turn around the Postal Service in publications about reinventing government.

In addition to having served as the Postal Service's CFO, I have also served as CFO of United Airlines -- one of the largest airlines in the world -- and as CFO of Lee Enterprises, a newspaper and television company. I have also served as Treasurer of Michigan Bell Telephone Company and as Assistant Controller of Northeast Utilities. I began my business career as an accountant at Teradyne, Inc.

I earned a Bachelor of Science degree from the U.S. Naval Academy in 1965, a Master of Business Administration degree from the University of Southern California in 1972, and a Doctor of Business Administration degree from Harvard University in 1977. At Harvard, I completed all of the required course work for a PhD in Economics. My “Special Field of Study” was Financial Institutions and Markets and my sub-field was Corporate Finance.

At the University of Maryland University College, I teach students in the Master of Business Administration program as well as Executive MBAs. Previously, I was the Assistant Dean of the School of Undergraduate Studies at the University of Maryland University College.
Prior to that, I held positions on the faculty of Harvard Business School, Boston University, University of Connecticut, University of Michigan, and George Mason University.

In addition to my position at the University of Maryland University College, I currently serve as a Director and Chairman of the Audit Committee of Church Mutual Insurance Company. I also consult through my firm Riley Associates for businesses, non-profits, and other organizations. My publications have appeared in numerous magazines and newspapers including The Wall Street Journal.

I have testified before Committees of the U.S. Congress; the Postal Rate Commission (the predecessor of the Postal Regulatory Commission); the President’s Commission on the Postal Service; and, while I was employed by the Postal Service, in labor arbitration.

II. PURPOSE OF TESTIMONY

The purpose of my testimony is evaluate whether the Postal Service’s proposal to eliminate Saturday delivery is necessary and whether it is consistent with good management practices. I conclude, for the reasons explained below, that it is neither. In my view, the Postal Service’s long-term financial health depends not on reducing the frequency of delivery but on its making its services more available to consumers.

III. ELIMINATING SATURDAY DELIVERY IS NOT NECESSARY

In support of its proposal to eliminate Saturday delivery, the Postal Service’s current CFO, Joseph Corbett, asserts that a change to five-day delivery is “necessary and unavoidable.” (USPS-T-2, at p.2). He asserts that the Postal Service is now in “dire financial condition,” (id. at p.3) and that eliminating Saturday street delivery is needed to help “close the gap” between the Postal Service’s costs and revenues (id. at p.14). In fact, the Postal Service’s
costs and revenues are not fundamentally misaligned and no radical change like ending Saturday delivery is necessary.

The financial challenge now facing the Postal Service stems from two principal sources. First is the requirement in the Postal Accountability and Enhancement Act of 2006 ("PAEA"), P.L. 109-435, that the Postal Service spend billions to pre-fund its retiree health care obligations -- an unfair requirement that Congress can and should change. Second is the most severe economic downturn since the Great Depression, which continues to depress mail volume:

The statutory obligation to pre-fund retiree health obligations -- which no other business or government agency bears -- added $12.4 billion in costs to the Postal Service's balance sheet from FY2007 to FY2009. See NALC-LR-N2010-1/6 (USPS Annual Report), at p. 48. During those same three years, the Postal Service had a cumulative net operating loss of approximately $11.8 billion. See id. at 2. Thus, without the unique burden imposed by the PAEA's pre-funding requirement, everything else equal, the Postal Service would have enjoyed a cumulative profit during those years. And such profit would undoubtedly have been even greater had the recession not dragged down economic activity and mail volume with it.

The Postal Service's present financial situation is also a result of its having been unfairly overcharged $75 billion in retiree pension costs, as explained in the January 10, 2010 report of the Postal Service's Inspector General (IG). See NALC-LR-N2010-1/10. Were the Postal Service credited with the amount by which it was overcharged, that would be enough to pre-fund all of the Postal Service's retiree health obligations and have more than enough left over to pay off the Postal Service's debt.

Moreover, I would argue, the Postal Service's current financial situation is in part self-inflicted, to the extent that postal management failed until just recently to seek rate increases
that would generate additional revenue. Successful service businesses raise prices as needed to maintain financial health.

The Postal Service acknowledges in its latest annual report that its current prices are a comparative “bargain”: in 2009, first-class mail in the US was 44 cents, but was 47 cents in Canada, 64 cents in Great Britain, 77 cents in Germany, 78 cents in France, 83 cents in Japan and $1.25 in Norway. (See NALC-LR-N2010-1/6, at p.1) That American mail is now relatively cheap means that even with a rate increase it would remain reasonably priced.

The PAEA allows for reasonable price increases beyond the inflation cap when made necessary due to “extraordinary or exceptional circumstances.” See PAEA Section 201. I believe that faced with the worst economic downturn since the Great Depression, the Postal Service could make a credible case that these are “extraordinary or exceptional circumstances.” Indeed, I understand that on July 6, 2010, the Postal Service filed with the Commission a request for an exigent rate increase in which it argues that such “extraordinary or exceptional circumstances” now exist. See Docket # R2010-4.

A reasonable rate increase would undoubtedly help close the current gap between the Postal Service’s revenues and costs. Commission Chairman Goldway correctly noted in her April 22, 2010 testimony before the U.S. Senate that the demand for mailing services is largely price inelastic. This means that there would most likely be a substantial increase in revenue and in added profit from a reasonable price increase. Large mailers provide the majority of postal revenue and their behavior is such that they adopt to price increases with minor changes in volume. Even for those services that are slightly demand price elastic, there is a significant positive contribution.
As a rule of thumb during my time as CFO of the Postal Service, we assumed that a 10% price increase for market-dominated products (also known as “mailing services”) would yield a net revenue gain of about 9%, since it would reduce volume by about 2% and costs by about 1%. So a 10% increase on FY 2009’s $56.9 billion in market-dominated products, see NALC-LR-N2010-1/6, at p.82, would likely have produced approximately $5.1 billion in additional revenue. It would have improved the Postal Service’s bottom line by more than the $3.1 billion in net annual savings that the Postal Service says it would achieve by eliminating Saturday delivery. See USPS-T-2, at 16. It would also have made FY 2009 a profitable year for the Postal Service even with the PAEA pre-funding payment made that year and despite the recessionary drop off in economic activity.

I understand that in its recently filed exigent rate case, the Postal Service is seeking an aggregate rate increase of approximately 5.6%, which it estimates would yield a net increase in annual contribution of $3 billion. See Statement of Joseph Corbett, Docket No. R2010-4 (July 6, 2010), at p.19. Such an increase in annual contribution would be about what the Postal Service says it would save from eliminating Saturday delivery.

IV. ELIMINATING SATURDAY DELIVERY WOULD HURT THE POSTAL SERVICE IN THE LONG-RUN

Eliminating Saturday delivery is not only unnecessary, but would be a grave error that would hurt the Postal Service in the long-run.

The proposal to eliminate Saturday delivery reflects Postal management’s view that it must react to financial challenges with relentless cost-cutting. But no service business achieves success by a single-minded focus on cost. Of course, constraining costs is important and the Postal Service should continue to explore ways to further automate or streamline its
operations, so as to maintain productivity growth. But it should not engage in cost-cutting that eliminates valuable services to its customers.

The CEO of Coca-Cola once said that his company’s goal was that no one in the world should be more than five minutes away from a cold Coke. To achieve success as a consumer-oriented business, the Postal Service too should focus on making its products and services more available to its customers, not less. Dropping Saturday delivery would create a hole in the Postal Service’s current operations that would make customers have to wait a day longer, or more, to get their mail. It would also, for example, force customers who work during the week and who are not home to accept packages have to spend part of Saturday waiting in the pick-up line at the post office. It would inevitably cause customers to look to alternatives.

Eliminating Saturday delivery would also do harm to the Postal Service in less tangible, but no less significant ways. The Postal Service correctly describes letter carriers as “excellent ambassadors in promoting the agency’s image,” (USPS-T-1, at p.3), yet eliminating Saturday delivery would mean that many customers who work during the week would no longer have the chance to see and speak to their letter carrier.

Reducing the frequency of service would also send a signal to customers that their needs and preferences no longer matter to the Postal Service. It would reinforce the negative stereotype of the Postal Service as an inefficient government entity rather than a vital service-oriented enterprise. Such a negative stereotype would not only dampen the public’s demand for postal services but would erode its support for the Postal Service as an institution.

Saturday delivery provides the Postal Service a competitive advantage over its package-delivery rivals. Rather than eliminating Saturday delivery, the Postal Service should be touting it. But the Postal Service has to a large extent failed to exploit this advantage. Most
businesses with a competitive advantage use advertising to remind individuals of the benefits of their service. Yet the Postal Service does little advertising to explain the advantages of Saturday delivery to its customers.

V. THE POSTAL SERVICE SHOULD ADOPT A CONSUMER-ORIENTED STRATEGY

When I was CFO of the Postal Service, we adopted a business strategy that put an emphasis on the individual customer. We recognized that the preferences of the individual customer is what drives mail volume and that what was important to the individual customer were things like convenience, courtesy, safety, security of the mail and consistency of delivery. And we tried to make it easier, not harder, for consumers to use our services. Just one example: in 1993, the Postal Service began accepting payment by credit card and customers responded enthusiastically.

Our focus on the customer in those years paid rich dividends. Mail volume rose nicely despite the advent of the Internet. From FY 1995 through FY 1998, the Postal Service posted billions in profits. During that period, the Postal Service was able to pay off its debt and triple its capital spending. Indeed, many in the mailing community expressed the view that the Postal Service was earning too much money and that the profits were excessive. After my tenure, new Postal management promised to solve that problem, and solve it they did. Billion-dollar profits were soon replaced by billion-dollar losses.

Rather than continue its failed approach of focusing single-mindedly on cost-cutting, the Postal Service should focus again on strengthening its relationship with consumers, because that undoubtedly is where long-term success lies.

We live in an era where service companies are increasing days and hours of operation to appeal to their customers. The Postal Service should take the same approach. For
example, as Chairman Goldway has suggested, the Postal Service should consider having a network of post offices in key locations that are open more hours, and even on Sundays, and should maintain at least one 24/7 post office in every big city.

Yet the Postal Service has been going in the opposite direction, apparently ignoring the desires of its customers. For example, while the Postal Service increased the number of collection boxes in the 1990s, it began eliminating them in the following decade. It eliminated 24,000 such “blue boxes” in 2009 alone. Individual customers cannot help but notice these changes and see that the Postal Service is making it more difficult for them to use the postal system.

Reducing the frequency of mail delivery would mark yet another retreat by the Postal Service from the consumer market. Unfortunately, it would give customers yet another reason to abandon the mail and to seek out alternatives.

VI. CONCLUSION

Contrary to the Postal Service’s assertions, eliminating Saturday delivery is not necessary to improving its finances. In my opinion, what the Postal Service needs is a reasonable price increase for market-dominated products, relief from the PAEA’s unfair retiree health pre-funding requirement and a revival of the economy. Indeed, going to five-day delivery is not only unnecessary but would be harmful to the long-term health of the Postal Service. To be a successful service-oriented enterprise, the Postal Service must focus on making its services more, not less, available to its customers.
CHAIRMAN GOLDWAY: Dr. Riley, have you had an opportunity to examine the designated written cross-examination that was made available to you in the hearing room this morning?

THE WITNESS: Yes.

CHAIRMAN GOLDWAY: If the questions contained in that packet were posed to you today orally, would your answers be the same as those previously provided in writing?

THE WITNESS: Yes.

CHAIRMAN GOLDWAY: Are there any corrections or additions you would like to make at this time to those answers?

THE WITNESS: No.

CHAIRMAN GOLDWAY: Counsel, would you please provide two copies of the corrected designated written cross-examination of Witness Riley to the reporter. That material is received into evidence and it is to be transcribed into the record.

(The document referred to was marked for identification as Exhibit No. NALC-T-5, and was received in evidence.)
BEFORE THE
POSTAL REGULATORY COMMISSION
WASHINGTON, DC  20268-0001

Six-Day to Five-Day Street Delivery and
Related Service Changes, 2010

Docket No. N2010-1

DESIGNATION OF WRITTEN CROSS-EXAMINATION
OF NATIONAL ASSOCIATION OF LETTER CARRIERS
WITNESS DR. MICHAEL J. RILEY
(NALC-T-5)

Party
Postal Regulatory Commission
United States Postal Service

Interrogatories
USPS/NALC-T-5-11
USPS/NALC-T5-1-10, 12-14

Respectfully submitted,

Shoshana M. Grove
Secretary
**INTERROGATORY RESPONSES OF NATIONAL ASSOCIATION OF LETTER CARRIERS WITNESS DR. MICHAEL J. RILEY (T-5) DESIGNATED AS WRITTEN CROSS-EXAMINATION**

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N2010-1

National Association of Letter Carriers

Dr. Michael J. Riley
(NALC-T-5)
RESPONSE OF NALC WITNESS RILEY (NALC-T5) TO USPS INTERROGATORY

USPS/NALC-T5-1

Please refer to your testimony at page 6, lines 8-10.

(a) Please explain your understanding of the options for package redelivery/pick-up that are available to residential customers of FedEx and UPS "who work during the week and who are not home to accept packages".

(b) Please explain your understanding of the differences between the options referenced in response to subpart (a) with the options available to residential customers of the Postal Service "who work during the week and who are not home to accept packages".

(c) Explain your understanding of whether, in conjunction with the service changes under review in this docket, the Postal Service has indicated on the record in this proceeding that it will monitor local retail traffic and consider making adjustments to retail hours to accommodate residential customer package pick-up in the 5-day delivery environment.

RESPONSE:

(a) While I am not an expert in FedEx or UPS procedures, I believe that the options would include having the package left at the door, leaving with a doorman or office in an apartment building, going to a FedEx or UPS location in response to a note left on the door if a signature is required, or having the package sent to a work location.

(b) Postal Service options include leaving the package in a locked parcel locker in a CBU or stand alone parcel locker, leaving the package with a neighbor with prior arrangement with a carrier, leaving the package at the door, going to a Post Office to pick up a package in response to a note left in the mailbox if signature is required, leaving the package with a doorman or office in an apartment building or having the package sent to a work location.

(c) I am not aware of what USPS has indicated on the record in this regard. In any event, even if USPS has indicated on the record that it will “consider” making adjustments to
RESPONSE OF NALC WITNESS RILEY (NALC-T5) TO USPS INTERROGATORY

retail hours to accommodate residential customer package pick-up, it is not clear to me whether and to what extent USPS actually will make any such adjustments.
RESPONSE OF NALC WITNESS RILEY (NALC-T5) TO USPS INTERROGATORY

USPS/NALC-T5-2

Please refer to your testimony at page 6, lines 12-15.

(a) Is it your view that customers who do not see and speak to their letter carriers on Saturdays are unable to judge the quality of that carrier's delivery service and the degree to which it reflects positively on the agency's overall image?

(b) Do you agree that customers who do not see and speak to their letter carriers on Saturdays, nevertheless, still have the opportunity to obtain a positive image of the Postal Service based upon the quality of service provided by postal clerks at retail windows.

RESPONSE:

(a) No, that is not my view. My view is that customers who do not see or speak to their letter carriers are less likely to appreciate the service provided by the letter carrier and by USPS, and that by eliminating Saturday delivery USPS is losing a valuable opportunity to promote its brand and maintain its connection to its customers.

(b) Yes, that is possible if the customer visits the post office and has a positive experience there. However, in my experience, customers typically have a much more favorable view of their letter carrier than they do of their experiences visiting a post office.
RESPONSE OF NALC WITNESS RILEY (NALC-T5) TO USPS INTERROGATORY

USPS/NALC-T5-3

Please refer to the first paragraph of Section V of your testimony at page 7.

(a) Please confirm that your testimony should not be read as implying that, before your tenure as USPS CFO, the Postal Service had never "adopted a business strategy that put an emphasis on the individual customer."

(b) Please confirm that your testimony should not be read as implying that, until your tenure as USPS CFO, the Postal Service did not recognize that "things like convenience, courtesy, safety, security of mail and consistency of delivery" were "important to the individual customer."

(c) Was the USPS practice of accepting credit card payments the culmination of a project that began before or after the start of your tenure as CFO?

RESPONSE:

(a) My testimony does not refer to USPS’s business strategy or practices prior to my tenure as USPS CFO and should not be read to make any implications about what that strategy may have been.

(b) See response to (a) above.

(c) There was a pilot project accepting credit cards prior to my tenure as CFO. It was during my tenure that the acceptance of credit cards became an established practice nationwide.
Please fully describe the "promise" referenced in the second paragraph of Section V of your testimony at page 7. Provide copies of documents memorializing that promise.

RESPONSE:

The promise refers to comments made by Postmaster General Henderson, made in my hearing both before and during his tenure as Postmaster General, to the effect that the Postal Service was earning too much money and should be closer to break-even.

I have no documents memorializing that promise.
RESPONSE OF NALC WITNESS RILEY (NALC-T5) TO USPS INTERROGATORY

USPS/NALC-T5-5

Please refer to your testimony at page 6, lines 16-17. Would postal management monitoring of local retail traffic and adjusting retail hours to accommodate residential customer package pick-up in the 5-day postal street delivery environment "send[] a signal to customers that their needs and preferences ... matter" and that the Postal Service was acting as a "service-oriented enterprise"? If you do not agree, please explain.

RESPONSE:

I agree that adjusting retail hours to accommodate residential customer package pick-up would help send a positive signal to customers, but I do not think it would come close to outweighing the negative signal sent to customers by eliminating Saturday delivery.
RESPONSE OF NALC WITNESS RILEY (NALC-T5) TO USPS INTERROGATORY

USPS/NALC-T5-6

Please refer to the second paragraph of Section V of your testimony at page 7.

(a) Identify all factors that may have contributed to mail volume rising "nicely" during your tenure as USPS CFO.

(b) Is it your view that the "advent of the Internet" during your tenure as CFO had the same qualitative and quantitative effect on mail volumes then as the Internet has had on mail volumes during the past five years? Please explain.

(c) Is it your view that the "advent of the Internet" during your tenure as CFO had the same qualitative and quantitative effect on mail volumes then as it can be expected to have on mail volumes during the next five years? Please explain.

RESPONSE:

(a) I believe that the general state of the economy contributed to the increase in mail volume during my tenure but I also believe that our focus on the customer during those years contributed significantly.

(b) I do not understand what the interrogatory means by a "qualitative" effect on mail volume. In any event, I do not know how much the internet has impacted mail volume during the last five years. Accordingly, any view I might have about how the internet’s impact in the last five years would compare to its impact during my tenure as USPS CFO would be speculation.

(c) I do not understand what the interrogatory means by a "qualitative" effect on mail volume. In any event, I do not know how much the internet may impact mail volume during the next five years. Accordingly, any view I might have on how the internet’s impact in the next five years would compare to its impact during my tenure as USPS CFO would be speculation.
RESPONSE OF NALC WITNESS RILEY (NALC-T5) TO USPS INTERROGATORY

USPS/NALC-T5-7

Please refer to Section V of your testimony at page 7 and clarify whether it is your view that, since your tenure, postal management:

-- has focused exclusively on cost-cutting and paid no attention to its relationship with consumers; or

-- has focused too much on cost-cutting and paid too little attention to its relationship with consumers.

RESPONSE:

It is my view that since my tenure as USPS CFO, postal management has focused too much on cutting services as a means to save money and paid too little attention to its relationship with consumers.
Please refer to page 6 of your testimony, the last full paragraph, where you state that elimination of Saturday delivery “would also send a signal to customers that their needs and preferences no longer matter to the Postal Service.” Please provide copies of all data, analyses, market research studies and other documents, aside from any documents filed by the Postal Service in this docket, upon which this conclusion is based.

RESPONSE:

I did not need to refer to any documents to reach this conclusion.
RESPONSE OF NALC WITNESS RILEY (NALC-T5) TO USPS INTERROGATORY

USPS/NALC-T5-9

Please refer to page 6 of your testimony, the last full paragraph, where you state that elimination of Saturday delivery:

would reinforce the negative stereotype of the Postal Service as an inefficient government entity rather than a vital service-orientated service. Such a negative stereotype would not only dampen the public's demand for postal services but would erode its support for the Postal Service as an institution.

Please provide copies of all data, analyses, market research studies and other documents, aside from any documents filed by the Postal Service in this docket, upon which these statements are based.

RESPONSE:

I did not need to refer to any documents to reach the conclusions set forth in the quoted statement.
RESPONSE OF NALC WITNESS RILEY (NALC-T5) TO USPS INTERROGATORY

USPS/NALC-T5-10

Have you conducted any research or analyses about the competitive advantage the Postal Service holds over its package delivery competitors that you refer to on the bottom of page 6 of your testimony? If your answer is affirmative, please provide copies of all such research or analyses.

RESPONSE:

No.
RESPONSE OF NALC WITNESS RILEY (NALC-T5) TO USPS INTERROGATORY

USPS/NALC-T5-11

Please refer to your testimony at page 7, section V, “The Postal Service Should Adopt a Consumer Oriented Strategy”.

(a) What specific postal services and products should be made more accessible and attractive to customers? Please explain in detail any changes you believe should be made to existing services and products.

(b) Have you performed any analysis of the amount of additional expense the Postal Service would incur and the additional revenue that would be generated if it did as you suggested? If so, please provide copies of all documents related to such analysis.

RESPONSE:

(a) I believe all postal services and products should be made more accessible and attractive to customers.

For a list of examples of changes I believe should be made to existing services and products, see my May 12, 2010 testimony before the Subcommittee on Federal Workforce, Postal Service, and the District of Columbia, a copy of which is attached hereto.

(b) No.
Mr. Chairman and members of the Committee, thank you for inviting me to testify. And thank you for holding these hearings on work-share discounts. Work-share discounts are a very significant, but too little understood, part of the ongoing debate about the financial welfare of the United States Postal Service. From 1993 to 1998, I served as Senior Vice President and Chief Financial Officer (CFO) of the Postal Service. That service gave me knowledge and insight that I hope will be useful to you as you consider work-share discounts. I am a Professor of Business and Executive Programs at the University of Maryland University College, and I also have my own consulting company. In addition, I serve on the board of directors of Church Mutual Insurance Company and as chairman of its audit committee. I served as chairman of the audit committee of the Architect of the Capitol from 2003 to March 2010. My experience also includes service as CFO of Lee Enterprises, CFO of United Airlines, and Treasurer of Michigan Bell Telephone Company. I have appended a brief biography to this testimony for your reference.

I am providing this testimony because I care about the Postal Service as an institution, I care about postal employees, and I care about postal customers. Focusing first on the topic of today’s hearings, I recommend that Congress stick to the requirement, already in law, that postal work-share discounts may not exceed the costs that the work-sharing activity saves the Postal Service. Recent actions by the Postal Service that violate that standard are misguided and are damaging the institution by depriving it of much needed revenue and, more importantly, money needed to cover fixed costs. Efforts by the Postal Service and large mailers to separate work-shared mail from other First Class letter mail in order to increase their work-share discounts should be rejected.

I would be remiss if I did not also comment on two related postal issues while I have this opportunity. The first is the Postal Service’s proposal to largely eliminate Saturday mail delivery. This is a misguided and damaging proposal. This is the result of the failure of the Postal Service to price its products correctly and a miscalculation of the damaging effects of cost cutting measures on the ultimate customer, the individual receiving the mail. This proposal will exacerbate the trend toward electronic substitution for the mail. The Postal Service should be increasing and improving the services it offers not reducing them. The Postal Service is, quite literally, selling itself short. That strategy could prove to be the blow that may destroy any hope for future financial viability.

The second issue I must mention is the burden created by the advance funding requirement for retiree health benefits. This is not the place nor the time to engage in an extended discussion of that issue. Still, I strongly recommend that Congress repeal that requirement. The Postal Service should operate in the same way as other large employers in the way it provides for retiree health benefits. Typically, companies pay for retiree health benefits as the costs are incurred, rather than paying them in advance as the Postal Service is required to do.

In addition, it is my recommendation that the Postal Service should be structured similar to a mutual savings and loan or mutual insurance company. This would allow the Postal Service to accumulate profits as surplus to provide cash for new vehicles, equipment, buildings, new
products and services, and to have a cushion to weather economic downturns. The law requires the Postal Service to break even over time. This means that a significant recession, such as the one we’re in, threatens the financial viability of the Postal Service.

**Background**

At the end of the 3rd quarter in fiscal year 1998, the Postal Service reported a year-to-date profit of $1.4 billion, improved customer satisfaction, and higher employee morale. Four years of billion dollar profits had allowed the Postal Service to pay off $4 billion in debt and to triple capital spending. A graph showing the financial history of the Postal Service through the 3rd quarter of fiscal year 1998 is provided below.

As is shown above, the profits from financial year 1995 through 3rd quarter 1998 totaled $6 billion. These profits were used as capital to build post offices in new communities and to make major investments in equipment that improved accuracy and reduced costs. Despite a ten-year explosion of Internet use, mail volume rose nicely and the Postal Service was able to maintain the 32-cent price of stamps for four consecutive years.

The strategy was based on the Balanced Scorecard Model with equal emphasis on the customer, the employee, and the financial viability of the Postal Service. There was recognition that convenience, courtesy, safety of the mail, trust, consistency, and price were essential parts of the value mix. The primary customer was the individual. It was and is the preference and the response of the individual to mailings that drives mail volume. E-mail and electronic bill paying generally have no cost per use and therefore, the other elements of the value proposition matter more than the price of postage.
New Management and Strategy

There was a management change at the end of the 3rd quarter of 1998. Many in the mailing community expressed their feelings that the Postal Service was earning too much money and that the profits were excessive. New management promised to solve that problem, and solve it they did. Billion dollar profits were replaced by billion dollar losses.

Instead of emphasizing the value of its products and prioritizing revenue protection, management focused on cost reduction—not just through further automation and streamlining of postal networks, but through cuts in service. This strategy seems to have hit rock bottom with the proposal to eliminate Saturday delivery and close facilities needed to provide universal service.

This counterproductive shift in strategy was, ironically, made possible by the financial success of the Postal Service in the 1990s. New management changed the business strategy to one that focused solely on productivity and discounts, rather than the total value mix outlined above. Management began to view the primary customer as the representative of the large mailer instead of the individual consumer. These representatives focus on obtaining discounts for their clients, the large mailers, and/or converting first class mail to less expensive categories of mail.

The apparent goal of the Postal Service was to grow volume and restrain or eliminate price increases. Neither goal was achieved.

Discounts

The Postal Service said that if prices were cut, then volume would increase. This was generally true, but deceptive. Some of the services had price inelastic demand. As an example, if the Postal Service cut prices by 10% for a large mailer and achieved a 2% increase in volume, revenues would drop by 8%. Clearly, this was a financial problem.

Even if revenue increased slightly, as is the case with elastic demand, the effect would be negative on money to cover fixed costs and profits, and it would speed up the need for a rate increase. To illustrate, consider a $1 billion service with a 25% contribution margin. This means that direct costs would be $750 million and contribution, money to cover fixed costs, would be $250 million.

Now, consider what would happen if the Postal Service cut price by 10% and revenue dropped to $900 million. If volume increases 15%, revenue now becomes $1,035 million ($900 million x 1.15 = $1,035 million). The fact that revenue increases with a price cut does not mean that this price cut is beneficial.

A 15% increase in volume also means that costs go up 15% to $863 million. What appears to be a situation that leaves the Postal Service better off by the 3.5% increase in revenue actually hurts the financial condition dramatically. Contribution falls by 31% despite the revenue increase. Because costs rise to $863 million, the Postal Service has $78 million less cash to cover fixed costs. The table below shows this effect.
THE EFFECT OF PRICE CUTTING: FINANCIAL DISTRESS

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<th>Original Case</th>
<th>10% Price Cut</th>
<th>15% Volume Increase</th>
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<td>Revenue</td>
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<td>$900</td>
<td>$1,035</td>
<td>+$35</td>
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<tr>
<td>Attributable Costs</td>
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<td>$750</td>
<td>$863</td>
<td>($113)</td>
</tr>
<tr>
<td>Contribution</td>
<td>$250</td>
<td>$150</td>
<td>$172</td>
<td>($78)</td>
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When a mailer can sort mail in the computer, the Postal Service saves costs. We should expect the Postal Service to share the benefit with the mailer through work-share discounts. But, rather than share the benefits equally between the Postal Service and the mailer, work-share discounts grew to give away all of the savings and more too. The initial result was slightly more mail and substantially less contribution to cover fixed costs. Of course, with the recession, mail volume is now down by a very large amount.

Work-share discounts equal to costs saved are still too high. Work-share discounts should be less than costs saved to provide added contribution to the Postal Service. In conclusion, the under-pricing of mail is a significant reason for the Postal Service’s current financial distress.

Inflation and Mail Volume

The price of a first class stamp has risen slightly less than inflation during the period from 1976 to the present. As we would expect for a service business, this has not protected mail volume. Other elements in the consumer value mix are more important.

The graph below compares the price of a single first class stamp and the rate for the most discounted work-shared mail adjusted for inflation. As you will see, both single stamp prices and work-share rates have increased less than inflation since 1976. This graph also shows the increase of work-share discounts relative to the price of a single first class stamp over this period.
Mail volume has grown over the years and recent volume declines are unrelated to the prices. Only an end to the recession promises to restore volume.

**Saturday Delivery**

The Postal Service has projected great cost savings from the elimination of Saturday delivery. It assumes that this will have no effect on revenue and that is naïve. It is one strong signal to customers that the Postal Service is slowly going out of business. If only 10% of customers give up on the Postal Service and convert to electronic bill paying, that will offset any projected savings.

But far more important is the direction of Postal strategy. The elimination of Saturday delivery is in direct opposition to the idea of the individual as the primary customer. Successful businesses find ways to delight various segments of their customer base. At best, many customers will not care about the elimination of Saturday delivery, while many will certainly be distressed.

This is a step that will not be easily reversed.

And the following promise is one of failure. “Eliminate Saturday delivery and ‘only’ lose $115 billion over the next 10 years.” This is hardly a rallying cry for success.
Today

After 12 years, the price of a stamp is 12 cents higher than in 1998 and mail volume is lower. Instead of billion dollar profits, the Postal Service needed an emergency $4 billion bailout from Congress last September and still lost $3.8 billion in 2009. There is no money for capital and anecdotes abound about dissatisfied customers.

In June 1998, the Consumer Price Index stood at 163.0. It increased to 217.6 in March 2010, an increase of 33.5%. The price of a first class stamp is 37.5% higher than it was in June 1998. Despite increasing the price of the stamp to the public, the Postal Service has gone from a strong financial position to one of financial disaster.

There are 2 small positive innovations in an otherwise bleak outlook.

The Forever Stamp is a customer convenience and likely produces savings enough to cover the costs. It costs the Postal Service about 1 cent to create, print, and distribute a new 1-cent stamp. This means that there is no net loss by allowing customers to use the forever stamp. Customers tend to misplace and lose some percentage of their stamps and the Postal service earns a return on their funds paid in advance of need. So, the Postal Service can provide a convenience that Customers like and added value without cost.

The new advertising campaign, “If it fits, it ships,” focuses on value, not discounts. The customers like getting “free” boxes and enjoy the convenience of not having to weigh the package to figure out postage.

No Cash for Opportunity

There are numerous opportunities for improvement to delight customers and thereby increase mail volume. Unfortunately, the Postal Service lacks the money to implement these initiatives in its current state. The following is a short list of examples:

- Advertise 7 day-a-week delivery of Express Mail.
- Open a window at mail processing facilities for 24 hour, 7 day a week mailing similar to what used to be the case at National and Dulles airports.
- Use the Internet and password protected communications to allow retired individuals to direct their mail to multiple locations while away from home. This is a variation of the current “Snow Bird” mail service.
- Advertise the current “Snow Bird” mail service. The $15, once a week, Priority Mail Forwarding program, earns the Postal Service $60 in revenue per month for a service that costs less than the current free mail forwarding program. In fact, this service should be expanded to offer the service for 2 or 3 days each week if desired.
- Return to the 5-minute line wait policy. Last Christmas, I turned around from my local Post Office with an hour wait and mailed my presents at the UPS store. The wait there was 10 minutes.
- Open high-volume, high-service locations for the mailing public with very friendly employees. Merrifield, VA has such a location. It has been open 7 days a week and has been open as late as 10 PM.
• Use direct mail advertising to inform customers about such locations. Direct mail advertising works very well. The Postal Service should try it for its own advertising.
• Improve the speed and reliability of mail other than First Class. Certified mail is not reliable nor is it fast.
• Provide locked package lockers to individuals to allow secure package delivery while the customer is away from home during the work day.

It should be noted that this list is far from exhaustive and focuses on the individual as the primary customer.

10-Year Plan

On March 2, 2010, the Postal Service issued a press release that predicted losses of $238 billion over 10 years on its present track and promised to limit these losses to only $115 billion if Saturday delivery is eliminated.

Confucius, Henry Ford, and Will Smith have all said: “If you think you can, you are right. If you think you can’t you are right.” When it comes to a strategy for financial success, it appears that the Postal Service thinks it can’t.

Rather than forecast dramatic losses, it would be far better to devote the energy to a dramatic change in direction to achieve long-term success. The Postal Service can be profitable, customers can be delighted, and the employees can be managed well. All it takes is the right leadership, leadership that thinks it can succeed.

Tomorrow

The Postal Service needs a business strategy that works. It needs to increase profitable revenue to provide capital for replacement equipment, vehicles, and new or improved services that will delight customers. With a different focus, long-term success is possible. Indeed, with the right focus, success is highly likely.

Congress can help. It can keep the requirement already in law that postal work-share discounts may not exceed the costs that the work-sharing activity saves the Postal Service. It can mandate the continuance of Saturday delivery. It can amend the Postal Accountability and Enhancement Act of 2006 to eliminate the pre-funding of health care costs and thus put the Postal Service on par with other large companies. It would be very helpful to also recognize the need for a surplus created by profits along the lines of a mutual company.

Thank you,

Michael J. Riley, DBA
Biography of Michael J. Riley, DBA

Dr. Michael J. Riley is a Professor of Business and Executive Programs at the University of Maryland University College. He teaches finance, economics, and accounting to MBAs and executive MBAs. In addition, he has taught marketing and strategy. He also owns his own consulting company, Riley Associates, LLC.

His business career includes service as CFO of the U.S. Postal Service from 1993 to 1998.

Previously he was CFO of Lee Enterprises, CFO of United Airlines, Treasurer of Michigan Bell Telephone Company, and Assistant Controller of Northeast Utilities.

He serves on the Board of Directors of Church Mutual Insurance Company and is Chairman of its Audit Committee. He was Chairman of the Audit Committee of the Architect of the Capitol from 2003 to 2010.

Dr. Riley earned a Doctor of Business Administration from Harvard University, an MBA from the University of Southern California, and a BS from the U.S. Naval Academy. He has served as an adjunct faculty member at Harvard University, Boston University, University of Connecticut, University of Michigan, and George Mason University.
At the bottom of page 7 of your testimony, you assert:

We live in an era where service companies are *increasing* days and hours of operation to appeal to their customers.

Please specifically identify the service companies to which you refer, describe the products and services they offer, and specify the increases in days and hours of operations to which you refer.

**RESPONSE:**

I was not referring to any particular companies but rather to a general trend.
RESPONSE OF NALC WITNESS RILEY (NALC-T5) TO USPS INTERROGATORY

USPS/NALC-T5-13

Please refer to page 8 of your testimony, where you discuss the reduction in USPS collection boxes. There, you assert that the Postal Service "eliminated 24,000 such 'blue boxes' in 2009 alone." Is it your testimony that the removal of 24,000 USPS collection boxes in FY 2009 resulted in the elimination of all such boxes at each of 24,000 different locations? If so, please explain.

RESPONSE:

No, that is not my testimony.
At the top of page 5 of your testimony, you assert that:

As a rule of thumb during my time as CFO of the Postal Service, we assumed that a 10% price increase for market-dominated products (also known as "mailing services") would yield a net revenue gain of about 9%, since it would reduce volume by about 2% and costs by about 1%.

(a) Please identify which USPS omnibus rate requests during your tenure as CFO were governed by this rule and identify the postal testimony in each docket which reflected reliance on the quoted assumption.

(b) Please describe the circumstances and purposes for which the rule was otherwise applied.

RESPONSE:

(a) None of the USPS omnibus rate requests during my tenure as CFO were "governed" by this rule of thumb and none of the postal testimony reflected reliance on this rule of thumb. I used this rule of thumb in making recommendations to the Postmaster General, the Management Committee and the Board of Governors in connection with proposed rate increases during my tenure.

(b) See my answer to (a) above.
CHAIRMAN GOLDWAY: Is there any additional written cross-examination for Witness Riley?

This brings us to the oral cross examination, and one party has requested oral cross-examination, the United States Postal Service.

MR. TIDWELL: Good morning, Madam Chairman.

Michael Tidwell on behalf of the Postal Service.

CHAIRMAN GOLDWAY: Is there any other party that wishes to cross-examine Witness Riley in the hearing room today?

If not, Mr. Tidwell, will you please continue?

MR. TIDWELL: Thank you.

CROSS-EXAMINATION

BY MR. TIDWELL:

Q Good morning, Dr. Riley. Good to see you this morning.

A Good morning.

Q I would like to turn your attention initially to page 6 of your testimony, the first full paragraph where you discuss Coca-Cola, and I would like to know whether to your knowledge Coca-Cola has ever achieved the goal of ensuring that no one in the world is more than five minutes away from a cold Coca-Cola.

Heritage Reporting Corporation
(202) 628-4888
A I don’t know.
Q Are companies like Coca-Cola constrained by considerations of capital and labor costs when determining how to operate their distribution networks?
A Okay.
MR. DECHIARA: I didn’t hear the full question. Would you repeat it?

BY MR. TIDWELL:
Q Are companies like Coca-Cola constrained by considerations of such things as capital and labor costs in determining how to operate their distribution networks?
A It’s my belief that every company is constrained by capital and labor.
Q To your knowledge, does Coca-Cola rely on the existence of independent distribution and retail establishments that are not owned by Coke to extend the availability of their products to their customers?
A I’m not an expert on Coca-Cola.
Q Are you aware that you can buy Coke at a grocery store that’s not operated by Coco-Cola, or a bar or a restaurant or a stadium that Coca-Cola doesn’t operate?
A  Yes.
Q  Yes. And you think that’s an effective way for Coca-Cola to achieve to get closer to the goal of getting a cold Coke within the hands of everyone on the planet, or within five minutes of everyone on the planet?
A  I’m not sure I understand your question.
Q  If Coca-Cola relies on these independent distributors, these independent outlets for the distribution of its products, do you think that that’s an effective strategy for getting them closer to achieving the goal of everyone being within five minutes of a cold Coca-Cola?
A  Yes.
Q  What parallel do you see between the products that Coca-Cola offers and the products that the Postal Service offers?
MR. DECHIARA: I’m going to object to the form of the question, to the extent that it assumes that the witness knows there is a parallel.
MR. TIDWELL: I’m inquiring as to whether or not he does.
THE WITNESS: The Postal Service in general provides a service although in recent years it started selling a few things. The Postal Service has its

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stamps distributed by stamps.com, and lots of private enterprises, including supermarkets and some banks.

BY MR. TIDWELL:

Q Let's keep our attention on first full paragraph on page 6. Is it the case today in the six-day delivery environment that residential postal customers who are not at home on a weekday to accept mail that requires a signature, is it the case that those customers today may go to the post office on Saturday to pick up the mail piece?

A In some cases, it is.

Q And is it your understand that in today's delivery environment when a customer gets the Postal Service Form 3849, the attempted delivery notice, is it your understanding that customer has the option of notifying the Postal Service that they would like to have the package held for pick up at their post office, or indicate that they would prefer to have it redelivered at a time that's more convenient to them?

A I'm not completely familiar with that form.

Q Are you familiar with the process where customers would have the option?

A In general.

Q And would my description be consistent with your understanding that they are presented with the

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option of either arranging for redelivery or arranging
to pick it up at the post office?
A Yes.

Q In the cable TV world, do you think that
cable customers prefer it when the cable guy says he
can make a service call between nine and 11 tomorrow,
or when he says he can arrive between, somewhere
between nine a.m. and five p.m. tomorrow?
A I can speak personally that I'd rather have
a specific two-hour block than a full-day block.

Q Would it be that some postal customers
prefer going to a post office on a Saturday and
completing the pick up transaction during retail hours
at the time of their choosing rather than waiting for
a package to be redelivered on a Saturday during some
unspecified time on the carrier's shift?
A All customers have all sorts of different
preferences, so I would assume that since you asked
about some the answer is yes.

Q Focusing on page 6, you discuss what you
describe as "less tangible" adverse impact of
switching to five-day delivery. There is less
opportunity for customers who work during the week to
see and speak to their letter carrier, and experience
the carrier's promotion of the Postal Service's image.
Do you know who Al, the letter carrier is?

A Do I know who Al, the letter carrier is?

Q Yes.

A No.

Q You’re not familiar with the Postal Service’s current television advertising campaign featuring Al, the letter carrier?

A No.

Q No?

A No.

Q Okay. Do you think that television advertising is an effective way of promoting the service-provided brands in connection with its customers?

A Yes.

Q Do you think that it’s possible for the Postal Service to employ television advertising in a way that attracts mail volume and benefits its bottom line?

A Yes.

Q Do you think it’s possible for the Postal Service to employ let’s say an actor depicting a letter carrier, Al, in such as way as to reflect positively on the letter carrier craft?

A Yes.
Q Turning your attention to page 7 of your testimony in the second full paragraph, there you draw a contrast between the current postal administration and the one that you were a part of, and you describe mail volume as rising "nicely" despite the advent of the Internet during your tenure.

By advent, do you mean the beginning of the period during which the Internet began to have an impact on the use of the mail?

A No.

Q How do you define the word "advent"? Why did you use it in this context?

A The Internet, the Internet time period is by the early nineties prior to my time the use of emails was widespread both publicly and in business, so Internet became more widely available. It was a time when AOL was sending out what seemed to be weekly disks to sign up, and the movie "You've got Mail".

Q Tom Hanks?

A Tom Hanks, was widespread, and it was a time when virtually all of America go wired for Internet.

Q Is it your view that the impact of the Internet on business and household mailers use of First-Class Mail is more pronounced now than it was then?
A It sort of depends on what the Postal
Service does, but the Postal Service volume is way
down, as we know, and it's simply speculation on my
part as to how much is because of change in the
Internet and how much is because of other factors.

Q And what would your speculation be?

MR. DECHIARA: I would object to the calling
for the witness to speculate unless he says he has
some basis for his testimony other than speculation.

CHAIRMAN GOLDWAY: Would you like to
comment, Mr. Tidwell?

MR. TIDWELL: We'll let it pass.

CHAIRMAN GOLDWAY: I think that's a good
idea.

BY MR. TIDWELL:

Q Page 8 of your testimony you discuss Postal
Service collection boxes, and when you were chief
financial officer your responsibilities, I think, did
not include oversight of the policies of operations
affecting the establishment of collection boxes or
their removal or their relocation, is that correct?

A Ask the question again, please.

Q As the chief financial officer, is it safe
for me to surmise that the establishment of policies
pertaining to the location, relocation and removal of
collection boxes were not within the realm of your responsibilities?

A  The second question is correct.

Q  You discuss collection boxes. Do you know whether there have been any material changes since you departed the Postal Service regarding policies governing their establishment, removal or relocation?

A  I'm not familiar with postal policies. I am familiar with articles in the Washington Post describing removal of 24,000 collection boxes, and I've generally glanced at annual reports and see the decline in the number of postal boxes, and its former postal executive. I'm certainly familiar with lots of comments from people complaining about the fact they can't find a mailbox anymore.

Q  But you're not familiar with the policies that was there with the establishment and removal of collection boxes?

A  No.

Q  Let's assume hypothetically that it's 2001 and you were still back at the Postal Service, and you were rewarded for your service as CFO and handed the responsibility of managing the operations of the postal collection effort, and so you were directly involved in managing the establishment of relocation
and removal of boxes. Is there any chance in the fall
of 2001, after the Postal Service experienced the
anthrax, that you might have been moved to have local
management review whether the location and number of
boxes were justified on the basis of customer usage
and the amount of volume that was coming into
particular boxes?

MR. DECHIARA: Objection to the form of the
question.

BY MR. TIDWELL:

Q   Let's assume that -- taking the hypothetical
that you were in charge of collection box policies in
2001, and there were policies that required a minimum
volume per box to justify its continued location at
that particular spot, and let's assume that the Postal
Service was hit by its experience with anthrax, which
involved the deposit of contaminated letters in
collection boxes.

Is it possible that you might have been
influenced by that experience to have local management
reconsider whether all boxes in a network continued to
be justified on the basis of the volume criteria? Is
it something that might have crossed your mind to be
reviewed?

A   You know, I just don't know what I would
have done if that had been my responsibility. I’ve always been oriented to having the Postal Service become more customer friendly, and I think I’ll leave it at that.

Q I’d like to refer your attention to your response to Postal Service Interrogatory 2(b), and in conjunction with that on page 2 of your testimony you observe that you previously testified before the Postal Rate Commission. Which party did you testify on behalf of in that case?

A The American Postal Workers Union, AFL-CIO.

Q Just out of curiosity, if you are testifying today on behalf of APWU instead of the NALC, is there any chance that -- well, I’ll take you back to the question in response to Interrogatory No. 2. The question asked was whether you agreed with the notion that postal customers who do not speak to carriers on Saturday’s mail delivery will still have the opportunity to obtain a positive image of the Postal Service based on the quality of service provided by Postal Service retail windows.

And your response was, and I’ll quote, “Yes, that it’s possible that the customer visits the post office who has a positive experience there. However, in my experience customers physically have a much more
favorable view of their letter carriers than they do of their experiences visiting a post office."

I'm just curious as to whether if you were testifying today on behalf of the APWU you might have worded that slightly different.

A I don't think so. It would be helpful if the Postal Service would ask its contractor to stop the national advertising campaign about how rotten service is within a post office.

I know one thing that sticks in my mind there was a radio commercial saying the lines have gotten so bad at the post office that the Postal Service finally did something about it. They removed the clock, and all of that advertising really builds a bad imagine of what happens in the post office.

A And what is that?

A Stamp.com

Q They are not acting on behalf of the Postal Service, are they, in that regard?

A It appears that they are.

Q Are they? To your knowledge, are they?

A I know that they the sole -- president of Stamp.com when I asked him to stop told me that they are the only postal contractor for online postage.

Q Is it your understanding that the

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advertising was on behalf of the Postal Service at the
direction of the Postal Service?

A No.

MR. TIDWELL: That’s all we have, Madam
Chairman.

CHAIRMAN GOLDFWAY: No other questions?
Are there questions from the bench?
Commissioner Hammond, do you have a question?

VICE CHAIRMAN HAMMOND: Yes, I have a
question. It won’t take very long.

Good morning, Dr. Riley.

THE WITNESS: Good morning.

VICE CHAIRMAN HAMMOND: I was wondering when
I looked at your testimony, I know you talked about
how you believe the Postal Service should consider
having a network of post offices, include locations
that are open more hours, even on Sundays, and to
maintain at least one 24/7 post office in every big
city.

I was just wondering is that because of your
advocacy of increased customer service to the public
or is it because you believe the Postal Service would
make a profit by being open more hours?

THE WITNESS: It’s both.

VICE CHAIRMAN HAMMOND: Both of those
reasons.

THE WITNESS: Yes. By having a more friendly customer service attitude encourages people to do more business with the Postal Service. If you are sure you can mail whenever you need to, then that goes into your other choices about when to mail, and it would be wrong to simply work at the amount of business done during the period of hours that it’s open. It would reflect favorably on customer perception and encourage people to mail more both then and in normal business hours.

VICE CHAIRMAN HAMMOND: I see. Okay. Have you done any study or report which would provide evidence that the Postal Service could make money by increasing its hours of operations? I mean, that would be quite helpful if you have it.

THE WITNESS: The only studies of that kind would have been left at the Postal Service when I departed, but it was one of the things that we did when I was at the Postal Service, and while it was not my initiative, I was a supporter of that with the Board of Governors and the management committee of the Postal Service. I thought it was a very wise thing to do.

VICE CHAIRMAN HAMMOND: I see. Okay. Thank

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you. Those are all that I had, Madam Chairman. Thank you.

CHAIRMAN GOLDWAY: Yes, thank you. I was going to ask you some of those questions as well because I think our terms just overlap, but welcome, Dr. Riley.

THE WITNESS: Thank you.

CHAIRMAN GOLDWAY: I know that you were here and working closely with Marvin Runyan when he was here, and he had a very aggressive idea about the postal retail network, so I wondered if there had been any studies or evaluations at that time about the profitability of individual post offices in various parts of the country. Had people studied whether rural post offices are a burden on the Postal Service and to what extent they might be different kinds of post offices, whether they are more effective than others.

Are you aware of whether any of those studies took place at that time?

THE WITNESS: I'm not aware of the studies when I was there about rural post offices other than a merely perfunctory look at it, and I am aware that there was a proposal that reducing small rural post offices could save the Postal Service a great deal of
money, that study focused strictly on revenue and
compared it against total costs, and the study was
flawed from the standpoint that it -- the post office
customers within a mile or a mile and a half, I don't
recall which, are required to go to the post office to
pick up their mail. And if you take out the post
office and the postmaster, you have to replace it with
a carrier and a truck, and the cost savings that were
assumed were way overstated.

And while I think the rural post offices in
general probably are money losers, it's much like the
theory of the telephone network; that people benefit
by having the availability even if they don't use it.
It creates the overall atmosphere of favorable
customer service.

CHAIRMAN GOLDSWAY: Is there a certain
strategic advantage to ubiquity even if certain parts
of that network aren't themselves --

THE WITNESS: Absolutely.

CHAIRMAN GOLDSWAY: -- of benefit?

THE WITNESS: People develop an overall
image of companies and organizations, and it's either
favorable or unfavorable. And it's rapidly getting to
be unfavorable for the Postal Service as it stands,
and that's the problem.

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CHAIRMAN GOLDWAY: So is your thinking with regard to the six-day delivery, that there is some similar concept that we need comprehensive coverage over a certain amount of time to make the system valuable as opposed to having it only operate on certain days of the week?

THE WITNESS: I think having six days of delivery is an unexploited competitive advantage of the Postal Service. It tells customers that they care about them, a significant number of people want Saturday delivery, and that when you're evaluating a marketing plan as a CFO you look for people that segment the population and find ways to meet the needs so that you encourage overall business.

So yes is the short answer to your question.

CHAIRMAN GOLDWAY: And when you were at the Postal Service and there was, as you mentioned, a significant increase in use of email and personal correspondence electronically, did the organization do any studies about the impact of Internet use on the postal volume and did you come to any conclusions --

THE WITNESS: Yes, we did.

CHAIRMAN GOLDWAY: -- on what to do about that?

THE WITNESS: There was a study done about

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the time I arrived that suggested that the Postal Service was losing 30 percent in market share every five years to the Internet. It was a study that I thought was terribly flawed.

The Postal Service has had a long history of over 100 years about complaining about electronics and how electronics were going to kill them, and it's overblown. I believe that most of what happens in the Postal Service is the result of underlying trends that are unstoppable and to a greater extent what the Postal Service does.

There is a report of the postmaster general in 1872, not 1972, 1872, complaining about the rapid advance of telegraphy and these new fax machines. A hundred years later the fax machine was not yet in widespread use. It wasn't until mid-seventies that the fax machine but yet way back when the postmaster general was spreading that the Internet was going to kill it, and in my view of focus primarily on cost cutting is what will drive customers away, and the Postal Service needs to be adjusting to not just my ideas but the ideas of thousands of postal employees about how to integrate itself in an Internet world and grow and prosper.

Was that too long?

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CHAIRMAN GOLDWAY: No, that was fine. I appreciate it. Thank you.

Any other questions from the Commissioners?

COMMISSIONER ACTON: I have a question.

Good morning, Dr. Riley.

THE WITNESS: Good morning.

COMMISSIONER ACTON: Thanks for appearing this morning.

Can you tell me during your time at -- you may have answered this question with Commission Hammond, I'm not sure, but it takes clarity -- during your time as CFO at the Postal Service was there an exploration, a series review done by the Postal Service or a similar type of elimination of Saturday delivery?

THE WITNESS: No.

COMMISSIONER ACTON: Thank you.

CHAIRMAN GOLDWAY: Any other questions?

Questions from any of the participants?

Counsel, would you like a moment?

MR. TIDWELL: Madam Chairman?

CHAIRMAN GOLDWAY: Would you like some questions before we ask for redirect? Okay, go ahead.

MR. TIDWELL: Yes, ma'am.

FURTHER CROSS-EXAMINATION

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BY MR. TIDWELL:

Q  Dr. Riley, are there other ways than providing six-day delivery that the Postal Service can let customers it cares about meeting their service needs?

A  Yes.

MR. TIDWELL: Thank you. That's all I have.

CHAIRMAN GOLDWAY: Mr. Dechiara, would you like any time with your witness for redirect?

MR. DECHIARA: Yes, Madam Chairman. I would just like a minute. I don't suspect we will have any redirect, but if I could have a minute with the witness.

CHAIRMAN GOLDWAY: All right. It looks like we're going to be able to close this hearing well before lunch so I'm not going to break at the moment, and I'll just give you a moment to step outside with your client.

MR. DECHIARA: Thanks.

CHAIRMAN GOLDWAY: And we will be here waiting for you.

(Pause off the record.)

MR. DECHIARA: No redirect.

CHAIRMAN GOLDWAY: All right. Well, I would like to take a moment to thank Mr. Riley for being

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here today and for continuing to be involved in Postal
Service issues. It seems to be in our blood and care
about it if we’re not involved on a daily basis, and
we’re happy to have you back here and active in our
discussions, and I know it takes time and effort and
some fortitude to be a witness, so I really appreciate
your appearing here today and your contribution to the
record, and I’m please to tell you that you’re excused
from the hearing. Thank you.

THE WITNESS: That’s the nicest thing.

Thank you.

(Witness excused.)

CHAIRMAN GOLDWAY: And now, Mr. Dechiara,
would you like to present your next witness?

MR. DECHIARA: Yes. The National
Association of Letter Carriers calls Dr. Michael Crew
to the stand.

CHAIRMAN GOLDWAY: Is he here?

MR. DECHIARA: He’s in the men’s room. He
will be back in a minute.

CHAIRMAN GOLDWAY: Anyone else need to take
a quick break? No?

We did some work, by the way, with our
microphones, and it seems to be working much better
without any of the background noise that we were
Okay, would you let the technical people in back know that you experienced that, and we can discuss it?

It looks like we have our witness, Mr. Dechiara.

MR. DECHIARA: Yes, but now we have lost the Postal Service counsel.

(Pause.)

CHAIRMAN GOLDWAY: Would you identify your witness, please?

MR. DECHIARA: Yes. The National Association of Letter Carriers called to the witness stand Dr. Michael A. Crew.

CHAIRMAN GOLDWAY: Mr. Crew, would you rise so I can swear you in?

Whereupon,

MICHAEL A. CREW having duly affirmed, was called as a witness and was examined and testified as follows:

CHAIRMAN GOLDWAY: Thank you.

DIRECT EXAMINATION

BY MR. DECHIARA:

Q Good morning, Dr. Crew.

You will see before you a document, actually
two copies of a document entitled Direct Testimony of Dr. Michael A. Crew on behalf of the National Association of Letter Carriers, AFL-CIO. Do you see that, the copies of that document?

A I see three copies.

Q Okay. And are you familiar with that document?

A Yes.

Q And is that your direct written testimony in this proceeding?

A Yes.

Q And if you were to testify orally today on direct examination would the content of your oral testimony be what’s set forth in your written testimony?

A It would be with one correction.

Q And what would that correction be?

A The figure on page 8, the figure has 563 million.

Q Is that in the first full paragraph, the third line from the bottom?

A It is indeed.

Q And what should that figure be?

A That figure would actually reads figure 563, actually should be 580.
Q So instead of 563 million it should say 580 million?

A Five hundred eighty million, correct.

Q Apart from that correction or with that correction is the content of your written direct testimony what your oral testimony would be if you testified orally on direct?

A Yes.

MR. DECHIARA: The National Association of Letter Carriers moves the admission of Dr. Crew's written testimony with the correction that he made on the record.

CHAIRMAN GOLDWAY: Any objection?

Hearing none I will direct counsel to provide the reporter with two copies of the corrected testimony of Michael A. Crew. That testimony is received in evidence and should be transcribed.

(The document referred to was marked for identification as Exhibit No. NALC-T-4, and was received in evidence.)
BEFORE THE

POSTAL REGULATORY COMMISSION

SIX-DAY TO FIVE-DAY STREET DELIVERY
AND RELATED SERVICE CHANGES, 2010

DIRECT TESTIMONY

OF

DR. MICHAEL A. CREW

ON BEHALF OF

THE NATIONAL ASSOCIATION OF LETTER CARRIERS, AFL-CIO
I. AUTOBIOGRAPHICAL SKETCH

My name is Michael A. Crew. I am the Director of the Center for Research in Regulated Industries ("CRRI") and CRRI Professor of Regulatory Economics at Rutgers University. I have taught economics at Rutgers Business School since 1977. Prior to joining Rutgers, I taught at Harvard University, Wesleyan University, Carnegie-Mellon University and the University of Texas, University of Stathclyde and other universities in the United Kingdom. I received my Ph.D. in economics in 1972 from the University of Bradford.

My principal research interests include regulatory economics and the economics of postal services. My current research includes the economics of postal service and public utility economics. My publications include five books, twenty-five edited books, and numerous journal articles, published in e.g. *American Economic Review, Economic Journal, Bell Journal of Economics, Journal of Political Economy, Journal of Regulatory Economics, Public Choice* and *Quarterly Journal of Economics*. I am the founding editor of two journals, *Applied Economics* and the *Journal of Regulatory Economics*, the latter which I have edited since 1988. I have also served on several editorial boards. I was the recipient of the 2009 Distinguished Member Award, Transportation and Public Utilities Group, the 2002 PURC Distinguished Service Award from the Public Utility Research Center at the University of Florida, and the 1992 Hermes Award of the European Express Organization.

In addition to my teaching, writing and editing, I have consulted on pricing, economic costing, and regulatory economics for a number of governments agencies, corporations and organizations, including the United States Postal Service, the United States Treasury, the United States Department of State, the Royal Mail (of Great Britain), the Government of Canada, Canada Post, the European Commission, the New Zealand Post, the New Zealand Commerce

II. PURPOSE OF TESTIMONY

The purpose of my testimony is to evaluate the Postal Service's proposal to eliminate Saturday delivery. I conclude that implementation of the proposal may cause a far more significant drop in mail volume than the Postal Service projects and that such a drop in volume could erase a substantial amount of the savings that the Postal Service hopes to realize by ending Saturday delivery. In addition, I conclude that implementation of the proposal may cause the Postal Service to incur larger than anticipated transition costs, further eroding the potential savings that its proposal is designed to produce.

More importantly, by ending Saturday delivery, the Postal Service would be abandoning a valuable part of its enterprise, giving existing or future private-sector competitors the opportunity to fill the gap in service. By allowing others to take part of its business, the Postal Service's plan to implement five-day delivery could aggravate, rather than ameliorate, the Postal Service's financial condition and in the long-run could threaten the Postal Service's viability.

Rather than take a step in the wrong direction -- a step which in practical terms would likely be irreversible -- I believe the Postal Service should consider other means to address its financial challenges. In particular, it is my opinion that rather than cutting services, the Postal Service should make its services more accessible and attractive to its customers.
III. ENDING SATURDAY DELIVERY MAY CAUSE A GREATER DROP IN MAIL VOLUME THAN THE POSTAL SERVICE ANTICIPATES

There is no question that ending Saturday delivery will cause a drop in mail volume. Frequency of delivery is one of a number of attributes that constitute the quality of a mail service. Reducing frequency, therefore, represents a reduction in quality. Generally, when the quality of a product or service falls, everything else remaining equal, demand for that product or service falls too.

It is easy to see how this would be the case here. Postal customers dissatisfied with less frequent delivery would move more readily to alternatives. For example, local retailers, who time their advertising mail to reach customers’ mailboxes on Saturday, would likely seek alternative means of advertising. Another example: residential customers accustomed to receiving parcels at home on Saturday because they work during the week might turn increasingly to FedEx, which already has Home Delivery on Saturdays, or to other parcel carriers. Abandoning Saturday delivery is going to slow down the Postal Service’s current program aimed at expanding its package services.

All of this points to the critical question of how much ending Saturday delivery would cause mail volume to drop. To attempt to answer this question, the Postal Service had marketing research conducted by Opinion Research Corporation ("ORC") in the fall of 2009, in which ORC asked businesses and consumers to project how the volume of their mail use would change if five-day delivery were implemented. See USPS-T-9 (testimony of Gregory M. Whiteman), at p.1; see generally USPS-T-8 (testimony of Rebecca Elmore-Yalch). Based on ORC’s research, the Postal Service projects that implementation of five-day delivery will cause a once-and-for-all mail volume decline of only 0.71%, resulting in an annual revenue loss of $466
million and an annual contribution loss of $206 million. See USPS-T-9, at pp.11-12; see also USPS-T-2 (testimony of Joseph Corbett), at p.15.

The Postal Service's projections are presented as single-point estimates with no uncertainty bounds or confidence limits. In fact, given that the change proposed is entering into largely unknown territory, there are inevitably considerable uncertainties associated with this policy. Indeed, five-day delivery may cause a much more significant drop in mail volume than that projected by USPS. In addition, there are problems with the studies used by the Postal Service to support its proposal.

First, the Postal Service's estimate is unreliable because the projections given to ORC by the surveyed businesses and consumers were necessarily hypothetical: in the real world, Saturday delivery has not been eliminated. Thus, the respondents in ORC's survey were describing how they thought they or their firms would change their mailing behavior if Saturday delivery were eliminated. As with any hypothetical study, the results are inherently uncertain and must be treated with caution. This is particularly the case since the individuals surveyed may not have fully understood how the reduction in delivery frequency would impact them or their organizations or mail recipients. In addition, unless they had studied the matter they would be unable to estimate the impact accurately. Moreover, there is an extensive academic literature on how surveys like ORC's may be subject to significant biases.1 Bias could have occurred here, for example, when ORC asked respondents to estimate how their mail use would change with five-day delivery after telling them that "[d]espite very aggressive cost cutting, the Postal

Service is projecting financial losses for this and the next several years.” See USPS-T-8, at p.26. Respondents sympathetic to the Postal Service’s stated financial plight, or concerned that it could lead to price increases, may have consciously or unconsciously underestimated how much a change to five-day delivery would impact their mail use.

Another problem is that the ORC study was performed during just one limited period of time, in September-October 2009. See USPS-T-8, at pp.4, 12. Estimates that respondents gave during this one short timeframe provide scant basis for predicting how they would behave for years to come. Moreover, 2009 was, to say the least, an atypical year; the economy was still suffering from what the Postal Service accurately describes as the worst economic downturn since the Great Depression. At minimum, an event of this magnitude is going to add greater uncertainty to any estimates made from a survey, casting further doubts on the accuracy of the Postal Service’s estimates. Indeed, 2009 saw the largest annual mail volume decline in postal history, of 12.7%. See USPS-T-2 (testimony of Joseph Corbett), at p.3. It is hard to imagine how this extreme macroeconomic environment could not have colored the perspectives of the businesses and consumers respondents. For example, a business experiencing severely diminished activity as a result of the recession might have seen five-day delivery as impacting it less than during times of normal business activity.

Next, in estimating how much mail volume would drop if Saturday delivery were ended, ORC systematically understated the amount by which respondents estimated they would reduce their mail use, by applying a “likelihood” factor to the calculation. Business respondents were asked by ORC to estimate their mail use volume both in the next twelve months and in the twelve months after the implementation of five-day delivery. See USPS-T-8, at p.31. Similarly, consumer respondents were asked to estimate their actual past twelve-month mail volume and
what that past twelve-month volume would have been with five-day delivery. See id. at p.36. The business and consumer respondents were also asked to assess the likelihood that the change to five-day delivery would change their mail use, and this "likelihood" assessment was converted into a percentage, with anything less certain than "extremely likely" being assigned a percentage of less than 100. See id. at pp.31, 36. In reaching its estimate of how much five-day delivery would reduce volume, ORC multiplied the respondents' estimated drop in mail use by this "likelihood" percentage, effectively reducing the respondent's estimate. For example, if a business respondent estimated mailing 10,000 fewer pieces of first-class mail in the year after Saturday delivery ended, but responded that he/she was only 50% likely to change his/her mailing practices in response to the five-day delivery proposal, ORC calculated a 5,000 piece reduction in first-class mail for that business. See USPS-T-8, at p.31 (Figure 13).²

By applying this "likelihood" factor to adjust downward respondents' estimates of reduced mail use, ORC artificially and arbitrarily decreased how much the businesses and consumers surveyed believed their mail volume would fall. As far as I can recall, I have never seen anything like this, and I believe it is a serious flaw. If respondents' gave their best estimate of how their mail use would change with five-day delivery, there is no reason for ORC to adjust those estimates downward. If ORC wanted to capture the uncertainty of respondents' estimates, it should have treated the estimates provided by survey respondents as mean estimates, with both upside and downside possibilities. However, the Postal Service and ORC did not follow the familiar practice of providing a range of estimates. At a risk of repeating myself, applying the

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² The actual language used, e.g. for national accounts (similar language was used for other respondents) was the following (USPS-T-8, at p.104): "If the service change described does happen, what is the likelihood that this change would cause your organization to modify the number of individual pieces of mail and/or packages your organization sends or the way you send it?"
"likelihood" factor, as ORC did, guaranteed a downward bias in its point estimate of volume decline.

Finally, a customer survey alone is a thin reed on which to make an unprecedented and, in practical terms, irreversible change in operations like ending Saturday delivery, even if, unlike the ORC’s, the survey had been flawless. At the very least, the Postal Service should have also undertaken an econometric analysis as another means of predicting how ending Saturday delivery would impact mail volume. The Postal Service has a long history of using econometric analysis in various applications, including to measure elasticity of demand. Similarly, other postal operators worldwide employ econometrics extensively. Econometric studies can predict, using historical data on price increases, how a future price increase will impact mail volume. Similarly, other aspects of postal service, for example percentage of on-time delivery, can be assessed as to their consequences for demand. The Postal Service has no historical data on reductions in frequency delivery. However, by estimating the value of a reduction in service quality for various customer segments and products, it is possible to estimate how a quality reduction would impact demand. Indeed, other postal operators have used econometric studies when seeking to assess demand elasticity in connection with contemplated service changes. These have also led to calibrated simulation studies and sensitivity analyses on the consequences for demand resulting from changes in pricing structures, postal networks and delivery frequency. The Postal Service’s failure to engage in any rigorous economic analysis of

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demand effects of their proposal, but rather to rely solely on the ORC’s study, further puts in doubt its projection regarding the impact on mail volume of ending Saturday delivery.

If it turns out that USPS’s projection understates the extent to which five-day delivery would decrease mail volume, the savings it anticipates from ending Saturday delivery could be significantly eroded. Assume, for example, that rather than a 0.71% decline in mail volume, ending Saturday delivery causes a 2% decline. (See NALC-LR-N2010-1/12 (Robert H. Cohen, Charles McBride, George Mason University School of Public Policy, Study on Universal Postal Service and the Postal Monopoly, Appendix F, Section 3, Estimates of the Current Costs of the USO in the U.S. (Nov. 2008)), at p.15 (predicting 2% volume loss from change to five-day delivery)). This would mean an annual loss of contribution of $590 million. Rather than having a net annual savings of $3.1 billion, as the Postal Service projects, see USPS-T-2, at p.15, the annual savings would be close to $2.5 billion.

More significantly, even if mail volume only dropped 0.71% initially in response to the end of Saturday delivery, the resulting mail volume loss may grow in magnitude in subsequent years. Indeed, the Postal Service’s viewing the loss of mail volume as a static, one-time drop that remains at the same level year after year fails to take into account the dynamics of the marketplace. Once the Postal Service cedes a valuable piece of its enterprise -- Saturday delivery -- existing or future private-sector competitors will undoubtedly rush to fill the gap. Given the chance to profit from unmet demand, these competitors will eagerly deliver newspapers, magazines, advertising flyers and parcels on Saturdays to the doorsteps of millions of Americans. As postal customers increasingly turn to these competitors, the mail volume loss caused by the end of Saturday delivery could snowball. Indeed, once given a “foot in the door” to compete with the Postal Service, these private-sector competitors may press to open it wider,
moving beyond Saturdays to other days, or even making demands on the political system to lift the Postal Service’s monopoly on access to the mailbox. Such a turn of events would not only weaken the Postal Service but could threaten its long-term viability.

In sum, the Postal Service’s projection that ending Saturday delivery will cause a one-time, modest drop in mail volume is both unreliable and ignores the dynamics of the market. The initial drop may be far greater and may grow substantially with time.

Since there is a distinct possibility that the savings realized by ending Saturday delivery would be substantially less than the Postal Service hopes, and, more importantly, that ending Saturday delivery could begin a process that threatens the long-term viability of the Postal Service, the Postal Service would be well advised (as I discuss below) to consider alternatives before making what would likely be an irrevocable and damaging change to its operations.

IV. THE POSTAL SERVICE IS LIKELY TO BE UNDERESTIMATING THE TRANSITION COSTS THAT WOULD BE INCURRED IN IMPLEMENTING FIVE-DAY DELIVERY

The Postal Service may realize less in savings from ending Saturday delivery than it projects not only because mail volume may drop more than estimated, but also because costs arising from implementing five-day delivery may be more than expected.

First, the Postal Service may be grossly underestimating the transition costs related to a reduction in delivery frequency. The Postal Service estimates that it will experience just $110 million in transition costs, and that these transition costs would be incurred only once, during the first year of five-day delivery. See USPS-T-2 (testimony of Joseph Corbett), at p.16. When compared to the $3.3 billion in gross annual savings that the Postal Service hopes to realize from ending Saturday delivery, see USPS-T-2, at pp.15-16, it is projecting almost
negligible transition costs: about one-third of one percent. Moreover, according to the Postal Service, these projected transition costs -- the bulk of which would be for unemployment compensation for non-career employees laid off, see DFC/USPS-T2-1 -- would drop to zero in the years after the first year of implementation. In other words, the Postal Service appears to be betting on a virtually seamless shift from six- to five-day delivery.

In my view, this is entirely unrealistic. The literature on project implementation suggests that when an enterprise undergoes a major process change in its operations, transition costs, which often arise unexpectedly, can be substantial, especially for large projects. Moreover, failure to provide even the rudiments of a temporal template or plan for the implementation of the USPS proposal violates accepted principles of project management and hardly inspires confidence in the accuracy of this estimate. The Postal Service is an enormous, complex organization. Furthermore, ending Saturday delivery would be a major -- indeed, unprecedented -- alteration of its operations that would impact virtually every aspect of the Postal Service, including the transporting, storing, processing and delivery of mail, interactions with senders and recipients of mail, and the potential reassignment or redeployment of thousands of employees. It is hard for me to imagine how such a monumental change in the Postal Service's operations would not give rise to logistical glitches, as well as problems in modifying

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5 For a case-based discussion of the problems likely to result from lack of attention to the temporal planning of projects, and from neglecting factors affecting complexity and uncertainty of projects, see GAO, "NASA: Lack of Disciplined Cost-estimating Processes Hinders Effective Program Management," GAO Report, 046-642, available at http://www.gao.gov/new.items/d04642.pdf. In particular, Table 2 (p. 14) of this GAO report, and the discussion surrounding this Table, makes plain that accounting for uncertainty and undertaking temporal planning of project costs is essential for good program management. Neither of these basic practices is evident in the USPS estimates provided for project costs associated with their proposal.
information systems and other elements of operations and infrastructure support. These problems could produce unexpected and substantial costs, not only internally but also to its customers.

Moreover, contrary to the Postal Service’s optimistic view, the transition costs would not likely be incurred all in the first year. For example, the increased mail volume on weekdays resulting from the elimination of Saturday delivery could well cause a need for the addition or adjustment of delivery routes. Even with an expedited adjustment process, reorganizing routes will take time and resources.

To the extent the Postal Service is underestimating the transition costs of implementing five-day delivery, it is further overestimating the savings that it would realize. In addition, substantial transition costs imposed on customers will exacerbate the decline in mail volume resulting from the reduction in service.

V. THE POSTAL SERVICE SHOULD CONSIDER ALTERNATIVES TO CUTTING SERVICE

Because changing delivery frequency will be an enormous and costly undertaking, it would not be something that the Postal Service could easily undo. Indeed, businesses that incur substantial costs adjusting their mailing operations to a five-day environment would unlikely be willing to reverse those adjustments. Moreover, once postal customers who relied on Saturday delivery go elsewhere, they are unlikely to return. For all practical purposes therefore, abandoning Saturday delivery would likely be an irreversible decision.

For reasons already discussed, it may be an irreversible step in the wrong direction. It may cause mail volume to drop more than projected, and may give rise to unanticipated transition costs, which would erode expected savings. More importantly, by
reducing the quality of service, and ceding a valuable piece of the Postal Service’s enterprise, the elimination of Saturday delivery would give private-sector competitors an opportunity that could in the long-run threaten the viability of the Postal Service.

Before abandoning Saturday delivery, therefore, the Postal Service should consider alternative means to address its financial challenges. Targeted price increases could both increase revenue and decrease cost and, unlike ending Saturday delivery, would be reversible if they do not produce the desired results. One example: increasing rates for nonprofit mailers whose rates may currently be below cost. Another example: reassessing worksharing discounts provided to bulk mailers since increased postal automation means that the Postal Service can now process mail more efficiently and therefore benefits less from pre-processed mail. Similarly, the Postal Service should concentrate on its strength in collection and delivery. It delivers everywhere six days a week. It has considerable scale economies in delivery. By developing improved ways of utilizing its delivery and collection networks it encourages entrepreneurs to develop new products that involve access to the Postal Service’s collection and delivery networks.6

More fundamentally, in considering ways to improve its financial health, the Postal Service should focus not on cutting service, but on meeting the needs of its customers. Cutting service as an attempted solution to financial stress reflects a bureaucratic approach to doing business. It is part of the same bureaucratic approach that leads the Postal Service to produce thick manuals filled with complex mailing regulations that make it hard for customers to

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6 For example, Michael A. Crew, and Paul R. Kleindorfer, “Competitive Strategies under FMO and Intermodal Competition,” in Michael A. Crew and Paul R. Kleindorfer (eds.), Reinventing the Postal Sector in an Electronic Age, Edward Elgar Publishers, Cheltenham, UK (forthcoming 2011), provides analysis concerning how important it is to maximize utilization of the delivery network in the face of electronic competition.
do business with the Postal Service. It is an approach more fitting to a government agency like the Internal Revenue Service than a self-sustaining enterprise like the Postal Service.

Rather than making its services less accessible to its customers, the Postal Service should seek to make its services more accessible and more attractive. One idea, for example, would be service-differentiated pricing, which has been widely adopted by European postal operators. This would provide for a cheaper, slower second class of mail that consumers could use, for example, when paying bills that are not time-sensitive. By giving consumers the option of a less expensive alternative to first-class mail, the Postal Service would become more competitive with electronic bill payment.

VI. CONCLUSION

Ending Saturday delivery will cause mail volume to drop, will likely produce unanticipated transition costs and could threaten the long-term viability of the Postal Service. Moreover, once Saturday delivery is eliminated, it will likely be irreversible. Rather than abandoning a valuable part of its enterprise, and cutting service to its customers, the Postal Service should seek other means to address its financial challenges, including by focusing on making its services more accessible and attractive to its customers.
MR. HOLLIES: Madam Chairman, excuse me.
I'm just writing by hand the correction of the two
copies.

CHAIRMAN GOLDWAY: Thank you.

Mr. Crew, have you had an opportunity to
examine the packet of designated written cross-
examination that was made available to you in the
hearing room this morning?

THE WITNESS: Yes, I have.

CHAIRMAN GOLDWAY: If the questions
contained in that packet were proposed to you orally
today would your answers be the same as those
previously provided in writing?

THE WITNESS: Actually, I want to correct a
typo.

CHAIRMAN GOLDWAY: Would you tell us what
that is?

THE WITNESS: Yes, that is Interrogatory
426, I would change the meaning of the English
language here. Three lines from the bottom it says
"adopt", it should be "adapt".

CHAIRMAN GOLDWAY: And that completes your
corrections?

THE WITNESS: Yeah. Yes, it does.

CHAIRMAN GOLDWAY: Counsel, would you please
provided two copies of the corrected designated
written cross-examination of Witness Crew to the
reporter. That material is received into evidence and
it is to be transcribed into the record.

(The document referred to was
marked for identification as
Exhibit No. NALC-T-4, and was
received in evidence.)
BEFORE THE
POSTAL REGULATORY COMMISSION
WASHINGTON, DC  20268-0001

Six-Day to Five-Day Street Delivery and
Related Service Changes, 2010

Docket No. N2010-1

DESIGNATION OF WRITTEN CROSS-EXAMINATION
OF NATIONAL ASSOCIATION OF LETTER CARRIERS
WITNESS DR. MICHAEL A. CREW
(NALC-T-4)

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Respectfully submitted,

Shoshana M. Grove
Secretary
INTERROGATORY RESPONSES OF
NATIONAL ASSOCIATION OF LETTER CARRIERS
WITNESS DR. MICHAEL A. CREW (T-4)
DESIGNATED AS WRITTEN CROSS-EXAMINATION

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N2010-1

National Association of Letter Carriers

Dr. Michael A. Crew
(NALC-T-4)
In my Managerial Economics course I provide an introduction to issues of demand management, and some of the issues in survey design. As Editor of the *Journal of Regulatory Economics* since 1988, I have made decisions on whether to include papers employing surveys and addressing issues including contingent valuation. Since 1990, as joint Editor of a series of books on postal economics with Paul R. Kleindorfer (Distinguished Research Professor, INSEAD and Anheuser Busch Professor of Management Science Emeritus, University of Pennsylvania), I have made joint decisions on the publication of several articles involving market research. These 18 books are listed in my curriculum vitae, a copy of which is attached hereto.

While my specialty within economics is regulatory economics and not market research, I have technical knowledge of economics generally, especially microeconomics, as it provides a foundation for regulatory economics. An economist does not need to be an expert in market research to have recognized the shortcomings in the market research that ORC performed for USPS in this case. I believe that the shortcomings in the ORC method explained in my testimony are so basic that almost all economists would have sufficient knowledge to recognize them.
RESPONSE OF NALC WITNESS CREW (NALC-T4) TO USPS INTERROGATORY

USPS/NALC-T4-2

Please refer to the bottom half of page 7 of your testimony.

(a) **Provide copies of all of the referenced “econometric studies . . . [that] assess demand elasticity in connection with contemplated service changes” that “other postal operators have used”.

(b) **Provide copies of all “calibrated simulation studies and sensitivity analyses on the consequences of demand resulting from changes in . . . delivery frequency” to which the studies referenced in subpart (a) have led.

RESPONSE:

(a) Many published papers on demand are available in the 18 Crew-Kleindorfer edited volumes on postal economics listed on my curriculum vitae. These published works are in the public domain and available to USPS. In reading these, it is important to begin with papers covering the general foundations of postal pricing, the USO and service quality, which are important foundations for follow-on econometric studies. The many econometric and empirical studies published in the Crew-Kleindorfer edited books on postal economics cover issues on USO redesign (including delivery frequency, post office locations, etc.), service quality changes *per se*, and postal network design, including post office density and the scope of service offerings. The available published studies address both letters and parcels, and are across a number of countries. A copy of the following, recent unpublished study is attached:


In addition, the follow unpublished paper is relevant to the issue, is attached:

RESPONSE OF NALC WITNESS CREW (NALC-T4) TO USPS INTERROGATORY

Crew and P. R. Kleindorfer (eds), Reinventing the Postal Sector in an Electronic Age, Edward Elgar, Cheltenham, UK.

(b) There are many calibrated simulation studies on the consequences of demand changes resulting from changes in delivery frequency and other characteristics of the USO and under different assumptions on competition. Perhaps the best known of these is the prospective study (in which I participated as a consultant) undertaken for all the countries in the European Union in 2005-2006 as a prelude to the EU Third Postal Directive. This study is summarized in the following published paper:


Another recent calibrated study building on previous econometric work and summarizing earlier work in the area of calibrated simulation studies on changes in the USO, including delivery frequency, is the following:

RESPONSE OF NALC WITNESS CREW (NALC-T4) TO USPS INTERROGATORY

USPS/NALC-T4-3

Please refer to the first full paragraph on page 8 of your testimony. Would it be more accurate to describe the analysis in NALC-LR-N2010-1/12 as assuming a two percent across-the-board decline in mail volume (in the absence of any survey research or econometric analysis) rather than predicting such a decline? If your response is not wholly affirmative, please explain.

RESPONSE:

The authors of NALC-LR-N2010-1/12, who are experts on issues related to postal USO, state that “[i]t was assumed that the effect of changing from six to five days per week would be modest (a 2% loss)…” Id. at p.15. The authors presumably used this figure of 2% because they believed it was a reasonable one and because it represented their considered view. Indeed, the authors of NALC-LR-N2010-1/12, joined by Professor John Panzar, reported a similar figure in their published paper in Crew-Kleindorfer (2010). See Robert Cohen, Charles McBride and John C. Panzar, “The Cost of the USO in the United States”-in M. A. Crew and P. R. Kleindorfer (eds.), *Heightening Competition in the Postal and Delivery Sector*, Edward Elgar, Cheltenham, UK: 2010, at pp.258-59.
RESPONSE OF NALC WITNESS CREW (NALC-T4) TO USPS INTERROGATORY

USPS/NALC-T4-4

Please refer to the paragraph that begins on page 10 of your testimony.

(a) Cite the "accepted principles of project management" to which you refer.

(b) How far in advance of scheduled implementation do the "accepted principles of project management" require for the development of temporal implementation plans for service changes of the type under review in this docket?

(c) Would you regard provision of a cross-functional "temporal template or plan for implementation" by the Postal Service to the Government Accountability Office over six months prior to implementation to satisfy accepted principles regarding timely submission of such templates/plans? If not, please explain.

(d) Is it your testimony that the principles referenced in subpart (a) are violated by the fact that the Postal Service's temporal implementation plans for all technical and personnel changes that will be made in support of the service changes under review in this docket (which are not likely to be implemented before July 2011) were not presented to the Postal Regulatory Commission by the time of the filing of your testimony in August 2010?

RESPONSE:

(a) The principles in question are noted in footnote 5 following the sentence in question. This footnote states in part: "In particular, Table 2 (p. 14) of this GAO report, and the discussion surrounding this Table, makes plain that accounting for uncertainty and undertaking temporal planning of project costs is essential for good program management. Neither of these basic practices is evident in the USPS estimates provided for project costs associated with their proposal."

(b) There is clearly no single answer to this question. Planning for major public projects is often undertaken years in advance of implementation, given the need for budgetary approval and stakeholder discussion. Planning for other types of projects may be done and updated closer to the time of implementation. The GAO report, cited in my testimony as an example of failure to undertake temporal project planning, was less concerned with the question of how far in advance of implementation such planning should take place but rather with the
RESPONSE OF NALC WITNESS CREW (NALC-T4) TO USPS INTERROGATORY

absence of detailed temporal project planning by NASA. GAO considered this both an indicator of and a contributor to poor financial planning and execution, as well as contributing to misestimating the costs of associated projects. It is in this regard that I cited the GAO study of NASA as relevant to the absence of a temporal template for implementation of the USPS proposal.

(c) Refer to my response to (b).

(d) I reached the conclusions of my testimony based on the materials filed with the Postal Regulatory Commission for this docket prior to filing my testimony. These materials did not reference any detailed temporal implementation plans in the estimates provided for the direct project costs and the transition costs of the USPS proposal to reduce deliveries to 5 days. It was this apparent absence of such a temporal template underlying the project cost estimates provided that I criticized (based in part on the GAO report cited).
RESPONSE OF NALC WITNESS CREW (NALC-T4) TO USPS INTERROGATORY

USPS/NALC-T4-5

(a) Have you ever have conducted, directed or managed a quantitative market research study?

(b) Have you ever used a quantitative market research survey or study in your studies of regulatory economics and the economics of postal services?

(c) If the answer to either subpart (a) or (b) is affirmative to any degree, please provide a copy of any such study, a summary of the objective of the survey or study, a description of your role and involvement in its design and execution, and your use of its results.

RESPONSE:

(a) No.

(b) Yes.

(c) The entire fabric of postal economics, to which I have made many contributions over the years, is underpinned by demand studies of various types. In particular, the books on postal economics I have edited with Paul Kleindorfer over almost 20 years have many studies of this sort. My own research on postal economics has also relied directly on such studies. For example, my research on the scope of the USO (published in a number of papers cited in my curriculum vitae) relies on econometric and calibrated research studies of demand. Moreover, my research on pricing (published in a number of studies cited in my curriculum vitae) also relies on previous demand studies. I note below two examples of the many such published USO and pricing studies in which I have been involved that rely on previous demand studies, including both quantitative and qualitative market research and demand studies.


8
RESPONSE OF NALC WITNESS CREW (NALC-T4) TO USPS INTERROGATORY

RESPONSE OF NALC WITNESS CREW (NALC-T4) TO USPS INTERROGATORY

USPS/NALC-T4-6

(a) Have you ever have conducted, directed or managed a qualitative market research survey or study?

(b) Have you ever used a qualitative market research survey or study in your studies regulatory economics and the economics of postal services?

(c) If the answer to either subpart (a) or (b) is affirmative to any degree, please provide a copy of any such study, a summary of the objective of the survey or study, a description of your role and involvement in its design and execution, and your use of its results.

RESPONSE:


(b) Yes.

(c) Studies of postal economics, including my own, are informed by empirical studies. Most of the studies that I have written, reviewed and edited for the annual postal economics volumes I edit with Paul Kleindorfer have directly or indirectly relied on previous demand studies. These include studies in Austria, Finland, France, Ireland, Switzerland, and the United Kingdom. The study noted in (a) above incorporated the results of surveys from 30 countries on demand responses to USO and pricing changes. The objective of these studies is typically to improve the efficiency of the postal sector or to evaluate particular proposals for change, such as the liberalization of the sector, access policies, pricing proposals, etc. My role
RESPONSE OF NALC WITNESS CREW (NALC-T4) TO USPS INTERROGATORY

over the years has been as an active consultant to many postal organizations or regulators, as
well as an editor and author. See my curriculum vitae for details on my published studies on the
postal sector.
RESPONSE OF NALC WITNESS CREW (NALC-T4) TO USPS INTERROGATORY

USPS/NALC-T4-7

Please refer to page 2 of your testimony, the first full paragraph, wherein you state that elimination of Saturday delivery "may cause a far more significant drop in mail volume than the Postal Service projects". Aside from any documents filed by the Postal Service in this docket, please provide copies of all data, analyses, market research studies and other documents, upon which this conclusion is based.

RESPONSE:

This conclusion is based on the analysis set forth on pages 3-9 of my testimony and on the documents referred to therein.
RESPONSE OF NALC WITNESS CREW (NALC-T4) TO USPS INTERROGATORY

USPS/NALC-T4-8

Please refer to page 2, the second full paragraph of your testimony wherein you state that “by ending Saturday delivery, the Postal Service would be abandoning a valuable part of its enterprise, giving existing or future private sector competitors the opportunity to fill the gap in service.” Have you conducted any primary or secondary research or analyses with or about existing competitors to determine their reaction to the proposed change? If your answer is affirmative, please provide copies of all such research or analyses.

RESPONSE:

No, but my knowledge and training as an economist, with a specialty in postal economics, makes me confident that competitors would seek to fill the gap if USPS abandoned part of its enterprise.
RESPONSE OF NALC WITNESS CREW (NALC-T4) TO USPS INTERROGATORY

USPS/NALC-T4-9

(a) Have you conducted, managed, directed or reviewed any economic or market studies of the change in volumes of foreign postal administrations that have eliminated Saturday delivery since 1960? If your answer is affirmative, please provide copies of all such studies.

(b) Have you performed any analyses, economic or otherwise, of the change in volumes of foreign postal administrations that have eliminated Saturday delivery since 1960? If your answer is affirmative, please provide copies of all such analyses.

(c) If your answers to subparts (a) or (b) are negative, are you aware that several foreign postal administrations have eliminated Saturday delivery since 1960? If so, please identify the posts that, to your knowledge, have eliminated Saturday delivery and state your understanding of the change in volume they experienced in the first year after eliminating Saturday delivery.

RESPONSE:

(a) No

(b) No

(c) Yes, I am aware that Saturday delivery was eliminated in Belgium, Latvia and Singapore. I do not know what change in volume the postal operators in those countries experienced in the first year after eliminating Saturday delivery. Indeed, Singapore only eliminated Saturday delivery in 2010.
RESPONSE OF NALC WITNESS CREW (NALC-T4) TO USPS INTERROGATORY

USPS/NALC-T4-10

Please refer to page 2, last paragraph of your testimony, wherein you state that implementation of five-day delivery "would likely be irreversible." Please provide and explain the basis for this statement and provide all data, documents, analyses and economic and market studies you have prepared or reviewed to support this statement.

RESPONSE:

The basis of my statement that implementation of five-day delivery would likely be irreversible is set forth on page 11 of my testimony.
RESPONSE OF NALC WITNESS CREW (NALC-T4) TO USPS INTERROGATORY

USPS/NALC-T4-11

Please refer to page 3 of your testimony, top line, heading, wherein you state that ending Saturday delivery may cause a greater drop in mail volume than the Postal Service anticipates. Have you performed any analyses of economic or market studies to reach this conclusion? If yes, please provide a copy of all documents that you reviewed together with any that support your claim.

RESPONSE:

My conclusion is based on the analysis set forth on pages 3-9 of my testimony and the documents referred to therein. I did not perform any analysis or studies other than the analysis contained in my testimony.
USPS/NALC-T4-12

Please refer to page 2, the last line of your testimony, wherein you state: "it is my opinion that rather than cutting services, the Postal Service should make its services more accessible and attractive to its customers."

(a) Please provide copies of all data, studies, analyses or other documents that you created, reviewed or used to reach this opinion?

(b) Have you performed any analyses or estimates of the amount of net revenue the Postal Service would realize if it were to do what you suggest?

(c) If your answer to subpart (b) is affirmative, please provide copies of documents reflecting such analyses or estimates.

(d) What is your estimate of the costs required to "make . . . services more accessible and attractive to customers." Please break them out by cost segment and component.

RESPONSE:

(a) I based this statement on my extensive knowledge of postal economics.

(b) No.

(c) ---

(d) I have no such estimate.
RESPONSE OF NALC WITNESS CREW (NALC-T4) TO USPS INTERROGATORY

**USPS/NALC-T4-13**

Please refer to page 3 of your testimony, first line, where in you state that “There is no question that ending Saturday delivery will cause a drop in mail volume.” Is it your conclusion that every postal product will realize a loss of volume due to the elimination of Saturday delivery to street addresses? If your answer is affirmative, please provide copies of all analyses of economic or market studies that you used or relied on to reach this conclusion. If your answer is negative, what products do you conclude will realize an increase in volume and explain in detail the bases for your conclusion? Provide copies of documents reflecting all analyses of economic or market studies that you used or relied on to support your conclusion.

**RESPONSE:**

My conclusion is that most postal products will realize a loss of volume due to elimination of Saturday delivery. The conclusion is based on elementary economics, in which the demand curve is positively influenced by service quality. Reductions in service quality, such as those envisaged here, will then have a negative impact. Some postal products, such as express services, which will continue on Saturdays, could see an uptick based on substitution effects with eliminated services. This presumption again is based on demand theory. I have not seen any reliable empirical estimates of service quality elasticity across products, so my statement, as cited above, is based on demand theory.
RESPONSE OF NALC WITNESS CREW (NALC-T4) TO USPS INTERROGATORY

USPS/NALC-T4-14

On page 7 of your testimony you assert that the Postal Service should have undertaken an econometric analysis of the effect on mail volumes of eliminating Saturday delivery.

(a) Has NALC or any party in this docket asked you to perform such an econometric analysis? If your answer is affirmative, please identify that party.

(b) Have you conducted an econometric analysis of the Postal Service's proposal to eliminate Saturday delivery? If your answer is affirmative, please provide a copy of documents reflecting that econometric analysis. If your answer is negative, please explain why you did not perform such an analysis?

(c) Please provide copies of any publication or peer-reviewed paper that embodies any econometric study that you performed personally.

RESPONSE:

(a) No.

(b) No.

(c) The one econometric study that I have published is "Governance Costs and Rate of Return Regulation," (with P.R. Kleindorfer), *Journal of Institutional and Theoretical Economics*, March 1985.
RESPONSE OF NALC WITNESS CREW (NALC-T4) TO USPS INTERROGATORY

USPS/NALC-T4-15

Please refer to page 4, second paragraph of your testimony, wherein you state: ORC’s [market research] may be subject to significant biases." Please provide specific instances of biases in the ORC market research and provide all documents, data and references you used or relied on to support this statement, aside from any noted in the footnote on that page.

RESPONSE:

A specific instance of bias is explained on pp. 5-6 of my testimony.
RESPONSE OF NALC WITNESS CREW (NALC-T4) TO USPS INTERROGATORY

USPS/NALC-T4-16

(a) Do you agree that businesses, government agencies and postal administrations routinely use market research studies, to the exclusion of econometric analyses, to forecast the demand for new products and services and/or to determine impact of changes in service on demand? If you agree, please provide the circumstances under which businesses, government agency or postal administrations rely on such studies to forecast demand and provide examples of businesses, government and postal administrations that have used such studies to make such forecasts.

(b) If you disagree, please provide citations to economic literature discussing or approving the use of econometric analyses exclusively or in conjunction with market research to forecast demand.

(c) If you do not agree with the proposition in subpart (a), is it your opinion that businesses, government agencies and postal administrations should never rely on such studies to forecast demand. If so, explain in detail the reasons for your opinion. Please provide all documents, analyses and documents that form the basis for your disagreement.

RESPONSE:

(a) I agree that businesses, etc frequently use market research studies as appropriate. The characterization "to the exclusion of econometric analysis" is misplaced. The vast majority of market research involves routine studies that may not require the use of econometric analysis.

In terms of market research studies by postal administrations, several such studies have been published in the Crew-Kleindorfer edited volumes over the years. These market research studies have usually examined reactions of specific customer segments to product or pricing policies, rather than the historical time series studies that have been the major focus of econometric studies of postal demand.

(b) See my response to USPS/NALC-T4-2

(c) Of course, it would be wrong to state that businesses, etc should never rely on market research studies to forecast demand. Market research tools and methods are
RESPONSE OF NALC WITNESS CREW (NALC-T4) TO USPS INTERROGATORY

complementary to econometric methods and many approaches (e.g. discrete choice theory) are common to both market research and econometrics.
RESPONSE OF NALC WITNESS CREW (NALC-T4) TO USPS INTERROGATORY

USPS/NALC-T4-17

On page 7 of your testimony you state:

"However, by estimating the value of a reduction in service quality for various customer segments and products, it is possible to estimate how a quality reduction would impact demand." Do you agree that quantified value estimates can be obtained by conducting a market research study to indicate the importance of six-day delivery relative to other aspects of service quality? If your answer is negative, please explain in detail the reasons why you do not agree and provide all documents, analyses and documents that form the bases for your conclusion.

RESPONSE:

Several approaches are possible. It is important to note that not all market research is created equal—it comes in all different stripes. One is market research based on surveys. Another is the use of discrete choice modeling and conjoint methods, coupled with surveys. Yet another is simulation based on market segments and then validated with prototype studies (e.g., the on-going Finland experiment on ePost).

Beyond what is usually classified as market research, econometric studies of service quality elasticity could be undertaken.

So my answer to the question here is that I definitely agree that "market research", broadly construed, should be undertaken in evaluating whether and when to undertake a major change of the sort envisaged here. However, this affirmative statement is not by itself very informative. The question is whether the market research undertaken is appropriate and sufficiently precise to inform the decision in question.
RESPONSE OF NALC WITNESS CREW (NALC-T4) TO USPS INTERROGATORY

USPS/NALC-T4-18

Is it your "experience" that respondents participating in quantitative market research studies that seek to forecast the demand for new products and services and/or to determine impact of changes in service on demand:

(a) Tend to overstate their actual usage or purchase of a new product or service or the impact of changes in service on demand?

(b) Tend to understate their actual usage or purchase of a new product or service or the impact of changes in service on demand?

(c) Please explain in detail the reasons why you believe that respondents tend to overstate or understate.

(d) What techniques and methodologies have you used to account for the overstatement or understatement of usage or intent to purchase?

(e) If your response to subpart (d) is that you have not used any such technique or methodology to account for either an overstatement or understatement, do you have knowledge of any such techniques or methodologies? If your answer is affirmative, please explain in detail those techniques or methodologies and provide all data, documents, articles or other materials you refer to or rely on to form the bases for your conclusion.

RESPONSE:

I have no firm belief as to whether, in general, respondents tend to overstate or understate. I believe that how respondents respond depends on the particular facts and circumstances, for example, the questions in the survey, how it is administered, the circumstances under which it is administered, the identity of the respondents and the knowledge of the respondents.
RESPONSE OF NALC WITNESS CREW (NALC-T4) TO USPS INTERROGATORY

USPS/NALC-T4-19

Please refer to your testimony on page 3, first paragraph, where you state: “Frequency of delivery is one of a number of attributes that constitute the quality of a mail service.”

(a) What other attributes are constituents of quality of mail service?
(b) Where does frequency of delivery rank relative to these other attributes?
(c) Have you conducted any research or analyses of the attributes that constitute the quality of mail service? If your answer is affirmative, please provide copies of all such research or analyses.
(d) Please provide examples from economic literature that examine the relative value of constituent elements that bear upon some product’s service quality.
(e) Please provide examples from economic literature that quantify the relative value of respective components of service quality for a particular product.

RESPONSE:

(a) Other attributes include on time delivery, speed of delivery, ubiquity of collection and delivery, conditions associated with tendering mail for bulk mailers, the nature and context of billing services, treatment of returns, customer orientation of the service, and more specific features associated with timing, tracking and treatment of particular products.

(b) This is an empirical question, which is also likely to vary across customer segments, and across senders and recipients of mail.

(c) I have contributed over the years to many studies having to do with service-differentiated pricing, service quality and regulation. See my curriculum vitae for details.

(d) I object to this interrogatory as unduly burdensome. USPS is free to undertake research into the economic literature to obtain the answer to the interrogatory. I do not believe responding to interrogatories requires me to undertake such research. However, I do refer USPS to the volumes on postal economics edited by Paul R. Kleindorfer and me.
RESPONSE OF NALC WITNESS CREW (NALC-T4) TO USPS INTERROGATORY

(e) See response to (d) above.
RESPONSE OF NALC WITNESS CREW (NALC-T4) TO USPS INTERROGATORY

USPS/NALC-T4-20

Please refer to page 3, first paragraph of your testimony, wherein you state:
"Reducing frequency, therefore, represents a reduction in quality."

(a) Have you calculated how much of a reduction in quality will occur, if Saturday delivery to street addresses is eliminated?
(b) If your answer to subpart (a) is affirmative, what is the result? Please provide the calculations and all data, documents and studies that you use or rely on to perform those calculations.
(c) Have you calculated how much of a reduction in relative value of respective components of service quality will occur, if Saturday delivery to street addresses is eliminated?
(d) If your answer to subpart (c) is affirmative, what is the result? Please provide the calculations and all data, documents and studies that you use or rely on to perform those calculations.

RESPONSE:

(a) No, but eliminating one-sixth of delivery days per week would be a significant reduction in quality.
(b) ---
(c) No.
(d) ---
RESPONSE OF NALC WITNESS CREW (NALC-T4) TO USPS INTERROGATORY

USPS/NALC-T4-21

Please refer to page 3, second paragraph of your testimony, wherein you state: “For example, local retailers, who time their advertising mail to reach customers’ mailboxes on Saturday, would likely seek alternative means of advertising.”

(a) Please explain in detail and provide the basis of your statement that advertisers would “likely” seek alternative means of advertising.

(b) Have you conducted any research or analyses with or about advertisers to determine their reaction to the proposed change? If your answer is affirmative, please provide copies of all such research or analyses.

(c) How likely are such retailers to seek alternative means of advertising as compared with any other options they may have?

RESPONSE:

(a) My statement is based on my knowledge as an economist with years of experience studying microeconomics and the economics of postal services. I would note that advertisers are already substituting digital advertising for advertising mail.

(b) No, I conducted no such research or analysis in connection with USPS’s plan to implement 5-day delivery.

(c) I object to this interrogatory as unclear. I do not understand what is meant by the phrase “any other options they may have.”
RESPONSE OF NALC WITNESS CREW (NALC-T4) TO USPS INTERROGATORY

USPS/NALC-T4-22

Please refer to page 3 of your testimony, top paragraph, wherein you state: “Generally, when the quality of a product or service falls, everything else remaining equal, demand for that product or service falls too.”

(a) Have you calculated how much demand for mail will decrease, if Saturday delivery to street addresses is eliminated?

(b) If your answer to subpart (a) is affirmative, what is the amount by which such demand will fall? Please provide the calculations and all data, documents and studies that you used or relied on to perform those calculations.

(c) What other factors could drive a drop in demand?

RESPONSE:

(a) No.

(b) --

(c) Any number of factors can cause a drop in demand for mail. For example, a recession that reduces business activity could cause a fall in demand.
RESPONSE OF NALC WITNESS CREW (NALC-T4) TO USPS INTERROGATORY

USPS/NALC-T4-23

Please refer to page 4, second paragraph of your testimony, where you open with the claim that responses to hypothetical questions are inherently unreliable, then state: “This is particularly the case since the individuals surveyed may not have fully understood how the reduction in delivery frequency would impact them or their organizations or mail recipients.”

(a) Please explain in detail why you believe that respondents in the market research failed to understand how the reduction in delivery frequency would impact them.

(b) Please provide all documents, data, references or other facts you used or relied to support your response to subpart (a).

RESPONSE:

(a) I object to this interrogatory as mischaracterizing my testimony. I said, “As with any hypothetical study, the results are inherently uncertain and must be treated with caution...[and that the respondents] may not have fully understood how the reduction in delivery frequency would impact them or their organization or mail recipients.”

(b) See response to (a) above.
RESPONSE OF NALC WITNESS CREW (NALC-T4) TO USPS INTERROGATORY

USPS/NALC-T4-24

Please refer to page 4, second paragraph of your testimony, wherein you state: “This is particularly the case since the individuals surveyed may not have fully understood how the reduction in delivery frequency would impact them or their organizations or mail recipients.”

(a) Please provide the basis for this statement and explain in detail why you believe that respondents to the market research may have not fully understood how the elimination of Saturday delivery would affect them.

(b) Please provide all documents, data and references you used or relied on making this statement and providing an answer to subpart (a).

RESPONSE:

(a) I based this statement on the obvious fact that the future cannot always be predicted with certainty: five-day delivery has not occurred, so survey respondents would unlikely to be able to understand fully what may occur in a possible future environment. I also based my response on my understanding from reading the ORC materials, which led me to believe that the survey respondents had not necessarily studied issues related to implementation of five-day delivery and were not necessarily experts in the operational changes affecting them as a result of 5-day delivery.

(b) See response to (a).
RESPONSE OF NALC WITNESS CREW (NALC-T4) TO USPS INTERROGATORY

USPS/NALC-T4-25

Please refer to page 4, second paragraph of your testimony, wherein you state: “In addition, unless they had studied the matter they would be unable to estimate the impact accurately.”

(a) Please describe what study would be necessary for a respondent to provide an accurate estimate.

(b) Please cite to and describe your understanding of how respondents were informed about: (1) their own businesses; and (2) five-day delivery.

(c) What specific additional study would have been sufficient for respondents to provide accurate survey responses?

(d) Please provide all documents, data and references you used or relied on making this statement and providing an answer to subpart (a).

RESPONSE:

(a) I believe that because five-day delivery has not occurred, any estimate would necessarily be hypothetical. Nonetheless, if a respondent had studied his/her own mailing behavior and had studied how that might change with five-day delivery, an estimate might be more accurate than if a respondent had not done such a study. My reading of the ORC materials led me to believe that the respondents in the ORC research had not necessarily undertaken such studies.

(b) My understanding is taken from what the ORC materials said about these matters.

(c) See response to (a) above.

(d) I relied on the ORC materials in the record in this proceeding.
RESPONSE OF NALC WITNESS CREW (NALC-T4) TO USPS INTERROGATORY

USPS/NALC-T4-26

Do you agree that most Americans would adapt to elimination of Saturday street delivery, if it helps the Postal Service regain its financial stability? If you disagree, please explain in detail what you believe and provide all documents, data and references you used or relied on to support your response.

RESPONSE:

I do not understand what the interrogatory means by “adapt to elimination of Saturday delivery,” nor do I understand what the interrogatory means by adapt “if it helps the Postal Service regain its financial stability.” I believe that Americans will “adapt” in the sense that life will go on in the United States of America if five-day delivery were implemented. I do not know whether most Americans would say they would “adapt” to five-day delivery. I think what they would say would likely depend on how the question was posed and what other options they believed were on the table.
RESPONSE OF NALC WITNESS CREW (NALC-T4) TO USPS INTERROGATORY

USPS/NALC-T4-27

(a) Do you agree that measuring percentage change in use is a common approach utilized in quantitative market research studies because, in part, it minimizes the impact of extraneous and uncontrollable events? If you disagree, please explain in detail what you believe and provide all documents, data and references you used or relied on to answer this interrogatory.

(b) Do you recognize any strengths of survey market research as a tool for measuring the impact of a change upon respondents? If so, explain what such strengths may be, why market research is often used, and when it should and should not be used.

RESPONSE:

(a) Of course, percentage changes are used in marketing research, economics and econometrics. Elasticity is the most common example of a percentage based concept. Percentage based measures can be affected by extraneous events and offer no protection from errors in survey design or vagueness or misconceptions in underling theory.

(b) The strength of survey market research as a tool is that, if executed properly and in a manner free of bias, it can provide answers to well-defined questions. Market research should be used when changes in products or operations are contemplated, but they should be performed properly and may be supplemented by other tools, like econometric studies, when appropriate.
RESPONSE OF NALC WITNESS CREW (NALC-T4) TO USPS INTERROGATORY

USPS/NALC-T4-28

Please refer to page 6, second paragraph of your testimony, wherein you state that “As far as I can recall, ...” Did you do perform any review of the literature about market research in support of this statement? If yes, please provide all documents, data and references you used or relied on to formulate this statement.

RESPONSE:

No, I did not perform any review of the literature about market research in support of my statement. However, the flaw I identified is so basic that none was necessary.
RESPONSE

(a) Do you agree that the research conducted by ORC examines a range between two points - Likelihood of no change and likelihood of change? If you disagree, please explain in detail what you believe and provide all documents, data and references you use or rely on to answer this interrogatory.

(b) Given a forthcoming change (five-day delivery), what is your best estimate of the impact of that change?

RESPONSE:

(a) No, I do not agree. The ORC asked respondents for their estimates of the consequences of 5-day delivery in the 12-month period following such a change. ORC also asked, in a separate question, for the likelihood that respondents would change their mailing behavior. The ORC results then multiplied these two estimates to obtain its estimate of volume declines. This procedure leads to an inherent downward bias for the reasons explained in my testimony.

(b) I object to this interrogatory on the grounds that it assumes that five-day delivery is forthcoming. My understanding is that it is undecided whether USPS will be allowed to implement five-day delivery. In any event, I do not have an estimate of the impact of such a change.
RESPONSE OF NALC WITNESS CREW (NALC-T4) TO USPS INTERROGATORY

USPS/NALC-T4-30

Please refer to page 8, first full paragraph of your testimony, wherein you state that: “Rather than having a net annual savings of $3.1 billion, as the Postal Service projects, see USPS-T-2, at p.15, the annual savings would be close to $2.5 billion.”

(a) Is it your opinion that $2.5 billion would be a significant annual cost savings?

(b) Is it your opinion that $2.5 billion in annual cost savings would help the Postal Service regain financial stability?

(c) If your response to either subpart (a) or (b) is negative, please explain in detail why and provide all documents, data and references relied upon to reach your opinions.

RESPONSE:

(a) Yes, but, as I explain in my testimony, any such savings may be fleeting because the mail volume loss triggered by eliminating Saturday delivery may continue to grow in subsequent years, as a result of growth in competition from existing or future competitors.

(b) Not if eliminating Saturday delivery triggered a mail volume loss that continued to grow in subsequent years.

(c) See responses (a) and (b) above.
RESPONSE OF NALC WITNESS CREW (NALC-T4) TO USPS INTERROGATORY

USPS/NALC-T4-31

Have you conducted any primary or secondary research or analyses with or about alternative (non-postal) delivery service providers to determine:

(a) the business opportunity they would have if the Postal Service were to eliminate Saturday delivery?

(b) the operational, cost, or economic barriers to establishing alternative (non-postal) delivery of newspapers currently mailed to subscribers? If your answer is affirmative, please provide copies of all such research or analyses.

RESPONSE:

No, but I do not believe I needed to conduct such research or analysis to know that eliminating Saturday delivery would give USPS's competitors an opportunity to take some of what is now USPS's business.
RESPONSE OF NALC WITNESS CREW (NALC-T4) TO USPS INTERROGATORY

USPS/NALC-T4-32

Please explain in detail what are the "dynamics of the market" that you refer to on page 9, first full paragraph of your testimony. Please identify each pertinent dynamic and provide all documents, data and references you use or rely on to formulate your explanatory response.

RESPONSE:

By "dynamics of the marketplace," I mean the functioning of the "market" and changes in the "market" over time in which USPS operates, as that term would be understood in microeconomics. USPS has taken a particular view of the dynamics. It has assumed that there will be a one-time effect of ending Saturday delivery and a de facto, essentially instantaneous, attainment of steady state. I believe that this view is unrealistic.
CHAIRMAN GOLDWAY: Is there any additional written cross-examination for Witness Crew?

This brings us to oral cross-examination. One party has requested oral cross-examination, the United States Postal Service, Mr. Tidwell.

Is there any other party that wants to cross-examine Witness Crew in the hearing today? If not, Postal Service.

MR. HOLLIES: Madam Chairman, this is Kenneth Hollies on behalf of the Postal Service.

CHAIRMAN GOLDWAY: Mr. Hollies. Please begin.

CROSS-EXAMINATION

BY MR. HOLLIES:

Q Good morning, Dr. Crew.

A Good morning, counselor.

Q And welcome to Washington.

Continuing something of a tradition, what does your middle initial A. stand for?

A Anthony with an "h".

Q Okay.

A It’s says on my curriculum vitae actually.

CHAIRMAN GOLDWAY: That’s my son’s name.

BY MR. HOLLIES:

Q A popular choice, I’m sure, if we went
around the room.

Before we get started, I want for us, Dr. Crew, you and me to agree on verbal shortcuts so that there is no confusion between us or by readers of the transcript. In particular, I will use the term "five-day deliver" as a shortcut name for what the Postal Service actually proposes in this docket.

Is it your understanding that the delivery of all mail on Saturdays would cease under the Postal Service proposal?

A No.

Q And could you elaborate on that response, please?

A Well, I do recall from looking at the proposal that the Express Mail would continue, as one item that would continue. And I also understand that apparently some transaction mail like checks that go to credit card companies, I understand that would also continue.

Q Checks would be delivered on --

Q To the credit card companies, yeah.

Q Okay. And is there any other delivery that would take place on Saturday to your understanding?

A Those are the ones that I recall.

Q What about delivery to post office boxes?
A I believe they are available.
Q What about what the Postal Service refers to as caller service, or firm holdout, two different options?
A Would you say that again?
Q Caller service and firm holdout.
A I'm unaware of that.
CHAIRMAN GOLDWAY: The firm holdout he mentioned.

MR. HOLLIES: Pardon, Madam Chairman?
CHAIRMAN GOLDWAY: He mentioned firm holdout.

BY MR. HOLLIES:
Q Did you mention firm holdout, Dr. Crews?
CHAIRMAN GOLDWAY: That was delivery to the credit card companies.
MR. HOLLIES: In that context. Yes. thank you.

BY MR. HOLLIES:
Q It seems that you are anything but a newcomer to economics and the mail business, is that accurate?
A I think so, yes. I go back R-87 actually. That's when I first got interested in the Postal Service. I actually was working with the Postal

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Service on some testimony on the people who would be affected in R-87. That’s when I started, so that’s quite a few years, 23 years.

Q That is a good while back. Did you appear as a witness in the R-87 docket?
A No, I didn’t. My colleague Paul Kleindorffer appeared as a witness, but I helped work with him on the testimony. Your attorney was Eric Koetting.

Q Thank you. I believe you did some other work with Witness Kleindorffer, is that correct?
A We’ve written a few papers together, yes.

Q Have you previously engaged in work that entailed contact with Postal Rate or Postal Regulatory Commission technical or other professional staff?
A Yes, I have.

Q And what was that?
A The cost study which was a contract with A.T. Colony, and that involved extensive contact with a technical staff at the time, which was headed by Robert Cohen.

Q Could you give me a short summary of that study and its findings?
A It was an extensive examination of the analysis that the Postal Service did of its costs and

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a number of aspects to it. One aspect was a
collection of other countries. We also had quite a
powerful team involved of statisticians, Don Reuben of
Harvard, a professor, led the statistician, and did
the statistics here. It was an extremely detailed
study that went to -- I don’t know -- a thousand
pages, and extended over about a year.

Q Your answer sometimes seemed to be below my
hearing level. If you would speak up, I would
appreciate it.

A I thought the microphone took care of
everything.

Q If you would project yourself a little more.

A See, my wife always tells me that I talk too
loud, so I’m trying to avoid that.

Q Do you recall whether the A.T. Colony study
concluded that the data that the Postal Service
provided for purposes of getting rates were sufficient
for that purpose?

A For that purpose, it was. The problem with
postal costing is that, and the initial stuff came to
light I think more over the years, is that a lot of
postal cost is rate-based, and regulatory-based or
decisionmaking-based to come up with the way
competitive prices, and that’s not really an issue
when you had been a monopolist, so that’s the way the
system worked rather well.

You’re talking about a study that was 12
years ago. I was asked, and I was one of the cogs in
that, there were a lot of people involved in that.
And if you want me to recall all the details, that
might be pushing, dealing with some of the statistical
analysis.

Q No, I’m not asking that. You brought it up.
I was just following up briefly on that. I, too, was
heavily involved in that.

A I don’t remember you from that.

Q Have you been retained by parties to appear
before the Commission for purposes other than
testimony aside from the study that’s been discussed?

A Say that again. I need to hear it again.

Q Assume for a moment that I’ve asked you
whether you have been a witness or not, and you’ve
answered that. Now I’m asking if you have done work
for parties that appear before the Commission, but
work that you did not need to appear before the
commission for.

A I mentioned the one about working with Paul
Kleindorffer. I used to work with the Postal Service
on the ’91 fare rates. I think it was ’91.
Q 1990.
A Yeah, and again with some testimony by Mark Smith that Paul and I worked with Mark on. Mark is an economist with the Postal Service. There is one thing that I can think of.
Q I was asking about things that did not result in testimony.
A Oh, did not result in -- I've done various sort of studies with that group where Mark Smith worked and related to rate effects and that kind of thing.
Q The professional work that you’ve done that involved the Postal Service in any particular right, successful, informative, anything that you would care to characterize?
A Well, I always like to think it was informative and successful. From the purview of an economics professor, it was successful in that Paul Kleindorffer, Mark Smith and I published a paper in 1990 in an economic journal which is obviously the leading British economics journal. We also published a number of other papers, Paul and I did, related to that work, including a paper on the cost study that we were talking about a moment or two ago, to the whole point of view of an economics professor who main
interest it went regarding the publishing. I would say that I would regard it in that way.

Q  Are you involved in any other matters today in which the Postal Service also plays a direct role beyond delivering mail perhaps to an organization?

A  Not -- I can't recall anything.

CHAIRMAN GOLDWAY: You need to move closer.

THE WITNESS: Okay. I'll pull this closer actually.

I don't think there is anything. I just received an invitation to attend a colloquium that the Postal Service is organizing. I haven't decided whether to go or not though. I don't recall anything beyond that.

BY MR. HOLLIES:

Q  Are you involved in any litigation involving the Postal Service in the Northern District of California?

A  I was at one stage advising the City of San Francisco, and I haven't heard anything on that in awhile, and I don't know what the status of that is, and I don't know where that stands.

Q  Thank you. I will not take that any further. I don't want to pry into details of that matter here.
A  I must admit it's gone -- that particular matter has gone so quietly. I sort of put it out of mind as it were. It wasn't in -- I hadn't talked to the attorney about that in several months.

Q  That's fine. How did you become involved in that matter?

A  The lady called me, the attorney. I don't even remember her name now.

Q  That's all right. I wanted in particular not to get into the actual content of what you said and done. It might get unknowingly into territory that might involve attorney/client or work product or something of that sort and I do not want to go there.

What is your understanding of what this docket, Docket No. N2010-1, is about?

A  You mean what we're working on now? Oh, gosh, that's a lot. It's about whether we should go to, in your shorthand, five-day delivery of mail primarily. That's what it's about. I think it's an advisory opinion on that.

Q  Do you understand that there has been a request for an advisory opinion brought with the Commission?

A  That's what I understand, yes.

Q  What information pertinent to this docket

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have you reviewed?

A I’ve reviewed the Postal Service testimony. I’ve reviewed various references cited in the testimony. I’ve reviewed some of the library references.

Q Did you look at all the Postal Service testimony?

A I think I did, yes. I’m pretty sure I did, quite a bit of it.

Q All the 11 pieces of direct testimony?

A Yes.

Q Thank you. You indicated that references cited in testimony. You consulted them before citing them. Is that a fair characterization?

A Yes. Paul Kleindorffer and I consulted them before.

Q And I am pleased to know library references. Which ones did you look at?

A I can’t recall exactly, but I did look at one or two of those. I looked at one by Stephen DeMatteo. I briefly looked at that one.

Q Can you identify it by it’s alpha numerical identifier?

A No.

Q Have you previously worked on behalf of the Heritage Reporting Corporation

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NALC?

A No.

Q When were you first contacted or when did the contact between you and the NALC regarding this proceeding first occur?

A I can't remember the exact date, but I guess it was around the time that the Postal Service filed its case.

Q Can you cite to any particular statement in the materials you've review or otherwise that succinctly states what this docket is about?

A Can -- well, it's a proposal to go from six days a week, Monday through Saturday, to five days a week. That's about as succinct as I can be.

Q It goes right back to what we've discussed and that's fine. I'm going to read you a statement and see if that works for you as well. This is from the request, the formal request filed by the Postal Service. Paragraph one reads:

"In accordance with 39 U.S.C. 3661, the United States Postal Service hereby requests that the Postal Regulatory Commission issue an advisory opinion regarding whether certain changes in the nature of postal services would conform to applicable policies of Title 39, United States Code."

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Is that consistent with your understanding of what this proceeding is about?

MR. DECHIARA: I would object to the question to the extent it makes references to legal citations. The witness is not a lawyer. To the extent the question is asking him to give a legal opinion, I would object.

MR. HOLLIES: That’s fine. I’m not asking for a legal opinion. I’m asking for his understanding of this case. The question stands.

THE WITNESS: I don’t know how to answer that without giving a legal opinion when you give me legal terms. I thought I was responsive when I said going from six days to five days. That seems to be the important thing here.

BY MR. HOLLIES:

Q Well, isn’t it also important the actual question the Commission is being asked to answer?

A I also said it was an advisory opinion.

Q Well, if you assume for a moment that the question, the advisory opinion question relates to conformity with the policies that are applicable as a matter of law, what possible responses might the Commission give, and would they include perhaps a yes or a no?
MR. DECHIARA: Again I would object.

Counsel appears to be asking the witness a legal question as to what possible permissible actions the Commission can take under the law, and there is nothing in this witness's testimony that qualifies him to answer that question. There is nothing in his direct testimony that is relevant to the question, so we would object to the question.

MR. HOLLIES: Madam Chairman, if the witness does not understand what this case is about, I think that's a fairly critical point, and the notion that there is a basic question being asked that has semantic context that a layman can understand this is a question that he should be able to answer. I'm not asking for a legal opinion.

CHAIRMAN GOLDWAY: I think, counsel, that you can perhaps ask these questions in a way that is simpler and doesn't require the witness to make legal determinations as to whether -- himself as to whether the proposal the Postal Service is presenting falls within the statute. I think he's here to discuss his expert opinion on the operations of the Postal Service rather than to what extent those operations meet the law. If you can ask the question in a simpler way, I think we will all benefit.
BY MR. HOLLIES:

Q    Dr. Crew, is it your understanding that the Commission could find the Postal Service proposal consistent with the applicable requirements or not consistent with the applicable requirements?

A    I don’t know. I presume it would or why would we be here?

Q    I’m not asking a difficult question. That’s right, I think you can answer that.

MR. HOLLIES: Let the record reflect that the witness has nodded affirmatively in response to that last question.

THE WITNESS: What’s the record going to say?

MR. HOLLIES: It will say the words that we say. If you have something to add, please do so.

THE WITNESS: Would you repeat the question, please?

MR. HOLLIES: We’ve had quite a few questions.

THE WITNESS: The last question.

CHAIRMAN GOLDWAY: The last question, yes.

MR. HOLLIES: I think we’ll hit this in other ways as we go along. Thank you.

BY MR. HOLLIES:

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Have you read the Postal Service request?

A Have I read the request? I’ve read the testimony. I don’t recall reading the actual request.

Q We discussed at the outset of your appearance, Dr. Crew, some of the details that would change and those that would not change under the Postal Service proposal, and I believe we agreed that, for example, the delivery of check payments from holdout to some mailers is something that would continue, is that correct?

A I think I said yes.

Q Are you aware whether there has been some discussion in this docket about what would change and what would not change along the lines of what we’ve just discussed and also more generally?

A Yeah, I believe so. The main thing is that households would not get their mail on a Saturday. Businesses currently are not -- some businesses that are currently not getting their mail on a Saturday, but it would help all the businesses that currently get their mail on a Saturday would not. That’s the bottom line as far as I can see.

Q Thank you for that.

Now, with the duration and breadth and depth of your experience, I can imagine you may be

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technically competent to appear before the Commission in just about any proceedings so long as it fits together with your professional obligations. You don’t face any conflict of interest if your interest in a proceeding converges with that of a client’s in response to your appearance. Is that a fair statement?

A Yes.

Q Does this proceeding fit especially well or do you need a baseball analogy? If this proceeding is a powerhouse something that particularly excites you and makes you especially eager to be part of this case or to testify?

A If you used a cricket analogy, I would --

(Laughers.)

But I think I get the idea. The answer is yes.

Q I learned something from your speech early this morning that perhaps should have led me to modify that particular question. Thank you for that correction. That’s fine.

CHAIRMAN GOLDWAY: Mr. Crew’s been here for a awfully long time for him to not know a little bit about baseball.

THE WITNESS: I never did get into baseball

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or football. I think you probably have to be born here before you can get into those games.

CHAIRMAN GOLDWAY: That's a subject for another hearing.

(Laughter.)

BY MR. HOLLIES:

Q At what point did you formulate at least tentative conclusions regarding what your testimony might contain?

A At what point did I form --

Q And if it helps, you can answer in terms of what you had reviewed when and what you found informative. That's where I'm headed.

A Well, I've been thinking about the issue of service quality for quite awhile, and you know, there have been sort of rumors that the Postal Service was thinking of going to some proposal something like this, although it was obviously not unveiled, and that's when I started to think about what would be the impact of going to five-day delivery.

You know, I think it was before the formal request was filed, but actually when I don't know. I'm going to follow your lead.

Q I'm going to try and paraphrase what I understand is your answer and get a confirmation of
whether or not that's the fact. You were aware of the
discussion about five-day delivery before we filed a
request, and you had begun to formulate your opinions
at that time?

A  Started to think about it. Yeah, I think
about it. I've been thinking about these issues for a
long time.

Q  Can you identify the three or four specific
points in your testimony that constitutes your
conclusions?

MR. DECHIARA: I would object to the form of
the question in that it assumes that there are two or
three specific points, and I would also object on the
grounds that the written testimony is what it is.

MR. HOLLIES: I'm just trying to establish a
foundation for further questions. He makes certain
points and he raises them in his conclusions. If he
want to read the conclusion, that's fine. I think
it's a reasonable question to ask as a predicate for
further discussion.

MR. DECHIARA: I would suggest if counsel
wants to ask about a particular conclusion he would go
right to that conclusion and ask the questions.

CHAIRMAN GOLDWAY: Yes, it's not a line of
questioning that we've heard asked of any other

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witness, so I’m a little confused as to why it’s
necessary here.

MR. HOLLIES: I’m just asking the witness to
summarize his conclusions as a predicate for further
discussion. There is nothing inappropriate about that
as a question.

CHAIRMAN GOLDFWAY: Mr. Crew, I think it’s
okay for you to summarize the conclusions of your
testimony. That’s certainly fine.

THE WITNESS: The most important point is
that abandoning Saturday is at this time a bad idea.
It’s going to have negative consequences of the Postal
Service, and the reason why I -- I have a number of
reasons for saying this. One reason is that -- one
important reason is that it will make -- if mail is
declining, it will make it decline further.

And in fact the Postal Service and NALC and
I are in agreement about one thing, and we’re in
agreement the fact that abandoning Saturday for the
vast majority of addresses in this country will cause
demand to decline.

Where we’re not in agreement is the extent
that the Postal Service comes up with a low figure of
.71 percent, and this is based upon a flawed estimate,
and so if the Postal Service is out to prove its case,
if it produces an estimate that I believe is flawed, and develops flaws in the testimony, that this should be stated, and I've stated it.

And I also believe that the Postal Service have other options as the last witness said, Dr. Riley. The Postal Service has many other options. It's not just a matter of cutting. Adding the mentality of cutting seems to have pervaded the Postal Service, and this is a case of -- a big case of cutting, and other options are available to it, and I mentioned some of these in my testimony, and it's not clear to me that they have been fully explored.

So for me that's probably about it for now.

BY MR. HOLLIES:

Q Thank you. You said earlier that you had read the testimony of the Postal Service, all of it, and that you had read certain other materials. Was that prior to drafting your testimony?

A Prior to writing the testimony, yes, yes. It might have even -- some of the materials I have read may have been years before I even knew of this, so yeah. The answer is yes.

Q Have you done any additional reading since you drafted your testimony on this topic?

A Yes, I have.
Q What is that?
A Well, on this point it was --
Q Five-day delivery.
A And closely related to this topic. It was in July, I was working on a book, this is a book in a series that Paul Kleindorffer and I have edited in about 15 or 16 of these, I’ve lost count, and we publish it each year at a conference to be held. We had a conference in Finland, and we’re publishing a book out of that. Paul and I had to read the papers that people submitted, we had to edit them, and then we had to decide which ones to include in there.
Q Are those all about five-day delivery?
A They are not all about five-day delivery but I’m just saying this kind of -- it’s related to this issue, and they are also related to the issue of what kind of strategies do the Postal Service have to prosper in the current age, electronic age, and in Europe there is even an additional issue. Not only do those guys in Europe have to worry about electronic competition, but they also have to worry about something that the Postal Service doesn’t have to worry about -- on January 1, 2010 most of the major countries in the European Union are going to have all of their markets fully open to competition. Already
some major post offices, for example in the U.K. have their markets open to competition.

So it’s closely related to the issue of five-day delivery, the notion of are there other alternatives apart from cut-cut-cut. That’s what we’re looking at. I’m answering your question fairly broadly.

Q  Understood, and I thank you for that at one level. I did ask the question, but if we could try to confine the discussion a little more specifically to five-day delivery we will finish sooner today.

A  Well, I certainly don’t want to keep people here any longer than I have to.

(Laughter.)

Q  Did you read any interrogatory responses of Postal Service witnesses, and if so, which witnesses as a start?

A  Yes, I did but I can’t recall the details.

Q  Were they the market research witnesses?

A  I believe I looked at some of those, yes.

Q  Some of those?

A  I mean, I can’t recall completely.

Q  No, I’m not asking for perfect recall. I’m trying to find out what you looked at when. Did you look at any of the responses from the Postal Service’s...
lead witness?

Q Did you look at any of the interrogatory response from the Postal Service's lead witness?

A Who do you think is the lead witness?

Q Mr. Polcrano, and his testimony is accordingly denominated USPS-T-1.

A Yeah, I think I did, yes, but I can't recall the details of everyone I looked at.

Q What about responses to any of the Chairman's information requests, did you read any of that?

A No, I did not.

Q There was a certain amount of what we legal types call motions practice. Did you read any of those procedural wranglings?

A I don't -- yeah, you're not using legal terms, but I don't believe I did.

Q I'm not trying to mislead you, I'm try to make it easy here. I'm interested in particular about whether you looked at four library references, but before getting to that did you look at any non-public materials?

A Non-public materials.

MR. DECHIARA: I just want to ask counsel to
clarify? Do you mean non-public materials in this
docket?

MR. HOLLIES: Yes, in this docket.

MR. DECHIARA: Okay.

BY MR. HOLLIES:

Q If you had, sir, you would have had to sign
a certification, and sort of a non-disclosure
agreement. Did you do that at any point for this
case?

A No. Not for this case, not at all.

MR. HOLLIES: I would expect that you if you
saw non-public materials, we have other problems, and
so let’s assume that you have not. Dr. Crew, my
colleague, Mr. Tidwell, is going to approach you now
with Postal Service Library Reference 1, denominated
USPS-LR-N2010/1, or excuse me dash one, slash one, and
ask if that is familiar to you. I ask if it is
familiar to you.

For the others in the hearing room, I will
indicate that the content of that library reference is
something called, "Five Day Deliver As Part of the
Solution." It is prefaced by delivering in the future
a balanced approach.

This is a Postal Service report on five day
delivery, and we have copies that can be shared

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otherwise through the hearing room if that becomes necessary. I’m hoping that it doesn’t. This is familiar to most of this.

MR. DECHIARA: Could I have a copy?

BY MR. HOLLIES:

Q The binder itself is not always very illuminating.

A That’s right. I agree to that. I agree with that.

Q My basic question is, is this material that you have reviewed before today?

A No.

Q Okay. That’s as far as we need to go on that one.

A Is this mine to keep?

Q Sure. Well, not the binder.

A Oh, okay. I was hoping to get a binder out of this.

(Laughter.)

BY MR. HOLLIES:

Q We are going to follow this same procedure for three other library references. The next one on the stack is USPS-LR-N2010-1/16, denominated as "Market Research Materials Responsive to MALC Interrogatories."

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By way of explanation, this particular library reference was created in response to interrogatories purpounded by NALC, and again I am just looking to see if you have looked through these materials prior to your appearance on the stand here today.

Now, what you have got are groups of -- five copies each of -- five different documents that were provided in that library reference. So my question again is have you previously seen any one or more of those five documents?

You don't need to pull the binders off because they just hold the five copies together.

CHAIRMAN GOLDWAY: Could I clarify when these library references were submitted?

MR. HOLLIES: That particular one was filed on June 15th, 2010.

CHAIRMAN GOLDWAY: And that was in response to the second part of the original testimony. This is a library reference?

MR. HOLLIES: This was a library reference filed in conjunction with responses to interrogatories posed by NALC.

CHAIRMAN GOLDWAY: Okay. Thank you.

MR. DECHIARA: Ma'am Chairman, I would
request that NALC counsel be given copies of any
documents that are being shown to the witness, and be
given them prior to the witness being asked questions
about them.

       MR. HOLLIES: That's pretty reasonable.
       CHAIRMAN GOLDSWORTHY: Let the counsel for the
NALC take a look at them.

       (Pause.)

       BY MR. HOLLIES:

Q       So my question, Dr. Crew, is whether you

have previously reviewed any one of these five
documents?

       A       No. Is it 5 or 6?

Q       The circles -- the green circles at the top

of the first copy tie back to the notice of filing

by --

       A       Oh, okay., Are those mine to keep?

       MR. HOLLIES: No.

       THE WITNESS: Okay.

       BY MR. HOLLIES:

Q       I am handing to the witness Library

Reference

USPS-LR-N2010-1/14, denominated, "Mailers Technical
Advisory Committee Survey Material, Public Version."

And inside that are two documents, and again my

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question is have you previously reviewed these
materials?
   A    No.
   Q    At this time, I am handing to the witness
Library Reference USPS-LR-N2010-1/12, "Market Research
Materials Responsive To Interrogatory EFP/TS-T8-1."
And there are two documents in here. And my question
to the doctor is has he previously reviewed the
document?
   A    This one looks vaguely familiar, but I can't
say for certain that I have reviewed it.
   Q    Could you read the title for the one that
you --
   A    It says, "Five Day Delivery Focus Groups,
Chicago, Illinois, 9/1/09-9/2/09."
   Q    And you may have seen that, but you are not
sure about that?
   A    Yes. It looks sort of familiar.
   Q    And the other document in this library
reference, which is called, "Five Day Delivery
Schedule, Qualitative Research Results"?
   A    I didn't review this, but it is possible
that Paul Kleindorffer did when he was working with me
on the text.

MR. HOLLIES: Thank you. That is the last

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of the library references.

THE WITNESS: Well, that's interesting.

(Pause.)

MR. HOLLIES: I wonder, Madam Chairman,
whether this might not be a good time for a morning
break.

CHAIRMAN GOLDWAY: I think it would since it
looks like we are going to be having a longer
discussion than I had originally anticipated.

MR. HOLLIES: Well, yes --

CHAIRMAN GOLDWAY: How much longer do you
think that your questioning will last?

MR. HOLLIES: Those responses cut a fair
amount of material out, but I think it is safe to say
that I have another hour, and I may have more than
that.

CHAIRMAN GOLDWAY: All right. Well, how
about if we take a 15 minute break, and return here at
11:20. Is that adequate?

MR. HOLLIES: That's wonderful.

CHAIRMAN GOLDWAY: And perhaps we will be
able to conclude by 12:30 for lunch, and if not, we
will have to break for lunch. Whatever it takes.

Thank you.

(Whereupon, at 11:06 a.m., the hearing was

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recessed, and was again called to order at 11:31 a.m.)

CHAIRMAN GOLDWAY: Sorry for my delay. I get to my desk and I get distracted. That’s why I like to keep moving. But we are here now, and you may resume, Mr. Hollies.

BY MR. HOLLIES:

Q Dr. Crew, as I am sure that you recall, we concluded a few minutes ago with four library references that, with one possible exception, you had not previously reviewed, and I want to pick up from that.

Did you read any responses to Interrogatories by anybody other than the market research witnesses?

A I can’t recall. I can’t speak for Paul Kleindorffer. I know that he looked at some of those, and we had discussions about these, but I can’t recall specifically reading them.

Q In this next line, I want to look briefly at the process by which your testimony was created, and similarly your responses to interrogatories. So let’s start with the testimony itself. And do not share with me, please, anything that your counsel told you, unless it specifically answers this question, but I am not trying to get at his legal theories or anything of
Is it safe to say that you discussed your testimony with your counsel before you drafted it?
   A Yes.
   Q And also with NALC, with others at NALC?
   A Yes.
   Q Did you discuss it with anyone else before the fact?
   A Yes.
   Q Who?
   A Paul Kleindorffer.
   Q Okay. For purposes of my questions, I would like to assume, and it will simplify things if you assume that he is part of your team, and so if he did so, then you should answer that you did so.
   A Okay. Fair enough.
   Q I presume that you two were working together with the same purposes in mind on this?
   A Oh, yes.
   Q And with that simplifying assumption let’s proceed. Were there any others with whom you discussed it?
   A Any others? Well, I talked to my wife about it. I talked to my son about it.
   Q Well, let’s say professionally.

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A  My son is an economist, and so that is a professional.

MR. HOLLIES: Okay.

THE WITNESS: I was getting some thoughts from him, and they were free as well. He normally charges a lot an hour, but they were all for free.

BY MR. HOLLIES:

Q  I suspect that most of us do that when we can. Did you just prepare an initial draft, and then review it with these others, or how did that work?

A  I talked to -- well, when you say LALC, I mean, I can name names. I talked to Jim Sorber, who is the chief of staff of the president, about the general contest of the testimony. I talked to Stephen DeMatteo at NALC about this.

And then I put together a draft, which went to Mr. Dechiara, and then I got comments back from Mr. Dechiara on that, and we had written and verbal discussion on the matter, which included obviously Paul Kleindorffer, and that basically was the process.

Q  Were there a lot of editorial cycles? Were there six drafts?

A  I don’t recall six drafts. I think probably there were two substantive drafts. Six drafts is far too many.
Q You live in a better world than I do. Okay.

Turning to the interrogatory responses, did you discuss those also with counsel and with NALC representatives?

A I think I recall a brief discussion with NALC, and we also discussed my interrogatories obviously, and I discussed them primarily, of course, with Peter Dechiara and Paul Kleindorffer, and that was in a discussion of those responses.

Q Did you discuss possible objections with counsel?

MR. DECHIARA: I would object to that question --

MR. HOLLIES: Madam Chairman, he is a witness for NALC, who responds to several interrogatories with the words "I object". That is not consistent with the usual practice under the Commission’s rules.

And I think it is reasonable to go into how that happened. I am only asking procedural questions, and I am not talking about the substance, and I am not asking for attorney theories or opinions. I am just asking about the process. I think that is a reasonable question under the circumstances.

CHAIRMAN GOLDWAY: I don’t see how you can
be asking for a discussion between the attorney and
the client when --

MR. HOLLIES: I am asking about --

CHAIRMAN GOLDWAY: But the response is a
legal response, and so I appreciate it, and I am
curious myself, but I am not quite sure how we get at
this.

MR. DECHIARA: I would also object on the
additional basis that it is not relevant to these
proceedings. The objections are stated in the
interrogatory responses. If the Postal Service had an
issue with the objections, or wanted to challenge
those objections, the Postal Service had the
opportunity to do so, but chose not to.

The objections are what they are, and
inquiring as to what the witness discussed with NALC
counsel in the preparation of those objections not
only in our view invades the attorney-client
privilege, but is entirely irrelevant to these
proceedings.

MR. HOLLIES: Excuse me, Madam Chairman, but
there are two misrepresentations in that statement by
counsel. First of all, answering an interrogatory by
putting an objection in the response does not provide
an opportunity for the Postal Service to do anything
about that objection, because the mechanism for doing
that is to file a formal objection, which NALC did
not.

Further, counsel indicates that I am asking
about the content of discussions with counsel. I'm
not. I am asking about the fact of or existence of
discussions with counsel. That is quite different.

CHAIRMAN GOLDWAY: Don't you think that it
would be much better to ask the witness --

MR. HOLLIES: I am.

CHAIRMAN GOLDWAY: -- about his response,
rather than what his discussion was with his own
attorney?

MR. HOLLIES: Thank you. Yes, that is a
suggestion that I will be undertaking in a few
minutes, but we are talking for the moment at least
about the process by which they are prepared as a
prelude to a discussion of their actual content.

CHAIRMAN GOLDWAY: How will this all help
the record for the USPS?

MR. HOLLIES: If there was extensive
discussion back and forth between counsel, that would
suggest the maturity of the decisions reflected in his
objections in a response. Objections in a response
are not procedurally proper, and if on the other hand
the witness was on his own, and did not discuss this
with counsel, that provides a different explanation
for why we ended up with what we did.

MR. DECHIARA: We will stipulate that the
preparation of these interrogatory responses was done
not by the witness alone, but with counsel.

MR. HOLLIES: Well, then the stipulation
begins to answer my question, because I want to know
the extent to which such interaction occurred. It is
the same line of questioning that I just went through
with the testimony for parallel purposes.

CHAIRMAN GOLDWAY: Is this response adequate
that you’ve received now?

THE WITNESS: Could you repeat the question
again?

MR. HOLLIES: I am asking about the
preparation --

THE WITNESS: If you could just repeat it,
as I wanted to make sure that I heard it right.

BY MR. HOLLIES:

Q How many times did you discuss your answers
with counsel?

A How many times?

CHAIRMAN GOLDWAY: Which questions are you
referring to?
MR. HOLLIES: His interrogatory responses.

CHAIRMAN GOLDWAY: Oh, collectively?

MR. HOLLIES: That is the form of the question right now. I don't think we are likely to get far if I ask about any individual, but we could go there if necessary.

CHAIRMAN GOLDWAY: No, I just wanted to clarify that.

THE WITNESS: I guess I could go back to my phone records and give you a fairly good answer, and if I had to rely on my memory, I would say that we probably had over -- well, remember, there were two sets of interrogatories, something over 30.

I think it was 36 of these interrogatories. These were very extensive interrogatories. And I sort of recall three or four conversations with Mr. Dechiara.

BY MR. HOLLIES:

Q Okay. Thank you. That is what I was asking for.

A Incidentally, something that the Postal Service Counsel said a few moments ago sort of peaked my interest. Am I allowed to raise that or not, because it peaked my interest because I am not sure that it was accurate.
BY MR. HOLLIES:

Q    Well, at this point, I am the one who is
     supposed to be asking the questions.

A    That’s what I thought, yes.

CHAIRMAN GOLDWAY: I think you could discuss
that with your counsel, and perhaps for surrebuttal,
you could bring that up.


BY MR. HOLLIES:

Q    But in this instance, I will ask what your
     concern is and we will deal with that. What is your
     concern?

A    That’s actually a good way to do it. A much
     more helpful way of proceeding.

CHAIRMAN GOLDWAY: That’s a good way of
     doing it.

THE WITNESS: My concern was that you said
     several objections. I mean, I can think of one, but I
     also think that where the Postal Service objected to
     some interrogatories, or at least one interrogatory
     that the NALC put forward. So it is kind of the
     characterization of several was the issue.

MR. HOLLIES: That is a fair pushback. We
     will get to each.

THE WITNESS: Okay.
BY MR. HOLLIES:

Q Now, again with respect to your process for preparing interrogatory responses. Did any of them cause you to undertake any further research; that is, beyond those in which you have footnotes identifying certain sources?

A It is reasonable to say that I talked to Paul Kleindorffer extensively about this, and we had to sort of check a few -- you know, the references, besides the obvious ones, but we had some discussion about these. You could call it research, yes, those discussions.

Q Okay. Well, I guess I was intending to ask a somewhat more technical version of research. Did you do any on-line research or go to the library? Did you go beyond talking to your professional colleague?

A Well, we went to the internet for a few things, yes, but they may not have been cited or turned out to be relevant, yes. I mean, that is part of research, and some of the things don't reveal what you thought they would be. They are not promising lines of inquiry.

Q Understood, and if you find a way to bypass that, I hope that you will advise me on how to do so.

What is your understanding of the purpose for which

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interrogatory responses are written?

A Well, I mean, I guess there is two answers
to that. There is a lawyer’s answer, which I am not
qualified to give, and then there is my own thoughts
on the matter that is intended to assist counsel in
cross-examination, assisting opposing counsel in
framing cross-examination.

Q The purpose of -- and I am just going to try
and see if I understand what you are saying. The
purpose for interrogatory responses is to assist
opposing counsel in developing cross-examination; is
that what you just said?

A Yes. I mean, that is my personal view of
it. I am not going to give a legal opinion as to what
it is. I am sure that there is a legal version that
counsel is capable of giving.

Q I am asking for your personal opinion.

A I am giving you my personal opinion, yes.
Actually, I hope they weren’t too helpful. Well, we
will see what you think when we are done.

Q Would you say that you responded to each
interrogatory part by providing the best possible
response you could?

A I think so, yes. You know, in consultation
with Paul Kleindorffer and Mr. Dechiara, I believe
that was the best that I could do at the time. You can always do better after the event, but at the time that was the best that I could do.

Q  Fair enough. You used the word best, and is that in a specific sense, or just in a generally understood colloquial sense?

A  Sort of colloquial, yes. That’s what I am saying. I am doing my best kind of thing. That kind of view.

Q  Did you consider as true for responses in PRC litigation whether you were providing the best information that you possibly could to inform the Commission’s own judgment?

A  Yes, I did. I mean, I thought that we were trying to clarify our case. I mean, some of the interrogatories were helpful in enabling us to clarify what we meant, and to that extent, we were able to clarify, it would help the Commission’s judgment, yes.

Q  Did you review responses, the drafting of them, as a game between you and the Postal Service in this case?

A  I think that all legal proceedings are a game. I am an economist after all. Game theory is a big part of economics.

Q  So your responses to interrogatories were
undertaken in the spirit of game theory?

A Well, what game theory means is that you have a strategy, and you have to have a strategy as to how to answer the questions, and a major part of the strategy is that you have to answer what you believe to be the truth.

And that was part of the strategy for a company to come up with what you believe or know to be the truth, and answer that way. That is part of the strategy.

Q Were there any other parts to the strategy?

A I think we were primarily concerned with the truth, and in the responses that is the primary motivator of the response. Well, obviously the truth is what matters, but naturally you think that, well, one consequence of this is that we have now clarified this, and the counsel on the other side might feel that there is no need to proceed any further, because he now has the answer to this.

And he may have found that it was not the answer that he wanted, but it is the answer, and maybe he might feel that it is no longer worth pursuing it further. I mean, you are asking me sort of complicated questions, and the basis is the truth, but again there are also some other things that go on in
there as well, and including the one that I just mentioned.

It may also be an opportunity to strengthen a point, and sometimes you ask a question in an interrogatory, and it actually strengthens the point that you made. This is the kind of strategy that you might go through in one's mind.

Q All well taken. Are there any others that you would care to offer?

A Oh, I don't hold myself out to be an expert in this kind of game theory when responding to interrogatories, and so I think I have probably said enough.

Q I am going to change the direction of questions a bit at this juncture, to your testimony and your respective, or your specific interrogatory responses. I believe we covered earlier that the discussion that you paraphrased in your purpose section on page two as -- you said that the Postal Services proposes "to eliminate", or is "ending Saturday deliver".

And did we not discuss this and agree that that is not the literal truth of all delivery ending on Saturdays?

MR. DECHIARA: I'm sorry, but can you just
indicate where exactly in the testimony you are reading from?

BY MR. HOLLIES:

Q The second paragraph is the purpose section of page two. Dr. Crew, would you agree that we discussed earlier how terms such as "ending Saturday delivery", or five day delivery, could be used as shorthand descriptions of the Postal Service proposal, but that some delivery does continue on Saturdays?

A I think that you asked that question, and I did answer it to say, yes, indeed, there were some areas where Saturday delivery would continue.

Q Thank you. Is it your understanding that today the Postal Service delivers mail to street addresses six days a week?

A That's my understanding, yes.

Q So that leaves a gap of on day a week does it not?

A Yes. Yes, it does.

Q So it is correct that no regular delivery of mail, aside from express mail, at least to residences and businesses, is effectuated by the Postal Service on Sundays. Are we in agreement on that?

A Yes. No regular delivery of mail on Sundays, right, except for express mail, right.
Q Does the Postal Service deliver to post office boxes on Sundays?

A I actually don't know the answer to that. I never thought about it actually.

Q Is it your opinion that privately owned delivery companies have filled that Sunday gap in delivery?

A That Sunday gap as you called it, it is my understanding that there are a few private delivery companies, and maybe some small outfits, that deliver extensively on a Sunday. That is something that -- well, Sundays have always been a non-delivery day, and it goes back forever, I guess, almost.

Actually, I must think about that again, whether postal delivery was ever seven days a week.

Q But that is not my question. My question is having established that there is a Sunday gap, do you understand that private delivery companies have filled that gap? It's simple.

A Well, I am not sure that a gap is perceived, and it is only the way that the question is phrased.

Q Okay. Is it your understanding that private delivery companies have filled the span between Saturday and Monday delivery by delivering on Sundays?

A I think I said that I was aware that very
few private delivery companies delivered on a Sunday.

Q So mostly a no; is that what you are saying?

A I think so, yes. I don’t want to give an
outright no, because it might not be the whole truth.
I want to stick as close as I can to the whole truth.

Q Thank you. And I am not trying to trick you
here, or at least for the most part.

A Yes, I know that.

Q Do you expect that in the future some
company may well fill that span or gap between
Saturdays and the next delivery day?

A Are you saying if Saturday delivery is
abandoned by the Postal Service?

Q No, I am not attaching that condition.

A Oh, so you are saying with six day delivery
by the Postal Service, is it likely that companies
will fill that span or that gap. I would say not very
likely.

MR. DECHIARA: I just want to clarify the
question so that the answer is clear. That the span
that you are referring to in your question was Sunday,
correct?

MR. HOLLIES: Yes, and the word gap didn’t -
MR. DECHIARA: No, I understand. I understand. So we are talking about Sunday and not Saturday?

MR. HOLLIES: We are not talking about Sunday, yes, at that point.

THE WITNESS: Well, I thought I did say that when I answered that question that I was assuming that this is with six day delivery, and I did answer it right, I think. Well, not right, but I was responsive, I hope.

BY MR. HOLLIES:

Q You are doing fine. You are answering my questions, and the questions that I asked.

A Okay.

Q Which is also the ones that you think you are answering. So, we're fine. The second paragraph of your purpose statement addresses your expectation that by ending Saturday delivery the Postal Service creates a gap, and now we are talking Saturday and Sunday, I think, that you could get companies to fill; is that correct?

A Yes.

Q Would you be willing to bet your investment dollars on a company planning to fill that gap?

MR. DECHIARA: I would object to the form of Heritage Reporting Corporation (202) 628-4888
the question.

MR. HOLLIES: On what ground?

MR. DECHIARA: It’s improper. There may be any number of reasons why an individual may or may not bet investment dollars on anything, including why this individual may or may not bet investment dollars on anything.

MR. HOLLIES: I don’t think --

MR. DECHIARA: I think the proper question would be the likelihood.

MR. HOLLIES: Well, counsel is free to ask his own questions. I don’t believe that a proper objection has been stated to the one that I asked the witness.

MR. DECHIARA: Well, I will stand with my objection as to the form of the question.

BY MR. HOLLIES:

Q And the form of the question is would the witness be willing to bet his own investment dollars on a company planning to fill the gap that would exist if five day delivery were implemented.

A To move things along, I am willing to answer this.

MR. DECHIARA: I withdraw my objection.

CHAIRMAN GOLDWAY: Go ahead and answer it.

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THE WITNESS: Is it okay?

CHAIRMAN GOLDWAY: If you would like to answer it, by all means you may answer it.

THE WITNESS: I would say to you, counselor, if you bring me a business plan, obviously I will look at it. Absent a serious business plan, I am not going to bet my investment dollars on it.

BY MR. HOLLIES:

Q I like that. Thank you. Are you aware that many businesses do not receive or take delivery of mail on Saturdays?

A I think I stated that I was earlier in this cross-examination. I would ask the court-reporter to read it back, but I think I have already stated that.

Q You are aware that businesses, some businesses, decline delivery service on Saturdays?

A Yes, and I will say that again.

Q Do you have any idea what proportion of businesses that group compromises?

A I don’t.

Q For such businesses is it likely that mail not delivered on Saturday gets delivered on the next week day when mail is delivered?

A Yes.

Q Would you then agree that to the extent that
businesses do not want, or do not receive mail
delivery on Saturdays, the demand for such delivery
overall is diminished compared to the average weekday?
A Yes. But the type of businesses that do
take mail on a Saturday are primarily small
businesses. I think a lot of the businesses that
don't take mail on Saturdays may not be large
businesses, except for those that are receiving
remittances.
Q On what evidence do you rely in projecting
that companies would commence delivery on Saturdays if
the Postal Service implemented its five day delivery
proposal?
A On what evidence? I didn't do a formal
survey of this, but it is quite common if there is a
gap, and there are profits to be obtained from filling
that gap, and that firms will enter if competition is
present.
Now, to what extent this would apply in the
Postal Service, I don't know, because there are legal
issues involved with the monopoly, but presumably the
monopoly would still apply on Saturdays under common
law if you went to the five day proposal.
So I don't know to what extent that would --
that the legal barrier eventually would affect that.
Q In the last paragraph on page two of your testimony, again the purpose section, you state your belief that the Postal Service should address its current challenges by making its product "more accessible and attractive to its customers". Is that correct?

A Yes, correct.

Q What specific accessibility or attractiveness do you have in mind?

A Well, there are a number of possibilities. You asked a question earlier about Dr. Riley, about something with respect to the opportunity of putting the mail out at the post office on a Saturday morning, or having it delivered, and so on.

And one thing that he didn't say in answer to it was, and speaking for himself, he did not say, well, I certainly don't relish the idea of long lines at the post office counter, and possibly fewer clerks to deal with. He didn't say anything like that, which someone might have said.

Now, it is true that the Postal Service has been attempting to make its clerks more customer friendly, more polite and so on like they used to be. That is one trivial example, but there are numerous other ways that the Postal Service can make its
product more attractive.

Right now, you have extremely complicated things like acceptance conditions, and --

Q We will get to that later.

A And these are very complicated -- it is quite difficult to deal with the Postal Service, and it is sort of -- it is quite hard to put one's finger on this, but the Postal Service is run like a government agency.

In a sense, it may have more in common with the Internal Revenue Service than it does with a viable services firm, and it really isn't looking for ways to make its product more innovative. You do not see any rate innovations, and innovations in the U.S. Postal Service. They have these self-adhesive stamps, which are a great idea. It was the first post office to do that.

And I do list in my testimony later all sorts of other options available to the Postal Service, including some rate re-balancing, including new ranges of services.

Q Dr. Crew, I have to kind of limit you a little bit. You are very knowledgeable, and you are quite capable of going on, but I was asking you --

A I agree with you.
Q I was asking a specific question about the two factors that you identify in this last sentence on page two, which was accessibility and attractiveness. I think we have gone a bit beyond those two, and so I am looking for you to tell me what you mean by accessibility and attractiveness.

And you did mention lines. Okay. I can see where that might be a feature of accessibility. So is that what you had in mind?

A That is one example. I mean, maybe Post Offices, for example, tend to be open for longer hours and different hours. I mean, my local post office is open from 10:00 until noon on a Saturday, and I usually try and avoid it because I know that the lines are long there on a Saturday.

And that is one example of that. Also, accessibility. Ending Saturday delivery is a reduction in accessibility. People are not getting their parcels, and their letters, maybe a check. This kind of thing that they were waiting for.

And so definitely abandoning Saturdays makes the thing less attractive, and accessible in a lot of people's minds.

Q Okay. Turning back to the sentence on page two, your assertion is that the Postal Service should
make its services more accessible and attractive. Do you have a single suggestion along those lines that is specific to any particular product or products?

A Well, the suggestion that I have is that if you want Saturday delivery, don’t abandon it. That’s my big suggestion. I mean, the others are really icing on the cake.

Q So you would assert that the existence of Saturday delivery constitutes an accessibility or attractiveness feature that applies to a particular product or products?

A Yes.

Q Can you specify how attractiveness could be improved? Again, for a service as you say on page two?

A Well, I sort of -- well, I thought I had done that when I talked about -- well, you said I was going on a bit, and I thought that I was doing that. I mean, I guess it might be a bit repetitive if I continue.

Q So would it be fair to characterize your beliefs regarding how the Postal Service can and should address this kind of financial challenges as that it should incur costs as necessary to make its products "more accessible and attractive to its
MR. DECHIARA: I'm sorry, but were you quoting from the testimony? If so, can you refer to where you were quoting from?

MR. HOLLIES: The quote is from the last line on page two, and I specified where the quotes began and ended in my questions.

THE WITNESS: Okay. Well, I think it would be good if you repeat it if you wouldn’t mind.

BY MR. HOLLIES:

Q That’s fine. That’s fine. Would it be fair to characterize your beliefs regarding how the Postal Service can and should address its current financial challenges, is that it should incur the costs necessary to make its products "more accessible and attractive to its customers"?

A Almost. You’re close. You’re close, but you are not quite there.

Q What is the point that is missing?

A The point missing is that to the extent that the revenue resulting -- that the incremental revenue result is greater than the incremental cost. So you are along the right lines, but I would add the economy’s nitpick to that.

Q Understood. Turn to page three and the
first paragraph. The first paragraph has four
sentences. Well, there is no question in your mind
that ending Saturday delivery will cause a drop in
mail volumes, and that is your testimony is it not?
A    It is my testimony, and it is the one thing
that the Postal Service and I agree on here. We both
agree that it will.
Q    Now, the rest of the paragraph explains your
reasoning for the assertion in the first sentence.
Basically using the simple notion that a quality
decrease implies a drop in demand. Is that accurate?
A    That is basically right, yes.
Q    Yet, you qualify your point in the fourth
sentence by using the word "generally". Is that
accurate?
A    Well, of course that is the economist in me,
an economist speaking. That's what that is. I mean,
you have got this all lawyers speak, and you have been
trying to get me to give legal opinions, but on that I
can give an opinion because this year the economy is
speaking, and what it is saying is -- I am alluding to
the fact that in economics that we use a latin term.
We don't use many latin terms, but we use
the latin term cereri paribus, which means everything
remains in constant, and I guess I was alluding to

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that, and saying generally when the quality of a product or service falls, and everything else remains equal, demand for that product or service falls. It is just an economist explaining what he means.

Q So you start by asserting that there is "no question" that ending Saturday delivery, no equivocation or qualification is involved there. Yet, the basis for that assertion is the proposition that is only "generally" true. Am I right?

A Well, hold on. When you say generally, I mean, something that is true in general, that should be important, and I just don't see where you are coming from on this.

Q Well, I didn't ask you about importance. I asked you whether my description of your testimony was accurate.

A You are going to have to ask me again, because I am having trouble with it. I am not following.

Q You start the paragraph by asserting that there is "no question" that ending Saturday street delivery, a statement made without equivocation or qualification. Yet, the basis for your assertion is the proposition that it is "generally" true. Is that right?
A It’s true in general is what I am trying to say here.

Q Okay. Does it strike you that a reader might see that as something less than full and complete support for the claim that there is "no question" about a volume drop?

A I certainly can’t speak for every reader. I guess it is possible, but that certainly wasn’t the intent.

Q You begin with a flat out unqualified assertion of fact, but back it up with only a justification that by its own modifier that it may not always apply. Isn’t that correct?

MR. DECHIARA: Objection. Counsel is arguing with the witness. The testimony is clear. It says what it says. He has already asked three different times the same question. The words are what they are.

If the purpose of it is to make argument as to how this language should be interpreted, it can do that at the appropriate time, but I would object to this line of questioning as argumentative, and therefore, inappropriate.

MR. HOLLIES: Madam Chairman, the questions are similar, but I am not arguing with the witness.
CHAIRMAN GOLDWAY: It seems to me, counsel, that the witness answered it the first time with an interpretation of the word generally, which refers to the matter of economic principles that are stated, and in his concept of what an economic principle is, it is not a qualification of the term.

If anything, it is an endorsement of the statement, sort of like everyone knows when you drop something that it falls to the ground. That is the way that I interpreted his first time. So you are repeating it again to ask for a second interpretation from him, and you are not getting it. Why don't you move on.

MR. HOLLIES: Thank you for your testimony. (Pause.)

BY MR. HOLLIES:

Q Page two, the second paragraph.
A Page two, you said?

MR. HOLLIES: Yes.

THE WITNESS: So we go back to page two.

All right. Is that the one beginning with more importantly?

BY MR. HOLLIES:

Q The second full paragraph starts with, "It is easy to show". Page two. Oh, I'm sorry. My
fault. Page three.

A All right.

Q In the second sentence, you state that certain customers would "readily" move to alternatives. You follow that in a third sentence where you make a probabilistic assertion that local retailers who today aim for Saturday delivery of their ads "would likely seek alternative means of advertising." Do I understand your testimony correctly here?

A If what you are saying is written here, yes. Yes, that's correct.

Q What data do you rely upon to support your statement here?

A Well, as I indicted in my responses to the interrogatories, I did not perform a study on this, and so there is actually no data to support this. There is no econometric in our office to support this. No flawed market research. Nothing.

Q Did you interview anyone who fits into the group that you described?

A No.

Q Did you undertake any form of a literature search?

A I did do a bit of a literature search
actually.

Q     And what did you find?
A     Well, I did find that one of the -- and I have said this already, but I also found it on the internet. One of the competitors made a new made-up word, "competition". They are talking about competition now.

In other words, where FedEx now works for the Postal Service, and they are competitors, but they are also cooperating, and so competition. FedEx has home delivery service. So I did look at that. I was aware of their home delivery service before I looked at it further.

Q     So your awareness of FedEx’s Tuesday through Saturday service is the product of your research to support your claim that local retailers would likely seek alternative means of advertising. Do I understand you correctly?
A     No. It is much more to it than that.
Q     So what part do I state incorrect?
A     I think that I answered it. I think I said it was correct, but it was incomplete.
Q     Okay. Fine. Go ahead. You were going to explain, I think.
A     Right. I mean, generally -- and when I use
the generally, generally in economics the markets are open to competition, and gaps appear, and entrepreneurs are going to come in and fill these gaps, and that's the way the competitive process works.

That is the way that it is understood in economics, and basically people who are not economists sort of understand this if they think about it. And entrepreneurs will come in and fill a gap. Now, in this case, there may be some doubt as to whether the alternatives will be actual delivery by other companies.

And the local retailers might go for an alternative form of advertising other than having someone else deliver it, and then there is also an issue of whether they are allowed on a Saturday only put flyers in a mailbox.

And that is also a legal issue, and so there are a number of ways -- there may be legal barriers to entry that would slow down this process, but that is basically it.

Q How familiar are you with local retailers’ marketing strategies?
A Probably --
Q A qualitative response is fine.

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A Probably as similarly as most people. I get a lot of mail from local retailers, and even with the volume drop, I still get a lot.

Q So do you think you have some particular large insight into their behavior?

A I don’t have a particular large insight. I was giving an example, and the example is based upon the fundamental notion that creating a gap, and if the gap is profitable, then entrepreneurs are going to find ways to fill in the gap, and that is a profit process at work.

Q Did you read the market research testimony in this docket? I believe you said that you did earlier.

A Yes, that is the ORC testimony you mean?

Q Yes.

A I did read that.

Q Do the market research results support your probabilistic assertions?

A I don’t think they address that particular issue that I had in mind. I don’t think they terribly -- I don’t think they support it or otherwise.

Q Well, does it seem plausible to you that such research might instead have found that rather than seeking alternative means of advertising, they
might answer their peace for delivery on Friday instead?

A That of course is a possibility. On the other hand, it is possible that they might find it less attractive arriving on a Friday than on a Saturday, and there are a number of complexities here that we can’t give absolute definitive answers on, and the marketing research folks can’t to a question like that.

Q In the third paragraph on page three, you admit some indication that you did take a look at the Post Service market research testimony, which you characterized as involving projections by business and consumer customers of how this volume would change under five day delivery. Is that right?

A Yes.

Q By it do you mean that each Respondent was asked to project what her expected future mailing behavior would be with and without five day delivery?

A Yes, but the question needs a little bit more of an elaborate answer than that. The exact questions were along the following lines. The market research I think was done in the late summer of, I guess, last year, and they were asked to say what their mail volume was going to be in presumably the
next fiscal year, beginning in October.

And then it sort of gave a projection, and in it they were asked, well, how much would your volume change if instead of five day delivery, you had six day delivery. Now, they didn't ask -- well, when they asked the question, they didn't say when the change to five day or six day delivery was going to occur.

Was it going to occur on October 1?

Certainly not. Was it going to occur within the next year? Who knows. So, if I had been asked that question, my thought would have been, well, when is this going to happen, and I will give it a shot.

So that is my understanding of the questions that were asked. They were asked in a way that was unlikely to give accurate information.

Q I understand what you said, but unfortunately I don't see the answer to the initial question. I think you are saying yes, but I don't want to put words in your mouth either. Would it help if I restate the question?

A I said yes, but, and then I went on. As you said, I went on, and I went on.

Q So if you are clarifying that you said yes, but, then that is helpful.

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A   That is what I said, yes. We have a court-reporter here, and I heard myself say yes.

Q   On page four of your testimony, where you state that Opinion Research Corporation's research is unreliable because the Respondents were given a hypothetical that five day delivery had been implemented.

So is it your opinion that market research has never been used by organizations to predict new product or product enhancements? New product sales or product enhancements?

A   Well, I said in the interrogatories that market research is used for new products, sure. I have already answered that in the interrogatories.

Q   So is it your opinion that the Respondents to market research cannot be asked to answer questions about their future intent to buy a future new product or product enhancement because it is hypothetical?

A   No. My concern is that hypothetical questions are problematical.

Q   I would think that that is a yes and not a no, but go ahead.

A   Well, ask the question again just to make sure that we got this right.

Q   Is it your opinion that Respondents to Heritage Reporting Corporation (202) 628-4888
market research cannot be asked to answer questions about their future intent to buy a future new product or product enhancement because it is a hypothetical question?

A The answer is no, but. I think I said no, but.

Q Okay. Please continue.

A Well, I would just repeat what I just said. I think I could go on, but I would just repeat what I just said.

MR. HOLLIES: Okay. That's fine.

CHAIRMAN GOLDWAY: We are getting to 12:30 here, Mr. Hollies. What is your anticipation of your questioning?

MR. HOLLIES: I am on page 6 of 14.

CHAIRMAN GOLDWAY: Well, then we have a long afternoon then. We will take an hours break for lunch, and come back here at 1:30.

(Whereupon, at 12:29 p.m., a luncheon recess was taken.)
AFTERNOON SESSION

(1:33 p.m.)

CHAIRMAN GOLDWAY: We will call the meeting back to order. Commissioner Acton has an unplanned meeting that may take him a bit longer to get back, and so we may not see him again this afternoon, and Commissioner Blair will be here shortly. So we have a quorum, and we will begin. Mr. Hollies.

MR. HOLLIES: Thank you, Madam Chairman.

CHAIRMAN GOLDWAY: All right.

Whereupon,

DR. MICHAEL CREW

having been reminded that he was still under oath, resumed the stand, and was examined and further testified as follows:

CROSS-EXAMINATION (Continuing)

BY MR. HOLLIES: (Resuming)

Q Dr. Crew, the last question that I asked you, and I am not going to ask you to answer it again, but rather it is just a way of trying to set up where we were, but you were asked for your opinion on whether Respondents to market research can be asked to answer hypothetical questions.

And I believe your answer could be characterized as a no, but, is where we left off. You
looked confused, and that's probably because I
shortened that up too much, and I am not trying to
restate what we went through before. I am just trying
to get you back on task of where we were.
Are you aware of any case studies published
in scholarly journals that support the use of market
research to forecast demands for a new product or
services?
A It is to actually give you a list of
articles, I can't do that, but I know that in journals
like the Journal of Marketing Research, there are
articles of the kind that I think you are thinking of.
Q And perhaps also of the kind that I asked
about?
A Perhaps, yes.
Q I am just trying to make sure that the
record doesn't show that the question you answered was
about what I was thinking.
A Okay.
Q Turning to your testimony at page four, and
in the second full paragraph, in this paragraph, you
make a claim that it certainly must be a surprise to
most large businesses and the Commission, which have
relied upon market research to make business
decisions, and to issue opinions effectively throughout the last 15, or maybe even, 30 years. You claim that the Postal Service’s estimate of volume changes in a five day environment "is unreliable because the projections by surveyed businesses and consumers were necessarily hypothetical." Did I get that right?

A Well, in any hypothetical study, the results are inherently uncertain and must be treated with caution. That is what I am reading here. Maybe I am missing it.

Q In the very first part of that paragraph, it starts with, first, the Postal Service estimate is, and then follows with unreliable, because the projections given to ORC by the surveyed businesses and consumers were necessarily hypothetical.

A Okay. That is correct. I mean, I go on to qualify it as inherently uncertain and must be treated with caution. Yes.

Q And can you confirm that your stated reason for concluding the market research is unreliable is that it is "necessarily hypothetical" when speaking about future behavior?

A That is part of it. The biggest problem though is with the nature of the way that this has
been conducted. Before lunch, I explained the problem that I had with whatever the question was in 4(a) or something, or something like that.

And my problem is that if you have a hypothetical study, you have to be really careful how you interpret the results, and the problem is that this has not been constructed in a manner that is likely to elicit accurate results.

Q So if I understand you correctly, you are saying that the key here is the way the questions were phrased, as distinguished from there having been hypothetical in nature?

A Not quite. I am saying that because they are hypothetical, you have a problem to begin with, and so the questions that you come up with have to be extremely and carefully formulated.

Q Are you aware that hypothetical questions are the prototypical way of asking expert witnesses question in our jurisprudential system?

A I know that it is used. Well, that was with any of the hypothetical questions that I was asked this morning.

Q Yes. If you would distance yourself just a bit, and we will get a little less of that over-modulation.
A I am not too good with this. I am either too close or too far away.

Q It is good equipment. We are still learning how to use it.

CHAIRMAN GOLDWAY: At least the cell phones and Blackberries aren’t getting in our way.

BY MR. HOLLIES:

Q In the ORC market research, was the survey research Respondents experts in any sense regarding their business or residential mailing habits?

A I don’t know whether you consider households to be experts. I mean, they have a valid opinion, but not expert.

Q Well, why can’t they be experts?

A Okay. I guess I am sort of thinking about your last question, and asking about experts in real proceedings, and they are not experts in that sense. I mean, they may be knowledgeable, yes. I guess I am quarreling with the term experts. I would say that they were knowledgeable. Here we are using experts as maybe a legal term. I am not sure what you are asking me.

Q Okay. Well, let’s explore that to make sure that we are on common grounds here. Is an expert somebody who perhaps has a graduate degree in advanced

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education in a field?

A To me, an expert would be -- that's what I would think of as an expert normally, yes.

Q But a man who has mopped floors in many buildings over the course of a career, might he be an expert in how best to mop floors?

A Well, I guess it depends on the guy. I mean, he mopped floors for many years and he still kept his job. He could be characterized as an expert. I wouldn't use the term myself except perhaps in jest.

Q Okay. How were the ORC research respondents chose for participation in the market research?

A I can't remember all the details.

Q Do you remember any details?

A Do I remember any details? Well, I think they were from the Chicago area, and where they picked up a lot of the respondents. I think it say something about the business mailers were chosen because they had quite a bit of experience in mailing. I think something like that was in there, but those are the details that I can sort of remember.

Q Okay. And at my risk, hypothetically speaking, if those individuals were chosen based on their having satisfied the individuals conducting screening for participants in that research in a way
that they were thought to be experts in mailing of the business or home for which they were responsible, would they be expert witnesses in the broad sense of the word?

I’m sorry, would they be experts in the broad sense of the word?

A No, we both would agree that they wouldn’t be expert witnesses, but they would be in the sense that you are using it, and that’s fair enough. I will go with that.

Q Later in that paragraph on page four that we addressed a moment ago, you claim that the market research participants "may not have fully understood how the reduction in delivery frequency would impact them." Is that accurate?

A Yes, I would say so. I think I did cover this point earlier. I said that the way that the questions were formulated, they were first of all asked to indicate how much their focus mail was for the next fiscal year, and then they were asked to say how would that change if a sixth day were introduced. They weren’t told when a sixth day would be introduced, and in the minds of the Respondents, they could say, well, it could be two or three years from now. It is not going to be October 1. That’s for
certain.

And so it may not have been clear in their minds, and that’s why I was claiming that there were not well formulated questions.

Q Does your use of the word "may" in this context indicate the mere possibility?

A I think it indicates more than that.

Q What does it indicate?

A I think it indicates that it is more likely than not based on questions of that kind. I wouldn’t know exactly what I was answering.

Q So your testimony is that it is more likely than not that the market research participants could not project how the change in delivery frequency would impact them?

A Based on the way that it was formulated that is my view. It was not clearly formulated.

Q Do you consider yourself a market research expert?

A No. I think that I have already indicated that my answer to that in my responses to interrogatories. I don’t make my living by market research surveys.

Q Have you published any professional work in peer reviewed market research journals?

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A No. I think again that I answered that.
Q What is your understanding about the extent to which, if at all, the individuals ORC surveyed did or did not have an opportunity to study the elements of five day delivery, and what elements it would entail?
A Oh, I think they had an opportunity to study it, but it wasn’t clear what they were responding to because of the nature of the questions. They are saying, well, how much would your volume drop when you get this reduction in frequency, at some time, and we don’t know when, in the future. And I am sure that they had an opportunity to think about that.
Q My question, however, is not about the questions they were asked. My question is about the opportunity for the surveyed individuals to study the elements, and understand the elements of five day delivery. You did agree that they had some such opportunity. What is your understanding of that opportunity?
A I agree that I don’t have any detailed understanding of the opportunity. They were given the opportunity, and I know that.
Q Is it your understanding that they were not given a sufficient opportunity?
A That's not my problem. I think they were probably given a sufficient opportunity. The problem was the questions that they were asked, and other problems that I referred to in my testimony.

Q Would it be safe to say that your testimony on this docket is based primarily on your expertise as an economist?

A Oh, absolutely.

Q So would you say then that your testimony is based solely on your expertise as an economist?

A Well, not solely. I mean, after all, I have taught in a business school for 30 odd years indeed; 33 years. And I have been exposed to marketing types and other organization types.

I do talk a bit in my managerial economics class about issues of demand and estimation, and problems of surveys, a very brief part of the class. So if you are in a business school, you have to be more than just a -- you have to get into stuff that may be arguably a lot less interesting than economic theory, but you have to get into some of that stuff.

Q What scholarly journals do you read to stay current in your field as an economist?

A Oh, I read one, the one that I edit, and it is called the Journal of Regulatory Economics. I was
the founder of that, and it has been going on since '89. I read that one on regulatory economics. I mean, every economist in the U.S. who is on the faculty of any decent place as an American economist would read it.

And I look at the major economic journals, plus the Journal of Regulatory Economics has 188 pages a year, of which we selected about 30. That is obviously a major part of my reading. And then another major part of my reading is the reading all the papers for the Postal conference that I talked about earlier, and the book that we produced.

And also I read the papers for the other conferences that we have, and the ones that primarily focus on utilities, and to some extent on postal economics. So that sort of --

Q Are you able to attempt to quantify or qualitatively describe the relative portion of matters that you read for conferences, and the annual books, as compared to everything else?

A Conferences and books. The Journal of Regulatory Economics. I would say, no, I can't really quantify. I just can't. I never even thought about it actually. I think if I thought about it, I might not do it anymore.

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Q If you don't hold yourself out as a market research expert, which you said you don't, do you read any of -- let me read them all together. I am going to read some journal names to you. I think the answer is going to be no, and so we can deal with them all at once.

But what I am interested in is The Journal of Consumer Research; The Journal of Marketing Research; The Journal of Marketing; The Journal of American Statistical Association; Marketing Science; and The Journal of the Market Research Society. Do you routinely read any of those?

A Not routinely. I have read articles out of them occasionally from one or more of those, but not on a routine basis.

Q Are you able to identify an example that you read recently or the most recently?

A Not really, no. I can't answer your question, no.

Q Okay. Do you understand these journals to be authoritative in their field?

A I think that some of those are the top journals in the field, yes.

Q Which ones would those be? Would you like for me to go back through them one by one?
A Well, let me try and remember. I know that the Journal of Marketing Research is held high, and The Journal of American Statistical Association, that was another one. Those are the two major journals that I can think of, and what hit me right away that those are major journals.

Q Dr. Crew, we have observed that you make repeated use of the word may, M-A-Y, in your testimony. Do you use that term as having any specific meaning to an expert in your field?

A I wish I could say yes, but this is an uncertain world, and so what I would like to say is that I may have to say may, because of the inherent uncertainty.

Q In connection with one of your uses of may, since lunch, you have indicated that it meant more probable than not. Is that generally true?

A In this case, it is true. I don’t think I want to go as far as what you just asked me to, and is it generally true, but in case I said it is true, that is my opinion.

Q What alteration in meaning, if any, is there when you join together two statements, each of which is qualified with the word may?

A Help me a little here of what you had in

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mind.

Q On page four of your testimony, you claim both that survey respondents, one, "may not have fully understood" five day delivery, and two, two sentences later, that the ORC research "may" be subject to significant biases.

A Yes. Well, what I mean here is that I am actually being sort of generous here when I say that the ORC may be subject to significant biases, because they go on to show whether there is a definite bias, and in this case, it may be subject to significant bias because we're dealing with the issue of a hypothetical. But then subsequently I come up with this definite bias. So it could just as easily read "is."

Q So that conjoined use of the word "may" amounts to assertion of certainty? Is that what I heard you say?

A Well, it comes out that maybe I should have used it because it clearly shows that is subject to significant bias, but just referring to this particular instance here where we are talking about constructing hypotheticals, researching hypotheticals, that may would be okay if it is not absolutely certain, and can't be certain.
So with that qualification, it can't be certain, or there is going to be some uncertainty here on this particular issue, but later there is no doubt.

Q I believe that we have agreed that market research is often used to inform business decisions and is accordingly used routinely by commercial businesses. Is that fair and accurate?

A Oh, yes.

Q In light of the full range of your expertise, including those in the business school, and other groups that you speak with, when should Opinion Research Corporation have chosen to conduct its market research, the market research that is the subject of two Postal Service witnesses' testimony, assuming hypothetically that opinion research had such a choice?

A You are asking me when, or what are you looking for? Am I supposed to give you a number of months ahead of time, or what?

Q Any way you can answer. You certainly criticized the timing of that research, and so I am asking for your expert opinion as to what timing would be superior.

A Well, ultimately, you may not have alternatives, and you can do things quickly, and you
need to get things done quickly, and it may be that
this is the only time available, and that’s why I am
probably asking the question when.
I mean, I guess the answer is that you do it
when you have to, but I don’t know.
Q  Do you have any specific understanding of
the challenges the Postal Service faced converting the
Market Research quantitative results into volume
changes for respective products?
A  Yes, I think I have some idea.
Q  And what is that idea based upon?
A  Well, it is based upon the notion that the
Postal Service has got its data on its individual
products, and it has also got or it has also studied
its demand over time, and presumably you could bring
some of this into that.
Q  Is it your understanding that is what the
Postal Service did in this instance?
A  It is something like that, yes. I mean, I
don’t know the details. I don’t recall the details
and if they are provided there.
Q  Are you aware that this is a subject that
was explored in Chairman’s Information Requests?
A  No.
Q  I believe you answered earlier that you
didn’t, or we concluded together that you hadn’t reviewed any materials being held non-publicly by the Commission.

A Yes.

Q So that means that you did not take a look at the Postal Service library reference denominated NP2, or USPS-LR-N2010-1/NP2; is that right?

A You have given me all these numbers. I don’t recognize those numbers. If you want to show it to me, I will look at it, but based on those numbers, I can’t answer anything.

Q Fair enough. In this context, the NP2 stands for non-public number two, and it would have been in a light blue binder, unlike the brown ones that we showed you this morning. Did you look at any such item?

A No, no blue binders.

Q That’s what I expected. Thank you. To the best of your understanding was there any difference between the element of five day delivery as they were studied in the operational research, compared to five day delivery as it was proposed by the Postal Service for implementation?

A That is a question that I don’t understand.

Q Let me see if I can break that down a little
bit. Would you agree that a description of five day delivery was necessary for informing Respondents and subjects in the ORC market research?

A Yes.

Q Did you read the testimony of Witness Polcrano, USPS-2-1? That is the lead testimony that we mentioned earlier.

A I did some time ago, quite a while ago, yes.

Q Were you able to pick out distinctions, differences, between what the market research subjects were given to understand about five day delivery from the proposal as embodied in that lead testimony?

A I think you’re going to have to help me with this one.

Q I’m just asking if you’re aware that there is a difference between what was studied and what the Postal Service has proposed for implementation?

A Well, I’d expect there to be a difference because, you know, the sort of, I don’t actually recall what it was, but, you know, they had different purposes about it. I mean, ORC was trying to measure something. Be the sort of same what we’re planning on doing, Polcrano.

Q In ideal circumstances should there be, then, a difference between what’s studied and what’s
proposed for implementation?

A Well, basically what you’re doing, what’s going on here, if I understand it correctly, is you’re having someone like ORC analyze what you expect the effects are going to be. I mean, based upon the results of that, you implement a policy. There will be some differences, I mean, but you’re basically looking at different things. That would be sort of apples and oranges. The apples are the ORC where they’re basically undertaking an exercise in what’s called positive economics. You’re trying to find out what’s actually happening. And then there’s the proposal as to what you do after you’ve got that evidence. In fact, a normative economics, normative analysis. So that’s where you’ve got me confused because it seems to be one’s positive and one’s normative, and that’s why I’m having difficulty answering just one.

Q So for purposes of the distinction between normative and positive approaches, you would expect to see a difference between what’s studied in the research and what’s proposed for implementation.

A Yeah. I mean, it’s an apples and oranges. Right. Okay, you base a decision, you make a decision based inter alia on the market research and then you
implement it. That's the normative aspect. One of
the inputs into the action you take. So there is, I
mean, if that's what you mean by difference, then yes.

Q Okay. So you would expect a difference
between the two. Can you identify any single element
that was different in the two in this instance?
A I can't recall any. No.

Q My colleague is going to provide you and
some others who may be interested copies of three
pages, the third of which has only a line or two, from
the testimony of witness Polcrano and, well, I'd ask
you to take a look at that first. Had you previously
seen that material?
A This was part of the testimony, if I recall.
It looks familiar.

Q Okay. I believe you also testified that you
read the testimony of witnesses, well, I'll identify
the witnesses, Elmore Yelch, who is an ORC employee,
and Whiteman, a Postal Service employee, and that they
were the two market research witnesses for the Postal
Service in this case, is that right?
A Gregory Whiteman and Ms. Elmore Yelch. Yes.
I can't remember her first.

Q Did you read the section of witness
Whiteman's testimony? It's titled Market Research
Subjects' Reliance Upon the Operational Concept:

Means Responses Overstate Likely Marketplace Response.

A  I don't recall, but I imagine I must have
done it, you know, a few months ago, but I don't
recall reading, but I think I did.

Q  Okay. I'm still circling this question of
the differences between what was studied and what was
proposed. Have I jogged anything with the last two --
the comments about the Whiteman and Polcrano
testimonies? Do you recall any specific element of
distinction?

A  Not that was significant to me.

Q  Okay. Your testimony at page 5. On page 5
of your testimony, I believe it's in the first full
paragraph, you state that the ORC research has a
problem because it was performed at one point in time.
Do you believe that market research is valid only if
it's done over a time series?

A  Okay. No. It is possible with market
research to do it in, well, it's always done over a
period of time, may take a week or two or something,
but, you know, that's what we mean by a point in time
as opposed to over a more lengthy period of time,
months or years. It really is possible with market
research. It's done all the time. It's done by
surveys that are conducted in a short space of time. So the answer to your question is it’s sort of, but no, it isn’t. Only if it’s done over a time period, or it can be valid without that. You don’t have to have that restriction.

Q Do you believe that businesses strive to make business decisions based on information that minimizes uncertainty regarding future customer purchase decisions?

A Minimizes or reduces. Yeah. Yes. Actually, let me take that back. Minimizes is a bit too strong. I’m not sure you can ever minimize something like this. You don’t know what the minimum is. Reduces, I’d be more comfortable with.

Q Okay. And would you accept limits as a useable term as well?

A Limits?

Q The nod doesn’t show up too well on a transcript. You nodded your head to me.


Q Thank you.

A And yet -- right. I mean, I guess the stenographer could say witness nods head.

Q It could, but we just try to keep aware of

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those elements ourselves.

A Absolutely.

Q Do you believe the only way for a business to limit such uncertainty is through use of an econometric analysis?

A It's not the only way. Econometrics is one of the tools you can use. Of course, as an economist, I have a bit of a vested interest in it.

Q What is your understanding of how the ORC research factored into the Postal Service's consideration of whether to pursue five day delivery?

A I think it was pretty important. I think that it was a major plank in their decision. I think, well, I mean, I haven't asked them. I haven't had the opportunity of asking them how important it was, but that's my opinion, yeah, but it was important to them.

Q And would it be appropriate if you were to ask to pose that question to opinion research or the Postal Service?

A I meant the Postal Service. That's who I meant. Sorry. I shouldn't have used them. Yeah. I should have used the Postal Service.

Q In the first full paragraph or what begins as the first -- let me restate that. On the third line of page 7 you characterize the customer survey as
a "thin read upon which to make an unprecedented and, in practical terms, irreversible change in operations". At the very least, that sentence of yours appears to confirm your opinion that the market research was the primary or decisive element in the Postal Service's decisionmaking, is that correct?

A  Yeah. I thought it was a major part of the decisionmaking. Yes.

Q  And given that characterization, should thin read be read as words of exclusion to other reasoning or might there have been something beyond the market research that the Postal Service considered?

A  There might have been. Yes. I mean, you know, I did suggest econometric analysis might have helped.

Q  Did the Postal Service rely on anything besides the market research in determining to push forward with its proposal now subject to this request for an advisory opinion?

A  Yeah, it did, and there were some other points made, I can't recall the details, but it exercised its, management exercised its informed judgment on this, as well as the market research, and, indeed, it's been quite likely that management was thinking of this idea of five day delivery for some
time and then realized there was a need to provide some evidence and the market research survey was used to provide some evidence. You know, this originally was an idea, must have been an idea that the Postal Service management thought was one that was worthy of consideration, so it must have relied on at least its own judgment.

Q Is it your opinion that the entire population in the Postal Service’s domestic service area is sympathetic to the Postal Service?

A That’s pushing it.

Q What are you comfortable with?

A I couldn’t say the entire population. I can’t, sir. I can’t. I can’t answer that yes. I don’t know the answer to that, actually. I mean, it’s such a strong, it’s a sort of all-embracing question that I really have trouble answering.

Q Well, do you think that perhaps the majority of that population is sympathetic to the Postal Service?

A I don’t understand what it means to be sympathetic in the context of a business situation. I mean, if I asked someone, well, are they sympathetic to General Motors? I just, I just don’t know what it means. I just don’t know how to answer something like

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Q  How would the market research results have varied, or how may they have married -- excuse me. Let me start again. How would the market research results have varied if the materials did not include a statement about cost cutting efforts already made by postal officials?

A  Well, this is sort of tricky because one of the things that's rather been well-established in these kind of survey research issues is that when you start these kind of questions, these kind of questioning, one factor that they sort of work is the desire of the respondent to please the interviewer, and if you sort of explain this up front, it gives, the respondent might well think, okay, the interviewer would like me to say, he would like me to come up with a particular answer. They want to say something that will please him. In this case, if I was trying to please the interviewer, what I would say is I would come up with a low figure because that, you know, that's what I'd be thinking would please the interviewer, right? I think that may be a common reaction, this business of -- you can influence the respondent in so many ways and then, but once you get the situation where the respondent's trying to please
the interviewer, then you’re going to get biased results. This is a well-known phenomenon.

Q You were critical about the statement regarding cost cutting that was provided to the respondents, are you not?

A What are you thinking of in here?

Q Well, I don’t have a cite for that. It’s in your testimony. It’s been suggested that we look at the bottom of page 4, the last three lines.

A Okay. That was what I was referring to a moment ago when I said you might please the interviewer by giving a low figure because obviously you want it to appear that this isn’t going to cause disastrous consequences.

Q Okay. So if I understand what you’re saying, had that statement not been made, then the change estimates for the projections of change under a five day environment would have been still larger, is that what you’re saying, or smaller?

A My thought is they would probably have been larger based upon this notion of pleasing the interviewer, but obviously, I cannot say for certain. Nobody can.

Q Thank you. That was a genuine question I didn’t know the answer to. I was trying to figure out
your statement. Thank you. Did you consider or attempt an econometric analysis in connection with your appearance in this docket?

A I state in the interrogatories, no, I didn't attempt any --

Q Pardon?

A I didn't attempt any econometric analysis.

No.

Q Thank you. But you do generally recommend in your testimony use of econometric evaluations as a support for decisionmaking, do you not?

A One of the tools available. Yes.

Q And you're suggesting that the Postal Service might have done well to include that in its evaluation of five day delivery, is that correct?

A I would have liked to have seen some econometric results. It may be that the Postal Service didn't have anything available in the short time it had to put this together, but it would have been helpful to have seen such results.

Q Well, given your insight into the utility of econometric analysis, how would such analysis have been wielded in this context?

A You mean you're asking me to give you a brief outline of a kind of survey, a kind of
econometric analysis that would need to be performed?

Q Close enough. Yeah.

A Yeah. Well, I'm not sufficiently well-prepared to do that right now. It would take some more work. This wasn't something that came up in the course of the work that I did that I saw a need to do a study, and so I can't give you anything that would be very useful right now.

Q Is it your testimony that the entire Postal Service direct case in this proceeding is devoid of econometric analysis? I'm sorry. Well, it's not what I meant to say. Is devoid of economic analysis.

A Devoid of economic analysis? No, not devoid of economic -- there's economic analysis here.

Q Well then, could you explain that response while considering the sentence that crosses the page barrier between pages 7 and 8 of your testimony which reads, "The Postal Service's failure to engage in any rigorous economic analysis of demand effects of their proposal, but rather to rely solely on the ORC study further puts in doubt its projections regarding the impact on mail volume of ending Saturday delivery."

A You want me to explain it?

Q You've just testified that the Postal Service did undertake economic analysis, and then you
have criticized it in your testimony for doing, as I think you put it, no more than the ORC research. I’m asking how those make sense together.

A Well, okay. The Postal Service did use some economic analysis. That’s correct. The point I’m making is that it could have used, it needed to do more than it did with just the ORC market research. It needed to use rigorous economic analysis to estimate these demand effects. I mean, those two statements are not inconsistent. Okay. They did use economic analysis in the testimony, but they didn’t use maybe enough or the right kind. I mean, it’s not necessarily inconsistent.

Q Well, are you saying that the ORC research is the only economic research or the economic examination undertaken by the Postal Service?

A Well, I said the ORC research was sort of economic -- it’s sort of more marketing research. There are other witnesses there where there’s some economic analysis in there. Like I seem to remember looking at Bradley, for example, there was some that Corbett had relied on. Okay. There are places where they’ve used economic analysis.

Q You’ve analyzed the Postal Service as it exists in its economic market, or markets, for a good
portion of your career. Looking at the sentence starting on the second to last line on page 8, is it your testimony that Postal Service competitors currently have no advantages over the Postal Service?

A No.

Q What advantages now exist over the Postal Service?

A Well, the competitors in the package area have considerable advantages over the Postal Service. Now, in mail it's a different matter because of the reserved area, the monopoly. But in the package service, competitors have huge advantages. I think if you sort of asked me to put my finger on what I thought the important advantage they had was, the competitors really know how to deal with big business in a way the Postal Service has not been successful. Big business contracts, packaging logistics, those sort of products. They have huge advantages there. I mean, I can name names like FedEx, UPS, the obvious names that people -- everyone knows who I'm thinking of, everyone knows of whom I'm thinking.

Q Don't think there's a problem with their being mentioned.

A I'll mention and I'll name names.

Q You're done with your answer?
A: I’m done.

Q: I’m trying not to interrupt.

A: That’s all right. Yeah. Appreciate that courtesy.

Q: So you would agree that today Postal Service competitors do indeed press and pursue those competitive advantages they perceive, is that right?

A: Yes. Definitely in the parcel area big time. Of course, they also attempt to work through the regulatory and political process. I imagine the Commission has noticed. Yes. It’s not gone unnoticed, I agree.

Q: In the first full paragraph on page 9, you project that volume loss will both be greater than USPS estimates, and that losses due to five day delivery will accelerate over time. Analytically, how can one distinguish volume loss due to five day delivery from volume loss driven by macroeconomic factors?

A: Where are you looking? I’m not seeing this.

Q: It’s on page 9. First full paragraph starts, "In sum".

A: Okay. In sum, above the -- yeah. Goes a one time honest job. That’s what you’re thinking of, right -- unreliable and ignores the dynamics of the

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market. Initial job may be far greater and may grow substantially over time.

Q Well, we’ve now successfully quoted the language you use, and I’m asking how one can distinguish between volume loss carved by or driven by implementation of five day delivery from volume loss driven by other factors.

A Well, that’s where econometric analysis comes into the situation. You basically have got to do an econometric study. That gets, addresses the issue of other things being equal. Ceteris paribus. Econometricians might, for example, in particular studies correct for size or for income, and it just depends on what you’re doing. Macroeconomic activity might be a variable how you would try and distinguish between that and something else where it was related to volume loss. I mean, what you would need to do, what would happen is you’d have the, you’d change your five day delivery and you’d have to do time theories. You’d need time theories which would show, I mean, and have a number of variables in there. One would be economic activity. You’d attempt a control for these. That’s roughly how you’d do it without going into the details.

Q Whether done prospectively or
retrospectively, is it your testimony that using
econometric analysis one can distinguish what Postal
Service volumes will be in 2013 with and without five
day delivery?

A I can't, don't think you can do it right now
because you don't have the data. It hasn't happened.
I mean, you could do some type of simulation, I
suppose, a simulation exercise, but it hasn't
happened.

Q And assuming we were looking retrospectively
in 2016, would one be able to determine what volumes
in 2013 would have been with and without five day
delivery implemented on a certain date?

A Don't like the term determine. I'd be much
more comfortable with the term estimate. It should be
possible to come up with an estimate. Can't say how
good it would be without the details of the study.

Q Did you have cause to or did you actually
examine analytical details of the Postal Service
underlying its projected volume decreases, its cost
savings estimates or its transition costs?

A Well, we discussed the volume estimates, .71
of a percent, and I have indicated how the ORC was
biased downwards. So I did have cause to examine
that. Now, the other question you raised was -- so
that was the first part of it. Now, what was the
second part of the question?

Q  Cost savings estimates.
A  Cost savings estimates.

Q  And the third was transition costs.
A  Well, the cost savings estimates, I looked
at some of the testimony and basically I decided,
along with the discussion with Paul Kleindorffer and
Mr. DeChiara, that we had enough here on our plate
with these ORC estimates that we were not going to get
into the details of critiquing them. However, at one
stage we thought about it when we were looking at, I
think it was Bradley’s testimony. Now, the transition
costs, we put a little bit of thought into that one.
We had extensive discussion of that. As soon as we
saw a $110, we thought, well, $110 million? That’s a
drop in the bucket in postal terms.

Then we read some of the testimony that
explained what it was that was in the transition
costs, primarily, I think, compensation you’d have to
give to employees for early lay offs or something like
that, and no account was taken of cost on consumers,
all the kind of unforeseen costs that occur when you
make major changes. So that’s basically what we did,
and we concluded that the $110 was a very limited and
very optimistic figure. A one time cost of $110
million.

Q: Given that we've spent considerable time on
the volume changes, what specific material did you
need to examine in order to do the evaluation you did
of the cost savings estimates, and also of those
transition costs?

THE WITNESS: I have a question. Am I
allowed to stipulate something? Can I sort of say
what my understanding is or it is up to the lawyer to
stipulate it?

CHAIRMAN GOLDWAY: You're certainly allowed
to do whatever you choose. If you'd like to consult
with your attorney, I mean --

THE WITNESS: I'd like to just to take a
moment with him on this because this focus on these
costs is just --

CHAIRMAN GOLDWAY: Why don't you take a
moment with your attorney to clarify what it is you'd
like to stipulate. That might simplify the
discussions, if he does that.

THE WITNESS: I hope so.

(Whereupon, a short recess was taken.)

MR. DECHIARA: Thank you, Madam Chairman.

CHAIRMAN GOLDWAY: All right. You want to

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respond now to the question?

THE WITNESS: Okay.

MR. DECHIARA: Maybe you could repeat the question just so we know where we are.

BY MR. HOLLIES:

Q I believe I asked you what analytical details you had cause to examine in connection with your analysis of cost savings estimates and transition cost estimates.

A Well, I answered the question on transition costs. In terms of the other costs, we did not perform a study.

Q I think I'll just move on. How far in advance of five day implementation, and separately, of legal authorization to proceed, should detailed implementation plans be developed?

A It's tough to give a definite answer on that. The detail implementation plans should have started really when the postal management first got the idea that it might want to make a major change of this kind. It's very hard to give you an answer. I'd love to be able to say to you, okay, 15 months or something, but it just varies with the complexity of the project. I mean, some projects, like a nuclear power plant, need maybe 20 years you have to start
before, maybe 15 or 20 years. It just varies with the
project, and I wouldn't like to come up with a pointed
estimate for you on that.

Q Yet you criticize the Postal Service for
failing to include certain analytical details you
think are necessary, a detailed implementation plan
being part of that. Anybody can recognize there's
still a significant amount of time between now, as we
sit here today, and whenever the Postal Service might
be able to actually effectuate, or plan to effectuate,
five day delivery, and so I'm asking you to contrast
the available amount of time with your criticism so as
to tell the Postal Service when, even on the Postal
Service's ideal schedule, you think those plans should
be available or should be completed.

MR. DECHIARA: I would object to the form of
that question. I don't know how many clauses were
piled on top, one after the other, but I could not
follow that question. I would also note that within
that convoluted question was testimony by Postal
Service counsel as to the asserted fact that there is
a great length of time between now and when
implementation may occur, so on that grounds, I would
object to the question.

MR. HOLLIES: I guess I would start by

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asking if the witness is able to answer the question as stated. If not, I'll work from there.

THE WITNESS: Well, I'm not going to answer a question with an objection on the table. I may be a greenhorn, but I'm not that green.

CHAIRMAN GOLDWAY: Is there a way you can simplify the question?

MR. HOLLIES: Certainly is.

CHAIRMAN GOLDWAY: That might help moving things forward.

BY MR. HOLLIES:

Q  Do you have any understanding of when the Postal Service might first be able to implement five day delivery?

A  I have an idea.

Q  And what is that?

A  It could be a few years down the road. Two years down the road, three years, a little while. It's not going to be -- this year, for certain. I doubt it will be next year. So I have an idea, but that's all it is.

Q  And so you're willing to criticize the Postal Service for not having undertaken certain steps when it might yet have years to do so, is that correct?
A Well, years, I mean, you know, I said one to three years maybe sort of thing. No. I'm criticizing them -- the Postal Service because part of the reason you need to be working on your implementation plan is so you'll come up with good estimates of items like transition costs. One of the big things for me about an implementation plan, it gives you a better estimate of transition costs. The fact that this was such a small estimate and that what was described in the transition costs was so minimal led me to conclude that not much thought had been given to implementation. Now, I may be unduly harsh in thinking that, but that's what I concluded because there was so little involved in these transition costs.

Q How much experience, if any, do you have managing large, complex operations like the Postal Service?

A I've never managed a large, complex organization, so the answer is none.

Q What logistical glitches has the Postal Service failed to project accurately?

A What are you thinking of?

Q That's my question to you.

A Yeah, but is there some basis for this in

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the testimony here about logistical glitches? If you
can relate this to the testimony, I might be able to
give you a more informative answer.

Q Well, the word logistical reasonably relates
to the necessary steps for implementation. You’re
criticizing the Postal Service for not having taken
comprehensive steps, and so I’m asking what you want,
what you think the Postal Service should have done. I
could refer you to the bottom of page 10, and also to
the last two sentences in Footnote 5 on that page to
provide context around my question.

A Yeah. What I say here is it’s hard for me
to imagine how such a monumental change in the Postal
Service’s operations would not give rise to logistical
glitches. One of the points about the footnote here
is that when you’ve got complex projects, complex
change, there all sorts of aspects that you can’t
foresee and logistical glitches is one possibility.
As to examples of logistical glitches, I just want to
think for a moment as to possible examples.

Q That is my question.

A Yeah. Just give a moment on that. Well,
back in the 1960s there was a huge logistical glitch,
I think it was in Chicago, which had a disastrous
effect on the mail. I don’t know the details of how
that occurred. Now, it could be that when you go to
five day delivery, there could be a pile up of mail
initially. It could be the confusion among employees,
among customers.

Q Have you read the testimony on those topics?
A I believe I have. I think, was there some
testimony by Carney? Wouldn’t he have something
related to that? Was it Carney’s testimony? I did
read the, yeah, something on this.

Q My point here is that you’re criticizing the
Postal Service for failing to anticipate the kinds of
problems that will be coming, and I’m challenging you,
in turn, to please identify any challenges the Postal
Service has failed to anticipate.
A Actually, well, that’s true. I wasn’t
talking about the Postal Service in the 1960s. That
was the United States Post Office.

Q No. I’m talking about your testimony.
A Just say the question again.
Q Well, we started with what logistical
glitches has the Postal Service failed accurately to
project?
A Well, we won’t know actually until it
happened, but I gave an example of a possible build up
of mail, possibly the routes may have to be
redesigned, they may not be redesigned in time, there
might be problems with excessive overtime. There are
a number of issues like that. Customers may get
confused, there may be a number of -- it's such a
complex organization.

Q Yes, it is.

MR. DECHIARA: I would ask counsel to let
the witness finish his answer.

THE WITNESS: Well, I'm sort of done. So
I'll end with there are innumerable opportunities for
things to go wrong, and since, as I've admitted, I'm
not ever managed a large organization like the Postal
Service, and I'm not able to identify particular ones,
but we'll know when they happen.

BY MR. HOLLIES:

Q Thank you for that. is any major element of
the Postal Service plan for five day delivery at least
adequate, in your opinion?

A Let me think. Well, I didn't contest the
cost savings, which I think is a major part of it.

Q So do I understand you to be saying that the
Postal Service estimates of cost savings are at least
adequate?

A Yes, I would, but remember, they have to be
coupled with the demand estimates and with the

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transition costs, but the other cost savings, yes, I would say so. I didn’t contest them.

Q What experience in any capacity do you have working with large mailers?

A Large mailers. I’ve talked to a few of them, but I’ve never actually worked with them. I’ve done some what I thought were large mailings myself from the center, some search and regulate industries, once had to mail over 200 books to various locations in the U.S., Canada and the rest of the world, and at least 30 of them came back even though we had the Postal Service pick them up, and the bullseye put on them and everything, and they still sent them back. So, you know, my personal experience is not the large mailing or large mailers, but that was my experience of trying to do what to me was a large mailing.

Q What Postal Service manuals or other guidance, policy documents, do you think could most use simplification?

A Wow. As you asked me what economics do I read, and I indicated where I read my economics, I actually don’t have time or the stomach to go through those kind of manuals. I mean, they’re pretty thick things and quite dangerous to handle. If you drop one of those on your toe, you might need surgery.
Q Well, if you have no specific experience with those manuals, how did you arrive at your conclusion that they required simplification?
A Just because they’re so huge, just because I’ve heard individuals give papers on the complexity of these and how un-user friendly they were.
Q You may have answered this but what Postal Service manuals have you ever read?
A I think I indicated that I haven’t.
Q I thought so, too. When most recently did you personally undertake any econometric analysis that was published?
A That was answered in the interrogatories. That was published, I think, in 1985. That was the one in what’s called the Journal of Institutions, Theoretical Economics.
Q Is that a peer-reviewed journal?
A Yes.
Q When did you last undertake econometric analysis that was relied upon by your client, or perhaps even others, to make business decisions?
A That’s not the kind of work I do, so the answer is never.
Q Do you observe in your testimony that the relatively -- let me try again. Do you observe in
your testimony that the existing, perhaps anomalous, circumstances, with a historic volume loss and a similarly historic consideration of modifying street delivery practices, presents some analytical challenges?

A Yes.

Q How typically is econometric analysis used to project volume consequences for historic levels of change?

A For historic levels of change, it's all the time it's -- the data used. You're talking about time, but I'm not sure that's what you mean. It's used frequently. Yeah. Very common.

Q Could you give an example?

A Give an example of when econometric analysis is used?

Q When historic changes --

A I see. I understand the question now. Okay. You're talking about maybe -- when you say strike, you mean maybe cataclysmic or something like that, right? Major change.

Q Well, the foundation for the question was the previous one where you point out that the market research was taken at a time of historically high volume loss, and obviously at a time when the Postal
Service is considering a change that would be itself, or would itself, be historic, that is, implementation of five day delivery, and so my question built on that is how typically is econometric analysis used to project volume consequences for historic levels of change?

A These kind of levels of change, major levels of change, you don't get these kind of things happening very often, so, you know, it's hard to use the term typically, but if, you've got to go with what you can get, and in this case, the Postal Service went with a quick market research sort of a, but if you do with that, you have to understand the limitations of that.

Q Thank you, but my question was about econometric analysis.

A And I think I answered it. I think I answered the beginning of the question. I guess we can try having it read back, but I thought I said because these changes are by their very nature very rare, you're not going to get many instances where econometric analysis can be used in these cases.

Q That is where I thought I was headed. Can you give an example where it is used?

A You mean on a regular basis?

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Q No. I mean for the same historic levels of change.

A If you've got to come up with something in short order, I think it's going to be hard to come up with a kind of econometric analysis.

Q That's fine. That's what my expectation was. Okay. Please refer to your response to our Interrogatory No. 4 to you.

A I don't have that handy, incidentally.

MR. HOLLIES: Counsel, are you able to equip your witness with his responses?

THE WITNESS: Actually, I can get it out my briefcase. That would be fine with me.

MR. DECHIARA: Well, the Postal Service does not have a copy of the document they would like the witness to review?

MR. HOLLIES: It's common practice for a witness to have interrogatory responses in testimony.

MR. DECHIARA: I've been practicing law for 20 years. And the kind of practice I know is when you cross-examine a witness and you want him to look at a document you show them the document.

THE WITNESS: I actually thought this was a closed book exam, else I would have brought my briefcase with me.
MR. HOLLIES: Madame Chairman, could the witness be allowed to get his copies?

CHAIRMAN GOLDWAY: Yes, he certainly can.

How much longer do you think you have?

MR. HOLLIES: Not that much.

CHAIRMAN GOLDWAY: Because I think the Commissioners have a few questions as well.

Should we take a break now or should we wait until after you’re done with your questions.

MR. HOLLIES: I could see this easily going until four. I have begun cutting and shaping. We could take a shorter break.

CHAIRMAN GOLDWAY: I think perhaps when you’re done with this question, we can take a five-minute little housekeeping break.

THE WITNESS: Okay. I think I have them here.

MR. HOLLIES: Okay. Thank you.

BY MR. HOLLIES:

Q Part 2 of Interrogatory 4 to you from the Postal Services reads, "Would you regard provision of cross-functional "temporal templates or plan for implementation' by the Postal Service to the government accountability office over six months prior to implementation to satisfy accepted principles

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regarding timely submission of such templates/plan?"

A Could you tell me the number again, would you?

Q 4(C). Your response simply states, "Refer to my response to B. Now Question C, by its form, invites a yes or no answer, and perhaps with an explanation. I do not see any explanation in your response to B. So I’m still looking for the response to Part C.

A You don’t see B as --

Q Your microphone is a bit aside.

A I said in response to B, I said there’s no single answer to this question. Well, that’s why I said refer to B because it’s basically the same answer.

Q So if it says to characterize your testimony then as criticizing the Postal Service for failure to take steps when it’s not clear that such steps could or should have yet been taken.

A No.

Q Why not?

A Well, these are complicated and you’re asking me to put a very definite number on something that’s really complicated. And I can’t say whether six months is sufficient.
Q Can you say with certainty that it’s insufficient?
A I can’t. No. I can say very few things with certainty.
Q So is your testimony then criticizing the Postal Service for not undertaking steps that it might or might not have needed to take by this time? Is that accurate -- an accurate paraphrase of your testimony?
A I think that’s close. I wouldn’t actually use those words, but it’s close.
Q If the semantic proximity is moderately sufficient, I’ll leave it at that and move on.
MR. HOLLIES: Let’s take the break.
CHAIRMAN GOLDWAY: Thank you.
We’ll take a five-minute break. We’ll be back at 3:15.
(Whereupon, a brief recess was taken.)
CHAIRMAN GOLDWAY: Mr. Hollies?
MR. HOLLIES: Thank you, Madame Chairman.
BY MR. HOLLIES:
Q Dr. Crew, I would like to move next to your responses to Questions 5 and 6, which are parallel. And I’m going to take them one at a time, but basically the same questions for both. Do you
understand that Question 5 was intended to inquire into your knowledge, understanding, and use of quantitative market research?

A  No, I understood it to read what it said, have I conducted, directed, or managed. And I haven’t. I didn’t read anything into other than what was there.

Q  That’s fair enough.

Q  Part C of that interrogatory asks you to provide a copy of a study that you have conducted, directed, or managed. Have you done so? Is a copy attached to the response?

A  No. I participated in studies, obviously. But I’ve not actually directed.

Q  You’ve not actually directed.

A  Uh-hum.

Q  Okay, maybe that’s where we’re going to go. That might be a short answer. Do you provide a summary of the study’s objectives?

A  What study’s objectives?

Q  The study that you were asked whether you had every conducted, directed, or managed, a quantitative market research study?

A  No.

CHAIRMAN GOLDWAY: How could he have done a
copy if he didn't --

THE WITNESS: Okay, I haven't the --

Conducted -- what did you say again? Conducted and
what was the other one?

BY MR. HOLLIES:

Q I was reading Part A. And the Chairman has
pointed out quite correctly that you said no to A.
But you said yes to B, so I should be focusing on B
and not A. Have you ever used a quantitative market
research survey or study in your study of regulatory
economics and the economics of postal services, to
which you respond yes? Isn't that right?

A Right.

Q And then Part 2 says for any positive answer
it asks for a copy of the study, a summary of the
objective or objectives, a description of your role or
roles, and a description in your involvement in the
design or execution of the study. Are any of those
provided in your response?

A Well, we provided you with the reference to
the studies because they were public information. We
didn't provide you with the physical document.

Q I agree you did not provide a copy of the
study, what about a summary of the objectives?

A Didn't provide a summary of the objectives
because in a way it's -- well, it's hard to do that with a book of this kind. This is a book we're referring to where we published studies that were -- the kind of studies that we thought you had in mind.

Q    Well, we asked for information about a quantitative market research survey or study that you've used in your regulatory economics work and in the economics of postal services. And you said such a thing exists. We've agreed you haven't provided a copy or a summary of the objectives. I think you're trying to tell me somehow that you can't do that; is that where you're headed?

A    I don't think that I'm saying that I can't do that. What I'm saying is that I don't think it's a meaningful question in this context. So to that extent, yeah, I can't -- I can't do that because it's not a meaningful question. The thing at Crew --

Q    We're losing you. Speak up.

A    Was a major study on the European Union, which included qualitative market research in there and quantitative analysis too. And this book we had; most of our books have included econometrics or quantitative studies, that we've used them.

MR. DECHIARA: Madame Chairman, if the Postal Service counsel is just asking these questions
to clarify Dr. Crew's answers to these Interrogatories, we have no objection. But if somehow this is leading up to setting the foundation for some sort of motion to compel him to provide a summary of the surveys or studies, we would have an objection on two grounds.

First of all, the answer to subsection C begins by saying the entire fabric of postal economics to which Dr. Crew has made many contributions over the years is underpinned by demand studies of various types. What he's saying is essentially the entire body of his studies in econometric work is based on these sorts of studies. So to ask him to summarize years of articles and books is not an appropriate question. But the books -- so that's one part of the objection.

The other part is the books are published books. If the Postal Service wants to read them and make its own summaries of them, it's obviously able to do that. And in particular, Dr. Crew cites two particular articles, which the Postal Service can also obtain and review and analyze and summarize itself. So if this is somehow leading up to some sort of a motion to compel the witness to do what we believe would be overly burdensome and entirely unproductive
work, we would object. But if this is solely to ask
the witness to clarify his answer, we have no
objection.

CHAIRMAN GOLDWAY: My general counsel isn’t
here to counsel, Mr. Hollies, but I must say that you
spent a great deal of time this afternoon focusing on
this witness’s level of expertise and range of
awareness of subject at hand. I’m not aware of any of
the Postal Service’s expert witnesses being asked in
any degree this level of cross-examination. And since
Mr. Crew, for all of his strengths and weaknesses, is
well known in the postal world, I’m not exactly sure
what the benefit of this lengthy cross-examination is.

I would appreciate it if you’d get to the
substance of the issues that Mr. Crew and you are
disputing and not his particular level of expertise.
I think to the extent he’s demonstrated he’s
demonstrated it. To the extent we know it, we know
it. I don’t think the Commission is served by
spending a great deal of time interviewing and
examining the great detail of all of the expert
testimony -- witnesses that we have here.

Certainly, some questions are legitimate and
I’ve given you a great deal of time. But I really am
coming to the end of my patience with this line of
questioning.

MR. HOLLIES: Madame Chairman, I am simply trying to exercise the due process rights of the Postal Service.

CHAIRMAN GOLDWAY: I appreciate that and I'm trying to be patient. But I'm advising you about what I think is not going to lead us anywhere.

MR. HOLLIES: There is no limit in the rules on cross-examination. I have asked a finite number of questions. I am following up on those answers. This particular set of questions goes directly to the witness's competence to testify about qualitative and quantitative market research. He says he has used such research and so the questions asked that he provide a few salient details of a study. It does not ask him to summarize a book as counsel would have you believe.

These are imminently reasonable questions that exercise the due process rights and I'm -- I can't tell you all of why we are asking these questions right now, but I'm sure you will see it in the Postal Service brief. That is exactly what this is all about.

CHAIRMAN GOLDWAY: If you would like Mr. Crew to provide a summary for some of these things Heritage Reporting Corporation
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that have been referenced in this question and answer, I’d appreciate you asking a specific question for a specific document. And he could perhaps provide you a yes or no and we could move on.

MR. HOLLIES: Part C of Question 5 asks specifically for a copy of such studies, a summary of the objectives of the survey or study, a description of your role and involvement in its design and execution, and your use of its results. That is, at most, four paragraphs about two studies, if we look at Questions 5 and 6 together.

We asked this interrogatory directly to the witness. His answer, frankly, Part C is not responsive to the questions. That is what I am following up on. I am not looking to file a motion to compel, although if the witness were to volunteer to provide the details the questions asks for I would leave these and go on.

BY MR. HOLLIES:

Q Doctor, does this discussion lead you to any further illumination on your part? Do you have anything constructive you can help with here?

A I doubt it, but I’ll try.

CHAIRMAN GOLDWAY: Mr. Crew, might you try to answer this question in somewhat more detail with a
brief summary of the work that you’ve referenced in this book so that Mr. Hollies has some better information about your particular role in this book?

THE WITNESS: First of all, the book is actually an article we wrote, Paul Kleindorfer and I wrote. And the article was about what’s called two-tier pricing, which is pricing according to timely delivery. So if mail is delivered first day after -- first day, then that’s one level of service. The second tier might be two or three days. And we -- in working on that paper, we took into account a number of econometric studies that had been undertaken over the years which were part of the conferences we’ve been involved with.

Now item 2 on there is actually a summary of a very small part of a much bigger project. This bigger project was by the European Union -- I’m sorry, European Commission to determine the impact of allowing the market to be opened. And as I’ve indicated earlier, the market is going to be opened in 2011 -- generally in 2011. And in this we sum some quantitative and qualitative market research was done by some of the members of the team, not Paul Kleindorfer and me, which was relied on in this study to come up with its conclusions on what would be the

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impact of full market opening.

CHAIRMAN GOLDWAY: And do you with Mr. Kleindorfer use your own experience with econometrics to review the economic formulas that are presented to you so that you're not actually doing the economics, but you are using your expertise to review what you perceive to be correct or incorrect econometrics in these papers?

THE WITNESS: yes, indeed. The other people actually perform the work, but we reviewed it. Yes.

CHAIRMAN GOLDWAY: Does that clarify your answers, Mr. Hollies?

MR. HOLLIES: It does add some clarity and it does not answer the question.

CHAIRMAN GOLDWAY: I think it answers the question to the extent it's going to be answered.

This is the work they do --

MR. HOLLIES: Let me try one more time.

BY MR. HOLLIES:

Q Dr. Crew, I know you're a very smart man. You've achieved a lot. And it seems to me that Part C of the question is asking for some very straightforward response. And at this point it is clear that you don't think you can provide that information, is that correct?
No, I believe I’ve provided a reasonable answer to that. I gave you what the objectives of the study were. I responded to the Chairman’s question on what Paul Kleindorfer and my involvement. I don’t agree with that at all.

So your role consists not of performing or undertaking the research, but purely of reviewing research of others, is that correct?

No, we did our own research in that as well, but we ultimately reviewed the research of others. But it may not have been -- our research was not confined to the econometrics. It was more to that study than any market research econometrics. It was a major study, as you might expect, about a big change like that. To open up the market is a major change. This covered a lot of bases.

You talked about various elements. Is there an objective of one study that you can share?

I thought I did.

Okay.

I mean didn’t I say the objective of this study was to determine impact of fully opening the market?

And were you involved in its design or execution?
A Of the entire study?

Q Of a quantitative study, this is what the question asks?

A Was I -- I reviewed it. So to that extent, I was involved.

Q In your answer to that question you state that you’re confident competitors would seek to fill the gap if the Postal Service eliminated Saturday delivery. What competitors and what products do you think that competitors would deliver?

A I need to answer that question a bit more broadly than that. When you mean deliver, I think of physical mail. But I want to go beyond that. There are all sort of ways in which competitors might take advantage of this gap. One is through -- if there was no monopoly on Saturday, they might go into -- there might be guys going in there and putting flyers in the mailboxes. And assuming the continuation of a monopoly, there’s no monopoly in the Internet and radio for people who want to use the mail for advertising purposes.

Packages is maybe -- Saturday delivery of packages for competitors becomes more attractive now the Postal Service -- when the -- if the Postal Service is not delivering on a Saturday. There are, I
think, numerous potential opportunities that may be
profitable for competitors to enter if Postal Service
gives up its ownership of Saturday.

Q  Thank you. Would you expect UPS or FedEx to
lower their prices when faced with such an
opportunity?

A  To lower their prices when faced with such
an opportunity? Normally, when you find that a
competitor is being less competitive that's not a time
when you'd lower your prices. It might be an
opportunity to maintain your prices or increase them
if your competitor is weaker. So I wouldn't expect
them to lower their prices.

Q  Are you aware of private attempts to provide
alternate delivery operations for magazines?

A  In the U.S. or in the rest of the world?

Q  I was asking about the United States. Thank
you.

A  Actually, I've heard of a few things over
time. Yes, I have. But have I -- do I know any
details, no, I can't bring up -- pull up any details
right now.

Q  Are you aware whether any continue in
operation today?

A  No. Could I just -- we still have paper

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boys. I mean I'm obviously aware of those. I mean I
don't want you think I'm completely in my ivory tower.
My son was a paper boy.

Q And newspapers are sometimes mailed as
periodicals too, are they not?

A Yes, and delivered by the Postal Service.

Q Yes.

A Absolutely.

Q Looking at your response to No. 9, you
indicate an awareness that Singapore eliminated
Saturday delivery. Are you aware of when that
occurred? Excuse me, you actually say that in the
answer. You say 2010, do you not?

A I think so. Yes, that's my understanding.

Q Do you understand that Singapore Post is a
well-managed post?

A You're talking about Singpost is the name of
the company, Singpost. I really don't know enough
about Singpost to say whether it's well managed. I
know the Singaporeans tend to do a good job at most of
the things they do. So you know, my hunch is it is.
But I can't -- I don't know enough about it to say.

Q Fair enough. Do you know whether Singpost
relied on econometric modeling in its consideration of
whether to eliminate Saturday delivery?

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A  I don’t.
Q  Are you aware of any basis for its 2010 decision?
A  I didn’t study it. I was just -- I was trying to answer the question.
Q  That’s fine. No. 18?
A  Did you say another number, sorry?
Q  1-8.
Q  In this question we address a theme that will be featured in some sense hereafter, not exclusively here in your cross-examination. But it has to do with the basic question of whether in quantitative market research Respondents have any tendency to under or overstate their purchase expectation? That’s a general question I think is familiar to you, is it not, Dr. Crew?
A  That you ask here, yeah.
Q  Have you reviewed any literature regarding specific tendencies, one way or the other, regarding intent to purchase?
A  No. That’s why I said I’ve got no firm belief. It depends. In this case, though, I think it’s very likely that the Respondents underestimated in this ORC case.

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Q Do you know what an awareness factor is among survey research respondents? If not, I’ll take you through it.
A I can’t recall. No.
Q Okay. Can we define it for the moment as describing the percentage of a population that is aware of a new product at the time of its introduction?
A I’m going to have to accept that because I just can’t remember enough to --
Q Okay. Take it as a hypothetical then. That’s fine. Would 100 percent of a population ordinarily be aware of that new product’s introduction?
A I wouldn’t expect so of a population.
Q Let’s contrast that situation with one in which the market research is conducted to estimate how much of a new product or a feature might be purchased by respondents. If a market research participant were able to indicate an interest in purchasing that new product or feature, would she need to know about it first?
A Yes.
Q So she would have to be aware of it, if you will, right?
A  Yes.

Q  Would a business using market research to estimate a product's potential on the market be safe in projecting market research results from a statistically representative sample of that population to the entire population?

A  I think it depends. I'd need something more specific before I could give you a yes or no.

Q  Okay. Well, a little louder.

A  A little more specific. I mean I think it just -- it depends is the answer to the question.

Q  Might it be prudent for that businesswoman to discount the market research results before basing business decisions, such as production volume on the market research?

A  I think it would -- it might make sense.

Yes.

Q  Would it make sense for the market researchers themselves to discount their own results before delivering them to the clients' business?

A  It might.

Q  So the existence of an awareness factor reflects whether or not a person is aware of what that product is. And because the total population might not be aware of a new product introduction, it may be
appropriate to adjust for -- to adjust estimates downward to reflect the lack of awareness at the time of a product's release.

A It might. But I don't know what this is related to this. But okay. It might.

Q Well, we've covered what I want on that. It will be connected up with -- through rebuttal testimony. I think that's a small piece of logic for something, however, I'm done with that. Please turn to your response to Question 21.

A 21?

Q Could retailers accustomed to in-home dates for advertising features on Saturday possibly adapt in a five-day delivery environment and instead utilizing an in-home date of Friday?

A That's not part of the interrogatory, right? That's a new question.

Q This is a question that springs from your objection to Part C in which you -- you say you don't understand the question and so I'm providing a specific example that might fit in that question.

A Yeah, I've already given you answers to that question in the course of today, even though it may not be answered here. Your question is if they were given date certain delivery on Friday instead of
currently being delivered on Saturday could they accommodate to that? Well, the answer is they could accommodate to that as long as the Postal Service could deliver. As long as it really was date certain. If they ended up delivering on Monday when the sale was on Saturday, then there could be problems. But yeah, I would have thought retailers might be able to adopt to that, the question you said -- with those caveats.

Q You state on page 4 of your testimony, and in your answer to Interrogatory 24 from the Postal Service that respondents may not have fully understood and did not have the opportunity to study the five-day operating concept that was read to them. Have you reviewed or read transcripts of the qualitative market research?

A No. But I have voiced my objection, my problem with the way these questions were formulated.

Q Yes, that was clear from what you state. In formulating your response to Interrogatory 26, were you aware that in the focus groups virtually all respondents said they would adapt to five-day delivery by adjusting how they send and receive mail?

A I recall that -- something to that effect. Yes, there was a large chunk of them I think said they
Q Are you aware that respondents in the in-depth interviews also said they would adapt similarly?
A I think I recall that. And I also indicated why they might have responded in that way, this notion of pleasing the interviewer.
Q Is that the only reason why they might have answered that way?
A They could have answered out of self-interest. It could have maybe certainly gone to their minds that, hey well, maybe this is a way we can avoid a price increase.
Q Do you believe that survey respondents might ever have honesty in mind when answering a question?
A I don’t think I’ve cast doubt on peoples’ honesty.
Q Is that a yes?
A What’s that?
Q Is your answer a yes?
A Do they answer honestly? Yes, I would think they -- in their minds they’ve answered honestly, I’m sure. I’m sure. I take that back. Yes, I think they attempted to answer honestly is my answer to your question.
Q You’ve made a correction from the stand in Heritage Reporting Corporation (202) 628-4888
your testimony -- well, excuse me. Either your
testimony on your interrogatory response this morning
where you changed the word "adopt" to "adapt," do you
recall that?

A It's right here. Yes.

Q Is it your understanding that the adaptation
reported by the market research qualitative studies
indicate that surveys -- that respondents will adapt
to a five-day delivery environment by recognizing they
will accept delivery of mail under more limited
circumstances and that there may be some impacts on
them as to when they may enter pieces into the mail?

A Oh yes, I think they'll adapt. The question
is what effect is this adaptation going to have on
them. And this is what I'd be concerned about if I
was the Postal Service.

Q We're certainly concerned, but it's not my
question at this time. Thank you. Are you aware of
any independent public opinion polls asking the
American people whether they supported five-day
delivery?

A No.

Q Did you review the independent public
opinion poll summarized in the Postal Service direct
case?
A No, I don't recall that.
Q Are you aware of the survey conducted by
MTAC in August of 2009?
A No.
Q Do you know what MTAC is?
A No.
Q Please accept on my representation that it's
the Mailers Technical Advisory Committee.
A Oh, I've heard of that.
Q You've heard of that on that name?
A Yes. The acronym is what threw me.
Q Well, we don't have many of them in the
Postal Service.
(Laughter.)
A Although, as it happens, I think the
telecommunication industry beat you guys with
acronyms. I looked into that once.
Q So you wouldn't be aware that the impact
surveys covered 41,000 -- excuse me, 4,100 businesses
regarding how they might respond to implementation of
five-day delivery?
A I wouldn't. No.
Q Okay.
CHAIRMAN GOLDWAY: Are we getting to the end
here, Mr. Hollies?

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MR. HOLLIES: We are.

BY MR. HOLLIES:

Q Are you aware that Canada Post and Australian Post eliminated Saturday delivery over 30 years ago?

A It was a long time ago. I can’t -- if you say 30 years ago, I’ll accept it. But I can’t recall the exact, but I know it was a long time.

Q Do you recall whether they sustained any loss in volume when doing so?

A I don’t. But remember mail was growing at the time. Mail grew steadily in the past 30 years or so. And you raise an issue at one time regarding how would you isolate these changes resulting from five-day delivery from other factors. And so I don’t know of any studies on that and how it affected it.

Q Are you aware of any plans that Italian post may have regarding elimination of Saturday delivery?

A I’m not aware of any plans. I think someone mentioned it. I guy I know from Post Italiane I think he mentioned it to me, but I’m not -- I don’t know any of the plans.

Q So I think that means you wouldn’t have any understanding of why a decision might have been made there.
A You could think that. But I would disagree.
Q Okay, please enlighten us.
A The Post Italiane is a very different operation from the U.S. Postal Service. One of the -- the major difference is Post Italiane is very low volume per capita, whereas the U.S. Postal Service is a very high volume per capita. And none other than Bob Cohen who used to be the chief of technical staff here and wrote an article on this volume issue quite a few years ago in one of our books. And this is a major difference between the two post offices. And I think they have such low volume.

Another thing -- the other major difference between the Post Italiane and the U.S. Postal Service is they've got financial and banking operations that the Postal Service doesn't have. So it's a very different kind of organization. I guess what I'm trying to say is that it may not be too helpful, that comparison.

Q And you described some distinctions between respective posts, but I think you're also agreeing that you don't have any clear understanding of the basis for a decision they may have made.
A They've not shared them with me, or with any of their plans and what decisions have been made. I
mean you didn’t say decision makers if you plan.

Q You object in your response to Part B of Question 29 apparently because five-day delivery is still something in our future, if at all. And you declined to provide any estimate of the impact of the change five-day delivery would bring, is that correct?

A That’s correct. I couldn’t do a study of this. I’m not going to provide an estimate of something that I don’t have confidence in.

Q And I’m curious whether the logic of the position you take there is that no economist could ever provide a credible response to the question, is that correct?

A Oh, no. It’s forthcoming. That’s the problem. I wouldn’t want to go that far to say no economist could ever provide a credible response. I mean I think I won’t go that far. I’m just saying based upon -- I’m just saying that -- I’m not saying that at all. No. I’m just concerned about a forthcoming change.

Q Are you trying to state that you can’t answer a question based on a hypothetical?

A I’m having -- I had problems with -- as we’ve indicated, there are problems when you’re dealing with hypotheticals. I can answer some
questions based on hypothetical, some I may not be able to answer.

Q In Question 30(b), which states in specific part, "Is it your opinion that $2.5 billion in annual cost savings would help the Postal Service regain financial stability?" And your answer says, "Not if eliminating Saturday delivery triggered a mail volume loss that continued to grow in subsequent years."

I’m asking if you can answer the question without employing and "if" clause or it’s logical equivalent?

A No.

Q Why not?

A Because sometimes it’s not possible to give yes or no answers. Sometimes you have to qualify things. And the Postal Service is not taking into account the fact that the losses in volume may continue as a result of the five-day. Basically, what the Postal Service has assumed it’s assumed that there’ll be a drop of .71 percent and that will be a one-time drop. And there’ll be no continuation of it.

Well, it’s no -- we talk in economics about the short run and the long run. And short-run adjustments are usually less than long-run adjustments. It seems you can’t exclude the idea by

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any means that a loss in volume would continue. So
I’m not going to answer that question in any way other
than the way I have here.

Q I believe you brought up the concept I
understand as ceteris paribus, although I believe you
pronounced the first consonant differently. Ceteris
paribus, it is your opinion that 2.5 billion in annual
cost savings would help the Postal Service regain
financial stability?

A Other things being equal, if that was the
only thing that happened, sure 2.5 billion would be
very helpful. But I do not believe that ceteris would
remain paribus.

Q One last matter. My co-counsel is
distributing a document that we provided to you and
your counsel this morning. It has been marked for
identification as Cross-examination Exhibit USPS/NALC-
XE-T4-1 and is entitled the Juster Purchase
Probability Scale, a Bibliography. The author is Mike
Brennan. Do you have one in front of you?

A I do not. I was served one earlier by the
process server.

Q Do you have one in front of you now?

A I do. I saw Mr. Tidwell hand it to me.

Q Have you had at least a limited opportunity
to take a look at it?

A Very limited.

Q Had you seen it before today?

A No.

Q Would you agree that the only substantial text consists of two paragraphs at the top of the first page?

A Yes.

Q And that it otherwise lists a range of articles?

A Yes.

Q And that those articles appear in market research journals. Given your statement earlier that you have limited knowledge about market research journals, let me modify that question. So that the articles appear in at least some market research journals.

A To give an example, the first one appears in economics journal.

Q Can you answer the question?

A Well, they appear in market research journals and some in economics journals?

Q Thank you. Have you looked at the journal names then? It sounds like you have.

A I have.
I will ask that this document be marked, which it is, and given to the court reporter so that it can appear in the transcript at this stage. And I'll represent that they are in the ballpark of 50 to 100 journals appearing on the list.

(The document referred to was marked for identification as Postal Service Exhibit USPS/NALC-XE-T4-1.)
The Juster Purchase Probability Scale: A Bibliography

Mike Brennan

Estimating demand is an important concern of marketers, and business managers in general, because such estimates are an integral requirement for both strategic and tactical planning decisions. One approach that has shown promising results involves the use of the Juster Purchase Probability Scale, an 11-point scale that has verbal (e.g., “almost sure”), numerical (e.g., “9”) and probability (e.g., “9 in 10”) descriptors. This scale has been shown to consistently outperform other types of scale, and has been applied to a wide range of applications, such as estimating both purchase rates and purchase levels, estimating relative market share, assessing advertising copy effectiveness, predicting voting behaviour, and constructing demand curves. However, while the number of applications of the scale has expanded, the research supporting these applications is quite limited, and much of it is unpublished. There is a need for ongoing development and replication, and to do this efficiently, it is important to know what has been done already. The purpose of this bibliography is to list all known articles and studies that have examined or applied the Juster Scale, including conference papers and theses.

It is almost certain that this bibliography is incomplete. But the great advantage of an online publication is that it can be constantly updated, and this will be done. Readers are encouraged to contribute to this process by informing the author of any relevant material not currently listed.

The following bibliography has three sections: Journal Articles, Conference Papers, and Theses.

Keywords: Juster Scale, Purchase Probability, Demand Estimation

Updated: 9/12/2004

Journal Articles


**Conference papers**


http://marketing-bulletin.massey.ac.nz


**Theses**


Seymour PJ (1993). *The effectiveness of three methods for applying the Juster Scale to estimate the purchase levels of frequently purchased items*. Unpublished undergraduate honours report, Massey University, Palmerston North, New Zealand.


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BY MR. HOLLIES:

Q Does that range seem at least approximately correct to you, Doctor?

A I won’t dispute that.

Q Pardon me?

A I will not dispute that. I mean it’s got to be in that range. Yes.

Q How many of the journals identified in that list are ones in which you have read at least one article? And we don’t need a hard, specific answer, but some feel for it would be helpful.

A I can think of at least a couple journals, at least three. Three.

Q Okay, so you’re up to three and you’re about three pages deep in what I think is a nine-page item. So that gives us some basis for straight line projection at least as to how many.

A It may over project.

Q Are any of those journals ones that you routinely review?

A No.

Q And I think you’ve explained earlier, but the reason for that is what?

A The reason for that is I’m so busy with my work on regulatory economics I might be interested in.
the world, but I’m not able to pursue that interest.

Q  Yes, perhaps we can all look forward to the
days when we can stick a RAM chip in and have all that
knowledge immediately accessible. Have you published
an article in any of the journals listed there?

A  I haven’t. Subject to check I’d say no.

Q  Okay. Have you been a peer whose reviewed
an article submitted for any one of those?

A  No. A peer reviewer you mean?

Q  Yes.

A  A referee? No, I haven’t.

MR. HOLLIES: That concludes my questioning.

Thank you, Dr. Crew.

CHAIRMAN GOLDWAY: Thank you, Mr. Hollies.

I think there are a few questions by the Commissioners
before we go to any redirect. I know Vice Chairman
Hammond had a couple of questions. I’ll begin with
you.

VICE CHAIRMAN HAMMOND: Yes. Thank you,
Madame Chairman. And thank you Dr. Crew for being
here today. It’s good to see you again. And I
appreciate your responding to the Postal Services
allowed you to detail the questioning.

But you said in your testimony that the U.S.
Postal Service should consider targeted price

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increases, such as increasing rates for nonprofit mailers. And what I was wondering is your testimony is on behalf of the National Association of Letter Carriers, AFL-CIO. And I just wanted to clarify is it the position of the National Association of Letter Carriers that rates for nonprofit mailers should be increased?

THE WITNESS: Not that I’m aware of. I think it -- that was just an example of mine and I’m not aware that it’s NALC’s position.

VICE CHAIRMAN HAMMOND: Okay. At the beginning of the statement it says "Testimony of Dr. Michael Crew on Behalf of National Association of Letter Carriers." So that’s why I was wondering. To the best of your knowledge, it is not the position of the Letter Carriers that rates on nonprofit should be raised. That’s just your -- that’s your position?

THE WITNESS: Yes, that’s my position. I put it in there when the issue was raised.

VICE CHAIRMAN HAMMOND: Okay. Well, I just wanted to clarify that because I had never heard that that was the position of the NALC either, so I just wanted to know about that. Okay.

That’s the only question I have because of the time. Thank you, Madame Chairman.

COMMISSIONER BLAIR: Thank you, Madame Chair.

Mr. Crew, I think you've been queried about this today probably several times, but on page 8 of our testimony can you just back through with us along your lines of thinking about how the private sector would stand in to fill the -- would actually rush to fill the gap that would be caused by elimination of Saturday delivery?

THE WITNESS: Yes, I think you're right Commissioner Blair. I have sort of answered this at least one once today.

There are a number of ways they could do this. One is that package delivery on a Saturday was one that I mentioned. Another was the Internet advertising might be -- targeting Saturdays might increase. Another is perhaps local radio. And being absent the issue of the monopoly and more firms might get into delivering flyers and so on. I think flyers on a Saturday only.

COMMISSIONER BLAIR: Well, couldn't they already do that now?
THE WITNESS: I thought with the mailbox monopoly they couldn't put --

COMMISSIONER BLAIR: Other than the mailbox, though.

THE WITNESS: They'd have to throw it on the driveway or something like that.

COMMISSIONER BLAIR: Should Congress -- because this is essentially a congressional decision at the end of the day. Ours is an instructive, yet advisory opinion. Should Congress lift the ban on -- grant the Postal Service the ability to cease Saturday delivery would you think it's advisable that they lift the monopoly for the mailbox or others in order to allow the private sectors to step in?

THE WITNESS: I haven't thought deeply about that. But I think it would be a considerable -- it would be some pressure for all that. But I haven't thought deeply about it, though. I think that there are all sorts of other things that Congress ought to be doing that are really important for the future of this country and that one I haven't really thought about.

COMMISSIONER BLAIR: And also, and I do believe this is -- I think everything in your testimony is the subject of inquiry today, but one
question I do -- another question I have is regarding
the recommendation, if that's the correct way of
saying it, that the Postal Service should have
conducted an econometric analysis as another means of
predicting how ending Saturday delivery would impact mail volume. Who would do this econometric analysis?

THE WITNESS: Well, the Postal Service has
20 -- who can do econometric analysis. They've got in house capability. The Postal Service has in house capability and it's also got consultants that use this, so there are a number of people that could do that.

COMMISSIONER BLAIR: Is this something that the Center for Research and Regular Industries would do?

THE WITNESS: No.

COMMISSIONER BLAIR: Okay.

THE WITNESS: Absolutely not.

COMMISSIONER BLAIR: Well, I appreciate your answers. Thank you.

CHAIRMAN GOLDWAY: Commissioner Langley?

COMMISSIONER LANGLEY: I think that timewise I will just defer to the Chair.

CHAIRMAN GOLDWAY: Thank you. I just have a couple of questions. I was going to ask your thoughts

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about the monopoly Saturday, whether you thought if
the Postal Service gave up its opportunity to use the
mailbox on Saturday, whether there could be a case to
be made for allowing other delivery firms to use the
mailbox on Saturday. Has that been something that’s
been researched or discussed in any of the papers that
you’ve looked at or at the meetings you’ve held over
the years?

THE WITNESS: Oh, yes. This kind of issue
of whether to open up postal markets is a huge issue
in Europe. In 2011 -- a number of arguments in favor
of opening up Saturday to competitors -- if Saturday
service is abandoned it might be a chance to see what
competitors could do. And it would increase
competition in the system, so as I indicate to
Commissioner Blair, I hadn’t really thought about it
in depth. Given what’s going on in Europe, there’s
some attractiveness to this.

CHAIRMAN GOLOWAY: My other question is:
You basically say that a decline in the number of days
of delivery is a decline in service quality and
therefore there is a market response to that. The
Postal Service will debate that and who shall measure
that and how it’s measured, but that there is a market
response and that’s fairly standard economic analysis.
The Postal Service says that its own service standards for measuring quality will not change; that their days of delivery which are 1, 2, and 3 -- they'll just take this Saturday out of the formula and that would be the same.

What do you think about that, the Postal Service can simply use the same formulas that it currently has, even though it's removing a day of delivery when it measures its own service standard quality?

THE WITNESS: I think there may be a problem with that. The problem being of course now if a piece of mail is supposed to be delivered on Friday and you miss it, it's delivered Saturday, as a result under the 5 day arrangement you'd -- it wouldn't be delivered until Monday. So it may be that if you're going to -- I'd ask for reviewing service standards as well if you're going to do this.

CHAIRMAN GOLDWAY: Yes, okay. I guess my final question is: You said that the Postal Service has its own in house economists. Have any of them published in this just or purchase probabilities scale, do you think?

THE WITNESS: I would doubt it very much, but as you know I haven't really read it very

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carefully.

CHAIRMAN GOLDWAY: I appreciate your
tolerance and good will in all of the questions that
have been asked of you, Mr. Crew, and -- Dr. Crew, and
I think that we're all concerned about these issues
and will go over them very carefully when we read the
final written documents. I believe that your counsel
might want to check with you about possible
surrebuttal. I don't think there are any other
questions in the audience for you at this time. How
much time do you think --

MR. HOLLIES: Madame Chairman, I think I can
get one thing out of the way right now, if I could.
One question.

CHAIRMAN GOLDWAY: You have one more
question?

MR. HOLLIES: Yes.

CHAIRMAN GOLDWAY: Go ahead, Mr. Hollies.

MR. HOLLIES: Dr. Crew, do you know what the
NALC's position on opening up the mailbox is?

THE WITNESS: My understanding is that
they're not in favor of it, but I'm not absolutely
certain; I've never actually discussed it with them,
but I believe they'd like to retain the status quo.

MR. HOLLIES: Thank you. No more questions.
CHAIRMAN GOLDWAY: Ms. Langley, do you --

you had a question; I'm sorry, I missed that.

COMMISSIONER LANGLEY: I have a very quick

question, and it's a follow-up to what the Chairman

asked you about -- that a decline in delivery is a

decline in service which translates into impacting

service standards. Is this generally true for all

regulated industry? If they were declining; if a day

of service is eliminated, or if there is a change in

service that might be viewed as detrimental by

customers; you know, is that true for most regulated

industries?

THE WITNESS: Oh, I think it's true not just

for regulated industries, it's true for non-regulated

industries as well --

COMMISSIONER LANGLEY: Can you hear him?

THE WITNESS: Sorry. It's true for -- I

forget this darn mike; I still haven't got the hang of

it even with all the help from Post Office counsel, I

still haven't got the hang of it. It's true for other

regulated industries and it's also true for non-

regulated industries.

COMMISSIONER LANGLEY: But in your capacity

as an expert on regulated industries, it would be

considered a truism?

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THE WITNESS: Yes, there have been various studies on this sort of market research studies of the regulated industries where they sort of look into this issue of service standards and the service standard they were thinking of was reliability in the electric utilities; like how many outages a year. They don’t have the ability with electricity to say we’ll only deliver one -- a day a week less -- but they do have the ability to cut off the power for periods of time; often involuntary.

COMMISSIONER LANGLEY: Right, that’s something that’s impacting Pepco right now.

THE WITNESS: Yes.

COMMISSIONER LANGLEY: Thank you very much, and thank you for being with us today.

THE WITNESS: Thank you to the bench for the questions, thank you.

CHAIRMAN GOLDFAY: Mr. DeChiara, do you have time you’d like to have with your witness for surrebuttal?

MR. DECHIARA: Yes, I would appreciate just a few minutes and I anticipate just having a few questions.

CHAIRMAN GOLDFAY: All right, we’ll just break for five minutes so we can get out of here.
(Brief recess.)

CHAIRMAN GOLDWAY: Thank you, Mr. DeChiara, for coming back so promptly. We’re back now is session. Do you have questions for your witness?

MR. DECHIARA: I do.

Good afternoon, Dr. Crew. You testified on cross-examination that you did not contest the cost saving estimates in these proceedings by the Postal Service. To what extent did you undertake a detailed study of that cost savings analysis by the Postal Service?

THE WITNESS: I didn’t undertake a detailed study.

MR. DECHIARA: Okay, so to what extent should your testimony that you don’t contest the cost savings estimate be interpreted as an endorsement by you that that estimate is accurate?

THE WITNESS: I don’t endorse the estimate as accurate because I didn’t do a detailed study.

MR. DECHIARA: In your testimony you criticized the market research of the ORC, but you’ve conceded on cross-examination that you are not a market research expert. So what is the basis for your being able to criticize the ORC market research?

THE WITNESS: I’ve never held myself out to
be the expert in market research. The basis of my criticism is that any competent economist could have spotted the flaws here, as the flaws were so basic.

MR. DECHIARA: You testify that if Saturday delivery were eliminated, competitors, private sector competitors would rush to fill the gap. You were asked on cross-examination about Sunday. Can you explain to us any differences you see between Saturday and Sunday.

THE WITNESS: Sunday's like a non market; there's really very little as was established during what's going on by way of delivery on a Sunday and that's been the case a long time. However, Saturday we've got a pretty vibrant market in delivery with what's provided by the Postal Service and basic economic theory would imply to me if you create a gap in a market that it's going to be filled if the profit opportunity's there -- someone's going to jump in and fill it.

MR. DECHIARA: You testified that if Saturday delivery were eliminated, that local retailers might seek alternative means of reaching their customers, but you conceded on cross-examination that you did not have data to support that statement. So what do you base that statement on?
THE WITNESS: Again, it's sort of basic economics. It's a gap created and the local retailers I use as sort of an example, that's all -- was seized on with vigor.

MR. DECHIARA: No further questions.

CHAIRMAN GOLDWAY: Thank you. Anything else? Well, Dr. Crew, that completes your testimony here today. We appreciate your visit to the Postal Regulatory Commission, your testimony, and your patience with us.

Before we adjourn, I would like to note that we have a guest with us from the ARSEP, the French regulator, Mr. Guillaume Lacroix. He's been here watching our proceedings, I hope with some also patience and forebearance for some of the time we've taken. He and some of his colleagues will be sharing with us information about regulatory processes in France where they have six day delivery. And I'm pleased to inform you that this concludes your participation here today. You're excused.

(The witness was excused.)

Thank you again, Dr. Crew, and we are adjourned until tomorrow morning at 9:30 a.m., where we will receive the testimony of the public representative's witness, Brown, and the National Heritage Reporting Corporation (202) 628-4888
Newspaper Association, Cross. It should be an interesting day tomorrow as it was today.

Thank you very much.

(Whereupon, at 4:34 p.m., the hearing in the above-entitled matter was adjourned to resume at 9:30 a.m., Tuesday, September 14, 2010.)
REPORER'S CERTIFICATE

DOCKET NO.: N2010-1

CASE TITLE: Six-Day to Five-Day Delivery

HEARING DATE: September 13, 2010

LOCATION: Washington, D.C.

I hereby certify that the proceedings and evidence are contained fully and accurately on the tapes and notes reported by me at the hearing in the above case before the Postal Regulatory Commission.

Date: September 12, 2010

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