

# OFFICIAL TRANSCRIPT OF PROCEEDINGS BEFORE THE POSTAL REGULATORY COMMISSION

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

VOLUME VIII

Pages: 2289 through 2594  
Place: Washington, D.C.  
Date: September 13, 2010

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P R O C E E D I N G S

(9:33 a.m.)

1  
2  
3 CHAIRMAN GOLDWAY: Good morning. The hearing  
4 will come to order.

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

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

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

16 (No response.)

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

25 Does any participant have a procedural

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1 matter to discuss before we begin?

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

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

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

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

19 MR. DECHIARA: Thank you.

20 CHAIRMAN GOLDWAY: Presiding Officer's  
21 Ruling 25, Schedule for Witnesses offered by the  
22 National Association of Letter Carriers to appear  
23 today, no request to examine Witness Young or Witness  
24 DeMatteo were filed. And Ruling 27 excuses them from  
25 appearing in person.

1                   So as the first order of business, Mr.  
2           Dechiara, will you please provide the reporter with  
3           two copies of the testimony of William H. Young and  
4           Stephen DeMatteo so that they may be admitted into  
5           evidence?

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

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

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

19   (The documents referred to  
20   were marked for  
21   identification as Exhibit No.  
22   NALC-T-2, and NALC-T-3 were  
23   received in evidence.)

24          //

25          //

BEFORE THE  
POSTAL REGULATORY COMMISSION

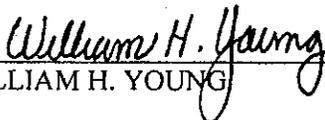
SIX-DAY TO FIVE-DAY STREET DELIVERY  
AND RELATED SERVICE CHANGES, 2010

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

NALC-T-2

**BEFORE THE  
POSTAL REGULATORY COMMISSION**

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

Docket No. N2010-1

**DIRECT TESTIMONY OF WILLIAM H. YOUNG ON BEHALF OF THE NATIONAL  
ASSOCIATION OF LETTER CARRIERS, AFL-CIO**

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 O 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

Docket No. N2010-1

**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

NALC-T-3

**BEFORE THE  
POSTAL REGULATORY COMMISSION**

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

Docket No. N2010-1

**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
2. NALC-LR-N2010-1/18: USPS Operating Margins, 1975-1977 v. 2007-2009

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.

1 CHAIRMAN GOLDWAY: Mr. Dechiara, will you  
2 identify your witness now so that I can swear him in?

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

6 MR. RILEY: Good morning.

7 CHAIRMAN GOLDWAY: Good morning.

8 Whereupon,

9 MICHAEL J. RILEY

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

12 CHAIRMAN GOLDWAY: Thank you. You may sit  
13 down.

14 DIRECT EXAMINATION

15 BY MR. DECHIARA:

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

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

23 A I do.

24 Q Are you familiar with that document?

25 A Yes.

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

3           A     Yes.

4           Q     If you were to testify orally today on  
5 direct examination, with the contents of your oral  
6 direct testimony be the same as what's set forth in  
7 your written direct testimony?

8           A     Yes.

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

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

17                                   (The documents referred to  
18                                   was marked for identification  
19                                   as Exhibit No. NALC-T-5 and  
20                                   was received in evidence.)

21        //

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NALC-T-5

**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.

1                   CHAIRMAN GOLDWAY: Dr. Riley, have you had  
2 an opportunity to examine the designated written  
3 cross-examination that was made available to you in  
4 the hearing room this morning?

5                   THE WITNESS: Yes.

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

10                  THE WITNESS: Yes.

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

14                  THE WITNESS: No.

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

20   (The document referred to was  
21 marked for identification as  
22 Exhibit No. NALC-T-5, and was  
23 received in evidence.)

24        //

25        //

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)

<u>Party</u>	<u>Interrogatories</u>
Postal Regulatory Commission	USPS/NALC-T5-11
United States Postal Service	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

<u>Interrogatory</u>	<u>Designating Parties</u>
USPS/NALC-T5-1	USPS
USPS/NALC-T5-2	USPS
USPS/NALC-T5-3	USPS
USPS/NALC-T5-4	USPS
USPS/NALC-T5-5	USPS
USPS/NALC-T5-6	USPS
USPS/NALC-T5-7	USPS
USPS/NALC-T5-8	USPS
USPS/NALC-T5-9	USPS
USPS/NALC-T5-10	USPS
USPS/NALC-T5-11	PRC
USPS/NALC-T5-12	USPS
USPS/NALC-T5-13	USPS
USPS/NALC-T5-14	USPS

**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.

## RESPONSE OF NALC WITNESS RILEY (NALC-T5) TO USPS INTERROGATORY

**USPS/NALC-T5-4**

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.

## RESPONSE OF NALC WITNESS RILEY (NALC-T5) TO USPS INTERROGATORY

**USPS/NALC-T5-8**

**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.

**Dr. Michael J. Riley's Testimony Before the Subcommittee on the  
Federal Workforce, Postal Service, and the District of Columbia**

May 12, 2010

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.

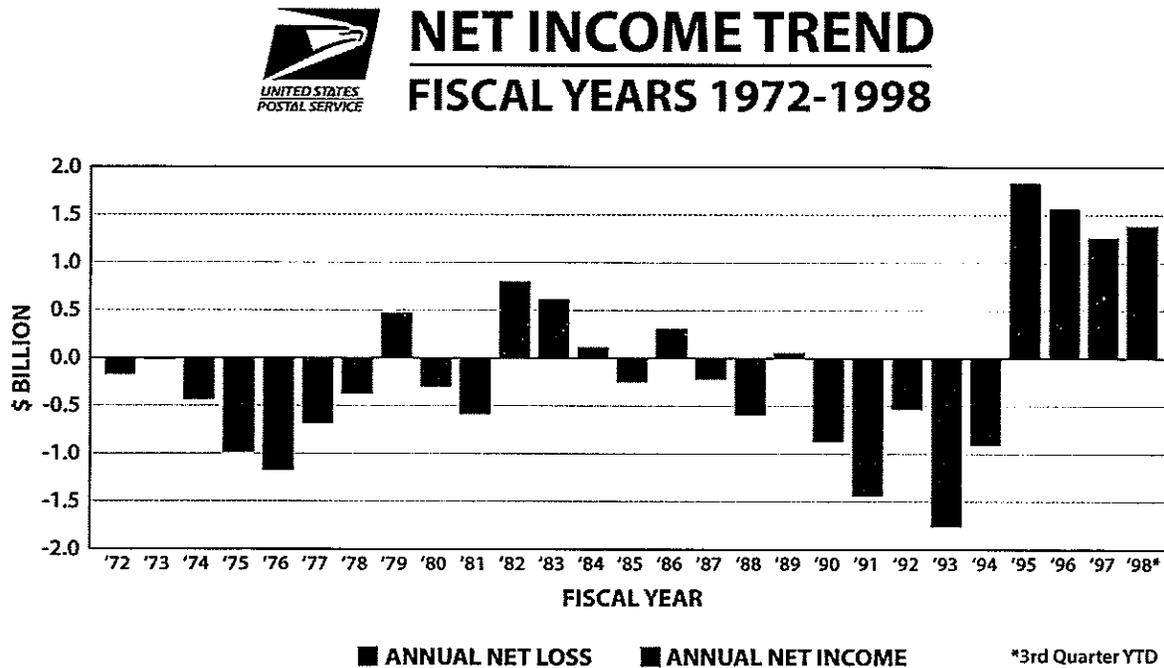
The second issue I must mention is the burden created by the advance funding requirement for retiree health benefits. This is not the place nor the time to engage in an extended discussion of that issue. Still, I strongly recommend that Congress repeal that requirement. The Postal Service should operate 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 3<sup>rd</sup> 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 3<sup>rd</sup> quarter of fiscal year 1998 is provided below.



As is shown above, the profits from financial year 1995 through 3<sup>rd</sup> 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, security 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 3<sup>rd</sup> 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 ( $\$900 \text{ million} \times 1.15 = \$1,035 \text{ million}$ ). 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**

	Original Case	10% Price Cut	15% Volume Increase	Difference
Revenue	\$1,000	\$900	\$1,035	+\$35
Attributable Costs	\$750	\$750	\$863	(\$113)
Contribution	\$250	\$150	\$172	(\$78)

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 underpricing of mail is a significant reason for the Postal Service's current financial distress.

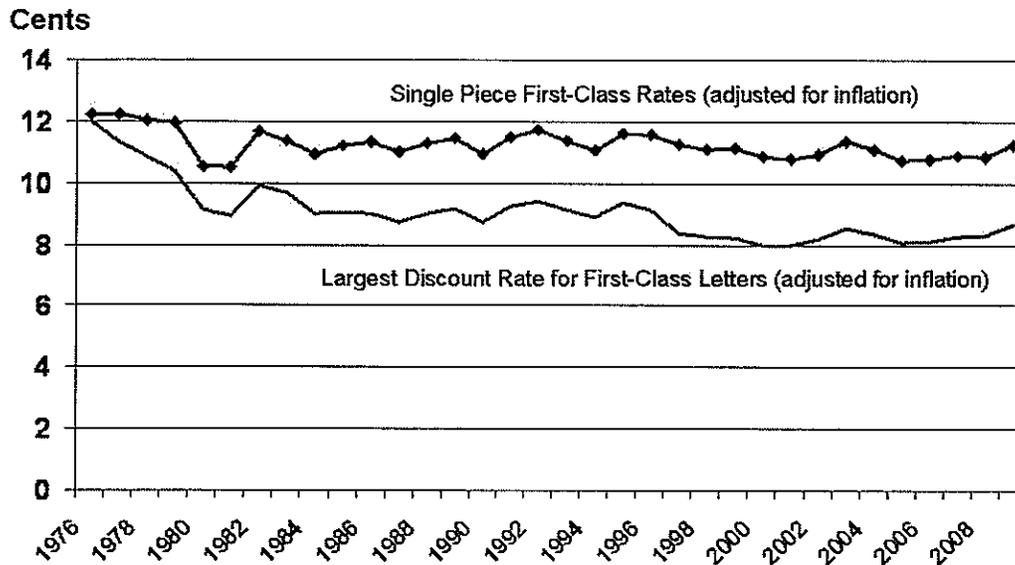
### **Inflation and Mail Volume**

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.



**SINGLE PIECE FIRST-CLASS RATE AND  
LARGEST FIRST-CLASS DISCOUNTED  
RATE IN CONSTANT DOLLARS**  
(FY1976 Cents per Piece)



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.

## RESPONSE OF NALC WITNESS RILEY (NALC-T5) TO USPS INTERROGATORY

USPS/NALC-T5-12

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.

## RESPONSE OF NALC WITNESS RILEY (NALC-T5) TO USPS INTERROGATORY

USPS/NALC-T5-14

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.

1           CHAIRMAN GOLDWAY: Is there any additional  
2 written cross-examination for Witness Riley?

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

6           MR. TIDWELL: Good morning, Madam Chairman.  
7 Michael Tidwell on behalf of the Postal Service.

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

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

13           MR. TIDWELL: Thank you.

14                           CROSS-EXAMINATION

15           BY MR. TIDWELL:

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

18           A    Good morning.

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

1           A     I don't know.

2           Q     Are companies like Coca-Cola constrained by  
3     considerations of capital and labor costs when  
4     determining how to operate their distribution  
5     networks?

6           A     Okay.

7           MR. DECHIARA: I didn't hear the full  
8     question. Would you repeat it?

9     //

10          BY MR. TIDWELL:

11          Q     Are companies like Coca-Cola constrained by  
12     considerations of such things as capital and labor  
13     costs in determining how to operate their distribution  
14     networks?

15          A     It's my belief that every company is  
16     constrained by capital and labor.

17          Q     To your knowledge, does Coca-Cola rely on  
18     the existence of independent distribution and retail  
19     establishments that are not owned by Coke to extend  
20     the availability of their products to their customers?

21          A     I'm not an expert on Coca-Cola.

22          Q     Are you aware that you can buy Coke at a  
23     grocery store that's not operated by Coco-Cola, or a  
24     bar or a restaurant or a stadium that Coca-Cola  
25     doesn't operate?

1           A     Yes.

2           Q     Yes.  And you think that's an effective way  
3     for Coca-Cola to achieve to get closer to the goal of  
4     getting a cold Coke within the hands of everyone on  
5     the planet, or within five minutes of everyone on the  
6     planet?

7           A     I'm not sure I understand your question.

8           Q     If Coca-Cola relies on these independent  
9     distributors, these independent outlets for the  
10    distribution of its products, do you think that that's  
11    an effective strategy for getting them closer to  
12    achieving the goal of everyone being within five  
13    minutes of a cold Coca-Cola?

14          A     Yes.

15          Q     What parallel do you see between the  
16    products that Coca-Cola offers and the products that  
17    the Postal Service offers?

18                MR. DECHIARA:  I'm going to object to the  
19    form of the question, to the extent that it assumes  
20    that the witness knows there is a parallel.

21                MR. TIDWELL:  I'm inquiring as to whether or  
22    not he does.

23                THE WITNESS:  The Postal Service in general  
24    provides a service although in recent years it started  
25    selling a few things.  The Postal Service has its

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

3 BY MR. TIDWELL:

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

11 A In some cases, it is.

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

20 A I'm not completely familiar with that form.

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

23 A In general.

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

1 option of either arranging for redelivery or arranging  
2 to pick it up at the post office?

3 A Yes.

4 Q In the cable TV world, do you think that  
5 cable customers prefer it when the cable guy says he  
6 can make a service call between nine and 11 tomorrow,  
7 or when he says he can arrive between, somewhere  
8 between nine a.m. and five p.m. tomorrow?

9 A I can speak personally that I'd rather have  
10 a specific two-hour block than a full-day block.

11 Q Would it be that some postal customers  
12 prefer going to a post office on a Saturday and  
13 completing the pick up transaction during retail hours  
14 at the time of their choosing rather than waiting for  
15 a package to be redelivered on a Saturday during some  
16 unspecified time on the carrier's shift?

17 A All customers have all sorts of different  
18 preferences, so I would assume that since you asked  
19 about some the answer is yes.

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

1 Do you know who Al, the letter carrier is?

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

3 Q Yes.

4 A No.

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

8 A No.

9 Q No?

10 A No.

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

15 A Yes.

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

20 A Yes.

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

25 A Yes.

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

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

10           A     No.

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

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

19           Q     Tom Hanks?

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

22           Q     Is it your view that the impact of the  
23     Internet on business and household mailers use of  
24     First-Class Mail is more pronounced now than it was  
25     then?

1           A     It sort of depends on what the Postal  
2     Service does, but the Postal Service volume is way  
3     down, as we know, and it's simply speculation on my  
4     part as to how much is because of change in the  
5     Internet and how much is because of other factors.

6           Q     And what would your speculation be?

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

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

12          MR. TIDWELL: We'll let it pass.

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

15          BY MR. TIDWELL:

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

22          A     Ask the question again, please.

23          Q     As the chief financial officer, is it safe  
24     for me to surmise that the establishment of policies  
25     pertaining to the location, relocation and removal of

1 collection boxes were not within the realm of your  
2 responsibilities?

3 A The second question is correct.

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

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

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

19 A No.

20 Q Let's assume hypothetically that it's 2001  
21 and you were still back at the Postal Service, and you  
22 were rewarded for your service as CFO and handed the  
23 responsibility of managing the operations of the  
24 postal collection effort, and so you were directly  
25 involved in managing the establishment of relocation

1 and removal of boxes. Is there any chance in the fall  
2 of 2001, after the Postal Service experienced the  
3 anthrax, that you might have been moved to have local  
4 management review whether the location and number of  
5 boxes were justified on the basis of customer usage  
6 and the amount of volume that was coming into  
7 particular boxes?

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

10 BY MR. TIDWELL:

11 Q Let's assume that -- taking the hypothetical  
12 that you were in charge of collection box policies in  
13 2001, and there were policies that required a minimum  
14 volume per box to justify its continued location at  
15 that particular spot, and let's assume that the Postal  
16 Service was hit by its experience with anthrax, which  
17 involved the deposit of contaminated letters in  
18 collection boxes.

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

25 A You know, I just don't know what I would

1 have done if that had been my responsibility. I've  
2 always been oriented to having the Postal Service  
3 become more customer friendly, and I think I'll leave  
4 it at that.

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

11 A The American Postal Workers Union, AFL-CIO.

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

22 And your response was, and I'll quote, "Yes,  
23 that it's possible that the customer visits the post  
24 office who has a positive experience there. However,  
25 in my experience customers physically have a much more

1 favorable view of their letter carriers than they do  
2 of their experiences visiting a post office."

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

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

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

16 A And what is that?

17 A Stamp.com

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

20 A It appears that they are.

21 Q Are they? To your knowledge, are they?

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

25 Q Is it your understanding that the

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

3 A No.

4 MR. TIDWELL: That's all we have, Madam  
5 Chairman.

6 CHAIRMAN GOLDWAY: No other questions?

7 Are there questions from the bench?

8 Commissioner Hammond, do you have a question?

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

11 Good morning, Dr. Riley.

12 THE WITNESS: Good morning.

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

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

24 THE WITNESS: It's both.

25 VICE CHAIRMAN HAMMOND: Both of those

1 reasons.

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

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

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

25 VICE CHAIRMAN HAMMOND: I see. Okay. Thank

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

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

7 THE WITNESS: Thank you.

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

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

21 THE WITNESS: I'm not aware of the studies  
22 when I was there about rural post offices other than a  
23 merely perfunctory look at it, and I am aware that  
24 there was a proposal that reducing small rural post  
25 offices could save the Postal Service a great deal of

1 money, that study focused strictly on revenue and  
2 compared it against total costs, and the study was  
3 flawed from the standpoint that it -- the post office  
4 customers within a mile or a mile and a half, I don't  
5 recall which, are required to go to the post office to  
6 pick up their mail. And if you take out the post  
7 office and the postmaster, you have to replace it with  
8 a carrier and a truck, and the cost savings that were  
9 assumed were way overstated.

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

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

19 THE WITNESS: Absolutely.

20 CHAIRMAN GOLDWAY: -- of benefit?

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

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

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

15           So yes is the short answer to your question.

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

22           THE WITNESS: Yes, we did.

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

25           THE WITNESS: There was a study done about

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

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

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

25 Was that too long?

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

3 Any other questions from the Commissioners?

4 COMMISSIONER ACTON: I have a question.

5 Good morning, Dr. Riley.

6 THE WITNESS: Good morning.

7 COMMISSIONER ACTON: Thanks for appearing  
8 this morning.

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

16 THE WITNESS: No.

17 COMMISSIONER ACTON: Thank you.

18 CHAIRMAN GOLDWAY: Any other questions?

19 Questions from any of the participants?

20 Counsel, would you like a moment?

21 MR. TIDWELL: Madam Chairman?

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

24 MR. TIDWELL: Yes, ma'am.

25 FURTHER CROSS-EXAMINATION

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1 BY MR. TIDWELL:

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

6 A Yes.

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

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

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

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

19 MR. DECHIARA: Thanks.

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

22 (Pause off the record.)

23 MR. DECHIARA: No redirect.

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

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

10 THE WITNESS: That's the nicest thing.  
11 Thank you.

12 (Witness excused.)

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

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

18 CHAIRMAN GOLDWAY: Is he here?

19 MR. DECHIARA: He's in the men's room. He  
20 will be back in a minute.

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

23 We did some work, by the way, with our  
24 microphones, and it seems to be working much better  
25 without any of the background noise that we were

1 getting, or feedback.

2 Okay, would you let the technical people in  
3 back know that you experienced that, and we can  
4 discuss it?

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

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

9 (Pause.)

10 CHAIRMAN GOLDWAY: Would you identify your  
11 witness, please?

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

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

17 Whereupon,

18 MICHAEL A. CREW

19 having duly affirmed, was called as a  
20 witness and was examined and testified as follows:

21 CHAIRMAN GOLDWAY: Thank you.

22 DIRECT EXAMINATION

23 BY MR. DECHIARA:

24 Q Good morning, Dr. Crew.

25 You will see before you a document, actually

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1 two copies of a document entitled Direct Testimony of  
2 Dr. Michael A. Crew on behalf of the National  
3 Association of Letter Carriers, AFL-CIO. Do you see  
4 that, the copies of that document?

5 A I see three copies.

6 Q Okay. And are you familiar with that  
7 document?

8 A Yes.

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

11 A Yes.

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

16 A It would be with one correction.

17 Q And what would that correction be?

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

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

22 A It is indeed.

23 Q And what should that figure be?

24 A That figure would actually reads figure 563,  
25 actually should be 580.

1 Q So instead of 563 million it should say 580  
2 million?

3 A Five hundred eighty million, correct.

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

8 A Yes.

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

13 CHAIRMAN GOLDWAY: Any objection?

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

18 (The document referred to was  
19 marked for identification as  
20 Exhibit No. NALC-T-4, and was  
21 received in evidence.)

22 //

23 //

24 //

25 //

**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 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 ("CRRRI") and CRRRI 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

Commission, the Belgian Post, the Australia Competition and Consumer Commission, AT&T, BellSouth, Independent Power Producers of New York, Jersey Central Power and Light, New York Telephone and Sithe Energies. I served on the Board of Directors of Energy Initiatives, Inc., from 1984-1988.

## 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.<sup>1</sup> 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

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<sup>1</sup> *See, e.g.,* Baruch Fischhoff, “Value Elicitation: Is There Anything in There?” *American Psychologist*, Vol. 46(8), August, 1991, pp. 835-847. For a more recent discussion from an economic perspective, *see* I. Bateman, R. Carson, B. Day, M. Hanemann, N. Hanley, T. Hett, M. Jones-Lee, G. Loomes, S. Mourato, E. Ozdemiroglu, D.W. Pearce, R. Sugden and J. Swanson, *Economic Valuation with Stated Preference Techniques: A Manual*, Edward Elgar Publishers, Cheltenham, UK (2002).

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).<sup>2</sup>

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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<sup>2</sup> 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.<sup>3</sup> 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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<sup>3</sup> For a recent example of combining survey results with econometric studies of demand, *see, e.g.,* Veruete-McKay, L., S. Soteri, J. Nankervis and F. Rodriguez (2010), “Letter traffic demand in the UK: an analysis by product and envelope content type” (presented at the Institut d’Economie Industrielle (IDEI) Sixth Conference On Regulation, Competition and Universal Service In The Postal Sector”, Toulouse, March 25-26 2010 and the Rutgers University CRR 18<sup>th</sup> Conference on Postal and Delivery Economics, Porvoo, Finland, June 2-5, 2010.

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 ~~\$563~~ <sup>590</sup> 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.<sup>4</sup> 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.<sup>5</sup> 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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<sup>4</sup> *See, e.g.*, Tyre, M. J. and O. Hauptmann, "Effectiveness of Organizational Responses to Technological Change in the Production Process," *Organization Science*, Vol. 3, No. 3, 301-320, 1992.

<sup>5</sup> 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.<sup>6</sup>

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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<sup>6</sup> 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.

1 MR. HOLLIES: Madam Chairman, excuse me.  
2 I'm just writing by hand the correction of the two  
3 copies.

4 CHAIRMAN GOLDWAY: Thank you.

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

9 THE WITNESS: Yes, I have.

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

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

16 CHAIRMAN GOLDWAY: Would you tell us what  
17 that is?

18 THE WITNESS: Yes, that is Interrogatory  
19 426, I would change the meaning of the English  
20 language here. Three lines from the bottom it says  
21 "adopt", it should be "adapt".

22 CHAIRMAN GOLDWAY: And that completes your  
23 corrections?

24 THE WITNESS: Yeah. Yes, it does.

25 CHAIRMAN GOLDWAY: Counsel, would you please

1 provided two copies of the corrected designated  
2 written cross-examination of Witness Crew to the  
3 reporter. That material is received into evidence and  
4 it is to be transcribed into the record.

5 (The document referred to was  
6 marked for identification as  
7 Exhibit No. NALC-T-4, and was  
8 received in evidence.)

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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)

<u>Party</u>	<u>Interrogatories</u>
Postal Regulatory Commission	USPS/NALC-T4-1-2
United States Postal Service	USPS/NALC-T4-3-32

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

Interrogatory

Designating Parties

USPS/NALC-T4-1	PRC
USPS/NALC-T4-2	PRC
USPS/NALC-T4-3	USPS
USPS/NALC-T4-4	USPS
USPS/NALC-T4-5	USPS
USPS/NALC-T4-6	USPS
USPS/NALC-T4-7	USPS
USPS/NALC-T4-8	USPS
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USPS/NALC-T4-29	USPS
USPS/NALC-T4-30	USPS
USPS/NALC-T4-31	USPS

Interrogatory

Designating Parties

USPS/NALC-T4-32

USPS

**N2010-1**

**National Association of Letter Carriers**

**Dr. Michael A. Crew  
(NALC-T-4)**

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

USPS/NALC-T4-1

**Please refer to the paragraph that begins at the bottom of page 1 of your testimony. Describe the teaching, writing, editing and consulting you have performed in the field of market survey research. Provide copies of all published works you have authored reflecting the execution or supervision of, or the analysis and review of market research, including quantitative and qualitative market research and opinion surveys.**

RESPONSE:

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:

Veruete-McKay, L., S. Soteri, J. Nankervis and F. Rodriguez (2010), “Letter traffic demand in the UK: an analysis by product and envelope content type” (presented at the Institut d’Economie Industrielle (IDEI) Sixth Conference On Regulation, Competition and Universal Service In The Postal Sector”, Toulouse, March 25-26 2010.

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

Catherine Cazals, Jean-Pierre Florens, Leticia Veruete-McKay, Frank Rodriguez and Soterios Soteri (2011). “UK letter mail demand: a content based time series analysis using overlapping market survey statistical techniques”, forthcoming 2011 in M. A.

## 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:

Crew, Michael A., Gonzales d'Alcantara, Paul R. Kleindorfer, Philippe Claeys and Bert Kuypers (2008) "Economic Factors Underlying Postal Reform in the European Union," in M. A. Crew, P. R. Kleindorfer and J. I. Campbell, Jr. *Handbook of Worldwide Postal Reform*, Edward Elgar, Cheltenham, UK.

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:

Borsenberger, Claire, Denis Joram, Clément Magre and Bernard Roy (2010) "Cross-country Comparisons of Optimal Mail Delivery Frequency" in M. A. Crew and P. R. Kleindorfer (eds.), *Heightening Competition in the Postal and Delivery Sector*, Edward Elgar, Cheltenham, UK.

## 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.

(1) Crew, Michael A. and Paul R. Kleindorfer (2002). "Two-Tier Pricing under Liberalization", in Michael A. Crew and Paul Kleindorfer (eds), *Postal and Delivery Services: Pricing, Productivity, Regulation and Strategy*, Kluwer Academic Publishers, Boston. (2) Crew, Michael A., Gonzales d'Alcantara, Paul R. Kleindorfer, Philippe Claeys and Bert Kuypers

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

(2008). "Economic Factors Underlying Postal Reform in the European Union," in M. A. Crew, P. R. Kleindorfer and J. I. Campbell, Jr. Handbook of Worldwide Postal Reform, Edward Elgar, Cheltenham, UK.

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:

(a) The prospective study for the EU Third Postal Directive described in the following paper was a qualitative study, accompanied by a calibrated simulation. It involved surveying all EU Member States and 3 associated other countries (Ireland, Lichtenstein and Norway). Michael A. Crew, Gonzales d'Alcantara, Paul R. Kleindorfer, Philippe Claeys and Bert Kuypers (2008) "Economic Factors Underlying Postal Reform in the European Union," in M. A. Crew, P. R. Kleindorfer and J. I. Campbell, Jr. Handbook of Worldwide Postal Reform, Edward Elgar, Cheltenham, UK.

(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.

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

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 “~~adp~~<sup>t</sup>” 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 underlying 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 OF NALC WITNESS CREW (NALC-T4) TO USPS INTERROGATORY

USPS/NALC-T4-29

- (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.

1                   CHAIRMAN GOLDWAY: Is there any additional  
2 written cross-examination for Witness Crew?

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

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

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

11                   CHAIRMAN GOLDWAY: Mr. Hollies. Please  
12 begin.

13   CROSS-EXAMINATION

14                   BY MR. HOLLIES:

15                   Q     Good morning, Dr. Crew.

16                   A     Good morning, counselor.

17                   Q     And welcome to Washington.

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

20                   A     Anthony with an "h".

21                   Q     Okay.

22                   A     It's says on my curriculum vitae actually.

23                   CHAIRMAN GOLDWAY: That's my son's name.

24                   BY MR. HOLLIES:

25                   Q     A popular choice, I'm sure, if we went

1 around the room.

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

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

11 A No.

12 Q And could you elaborate on that response,  
13 please?

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

20 Q Checks would be delivered on --

21 Q To the credit card companies, yeah.

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

24 A Those are the ones that I recall.

25 Q What about delivery to post office boxes?

1 A I believe they are available.

2 Q What about what the Postal Service refers to  
3 as caller service, or firm holdout, two different  
4 options?

5 A Would you say that again?

6 Q Caller service and firm holdout.

7 A I'm unaware of that.

8 CHAIRMAN GOLDWAY: The firm holdout he  
9 mentioned.

10 MR. HOLLIES: Pardon, Madam Chairman?

11 CHAIRMAN GOLDWAY: He mentioned firm  
12 holdout.

13 BY MR. HOLLIES:

14 Q Did you mention firm holdout, Dr. Crews?

15 CHAIRMAN GOLDWAY: That was delivery to the  
16 credit card companies.

17 MR. HOLLIES: In that context. Yes. thank  
18 you.

19 BY MR. HOLLIES:

20 Q It seems that you are anything but a  
21 newcomer to economics and the mail business, is that  
22 accurate?

23 A I think so, yes. I go back R-87 actually.  
24 That's when I first got interested in the Postal  
25 Service. I actually was working with the Postal

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

4 Q That is a good while back. Did you appear  
5 as a witness in the R-87 docket?

6 A No, I didn't. My colleague Paul  
7 Kleindorffer appeared as a witness, but I helped work  
8 with him on the testimony. Your attorney was Eric  
9 Koetting.

10 Q Thank you. I believe you did some other  
11 work with Witness Kleindorffer, is that correct?

12 A We've written a few papers together, yes.

13 Q Have you previously engaged in work that  
14 entailed contact with Postal Rate or Postal Regulatory  
15 Commission technical or other professional staff?

16 A Yes, I have.

17 Q And what was that?

18 A The cost study which was a contract with  
19 A.T. Colony, and that involved extensive contact with  
20 a technical staff at the time, which was headed by  
21 Robert Cohen.

22 Q Could you give me a short summary of that  
23 study and its findings?

24 A It was an extensive examination of the  
25 analysis that the Postal Service did of its costs and

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

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

11 A I thought the microphone took care of  
12 everything.

13 Q If you would project yourself a little more.

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

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

20 A For that purpose, it was. The problem with  
21 postal costing is that, and the initial stuff came to  
22 light I think more over the years, is that a lot of  
23 postal cost is rate-based, and regulatory-based or  
24 decisionmaking-based to come up with the way  
25 competitive prices, and that's not really an issue

1 when you had been a monopolist, so that's the way the  
2 system worked rather well.

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

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

12 A I don't remember you from that.

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

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

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

23 A I mentioned the one about working with Paul  
24 Kleindorffer. I used to work with the Postal Service  
25 on the '91 fare rates. I think it was '91.

1 Q 1990.

2 A Yeah, and again with some testimony by Mark  
3 Smith that Paul and I worked with Mark on. Mark is an  
4 economist with the Postal Service. There is one thing  
5 that I can think of.

6 Q I was asking about things that did not  
7 result in testimony.

8 A Oh, did not result in -- I've done various  
9 sort of studies with that group where Mark Smith  
10 worked and related to rate effects and that kind of  
11 thing.

12 Q The professional work that you've done that  
13 involved the Postal Service in any particular right,  
14 successful, informative, anything that you would care  
15 to characterize?

16 A Well, I always like to think it was  
17 informative and successful. From the purview of an  
18 economics professor, it was successful in that Paul  
19 Kleindorffer, Mark Smith and I published a paper in  
20 1990 in an economic journal which is obviously the  
21 leading British economics journal. We also published  
22 a number of other papers, Paul and I did, related to  
23 that work, including a paper on the cost study that we  
24 were talking about a moment or two ago, to the whole  
25 point of view of an economics professor who main

1 interest it went regarding the publishing. I would  
2 say that I would regard it in that way.

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

6 A Not -- I can't recall anything.

7 CHAIRMAN GOLDWAY: You need to move closer.

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

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

15 BY MR. HOLLIES:

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

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

23 Q Thank you. I will not take that any  
24 further. I don't want to pry into details of that  
25 matter here.

1           A     I must admit it's gone -- that particular  
2 matter has gone so quietly. I sort of put it out of  
3 mind as it were. It wasn't in -- I hadn't talked to  
4 the attorney about that in several months.

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

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

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

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

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

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

24           A     That's what I understand, yes.

25           Q     What information pertinent to this docket

1 have you reviewed?

2 A I've reviewed the Postal Service testimony.  
3 I've reviewed various references cited in the  
4 testimony. I've reviewed some of the library  
5 references.

6 Q Did you look at all the Postal Service  
7 testimony?

8 A I think I did, yes. I'm pretty sure I did,  
9 quite a bit of it.

10 Q All the 11 pieces of direct testimony?

11 A Yes.

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

15 A Yes. Paul Kleindorffer and I consulted them  
16 before.

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

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

22 Q Can you identify it by it's alpha numerical  
23 identifier?

24 A No.

25 Q Have you previously worked on behalf of the

1 NALC?

2 A No.

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

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

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

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

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

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

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

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

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

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

16                   BY MR. HOLLIES:

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

19                   A     I also said it was an advisory opinion.

20                   Q     Well, if you assume for a moment that the  
21 question, the advisory opinion question relates to  
22 conformity with the policies that are applicable as a  
23 matter of law, what possible responses might the  
24 Commission give, and would they include perhaps a yes  
25 or a no?

1                   MR. DECHIARA: Again I would object.  
2           Counsel appears to be asking the witness a legal  
3           question as to what possible permissible actions the  
4           Commission can take under the law, and there is  
5           nothing in this witness's testimony that qualifies him  
6           to answer that question. There is nothing in his  
7           direct testimony that is relevant to the question, so  
8           we would object to the question.

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

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

1 BY MR. HOLLIES:

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

6 A I don't know. I presume it would or why  
7 would we be here?

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

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

13 THE WITNESS: What's the record going to  
14 say?

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

17 THE WITNESS: Would you repeat the question,  
18 please?

19 MR. HOLLIES: We've had quite a few  
20 questions.

21 THE WITNESS: The last question.

22 CHAIRMAN GOLDWAY: The last question, yes.

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

25 BY MR. HOLLIES:

1 Q Have you read the Postal Service request?

2 A Have I read the request? I've read the  
3 testimony. I don't recall reading the actual request.

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

11 A I think I said yes.

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

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

23 Q Thank you for that.

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

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

8 A Yes.

9 Q Does this proceeding fit especially well or  
10 do you need a baseball analogy? If this proceeding is  
11 a power house something that particularly excites you  
12 and makes you especially eager to be part of this case  
13 or to testify?

14 A If you used a cricket analogy, I would --  
15 (Laughter.)

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

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

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

25 THE WITNESS: I never did get into baseball

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

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

5 (Laughter.)

6 BY MR. HOLLIES:

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

10 A At what point did I form --

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

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

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

24 Q I'm going to try and paraphrase what I  
25 understand is your answer and get a confirmation of

1 whether or not that's the fact. You were aware of the  
2 discussion about five-day delivery before we filed a  
3 request, and you had begun to formulate your opinions  
4 at that time?

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

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

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

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

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

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

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

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

7 CHAIRMAN GOLDWAY: Mr. Crew, I think it's  
8 okay for you to summarize the conclusions of your  
9 testimony. That's certainly fine.

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

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

22 Where we're not in agreement is the extent  
23 that the Postal Service comes up with a low figure of  
24 .71 percent, and this is based upon a flawed estimate,  
25 and so if the Postal Service is out to prove its case,

1 if it produces an estimate that I believe is flawed,  
2 and develops flaws in the testimony, that this should  
3 be stated, and I've stated it.

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

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

14 BY MR. HOLLIES:

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

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

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

25 A Yes, I have.

1 Q What is that?

2 A Well, on this point it was --

3 Q Five-day delivery.

4 A And closely related to this topic. It was  
5 in July, I was working on a book, this is a book in a  
6 series that Paul Kleindorffer and I have edited in  
7 about 15 or 16 of these, I've lost count, and we  
8 publish it each year at a conference to be held. We  
9 had a conference in Finland, and we're publishing a  
10 book out of that. Paul and I had to read the papers  
11 that people submitted, we had to edit them, and then  
12 we had to decide which ones to include in there.

13 Q Are those all about five-day delivery?

14 A They are not all about five-day delivery but  
15 I'm just saying this kind of -- it's related to this  
16 issue, and they are also related to the issue of what  
17 kind of strategies do the Postal Service have to  
18 prosper in the current age, electronic age, and in  
19 Europe there is even an additional issue. Not only do  
20 those guys in Europe have to worry about electronic  
21 competition, but they also have to worry about  
22 something that the Postal Service doesn't have to  
23 worry about -- on January 1, 2010 most of the major  
24 countries in the European Union are going to have all  
25 of their markets fully open to competition. Already

1 some major post offices, for example in the U.K. have  
2 their markets open to competition.

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

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

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

14 (Laughter.)

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

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

19 Q Were they the market research witnesses?

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

21 Q Some of those?

22 A I mean, I can't recall completely.

23 Q No, I'm not asking for perfect recall. I'm  
24 trying to find out what you looked at when. Did you  
25 look at any of the responses from the Postal Service's

1 lead witness?

2 A Say once more, please?

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

5 A Who do you think is the lead witness?

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

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

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

13 A No, I did not.

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

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

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

24 A Non-public materials.

25 MR. DECHIARA: I just want to ask counsel to

1 clarify? Do you mean non-public materials in this  
2 docket?

3 MR. HOLLIES: Yes, in this docket.

4 MR. DECHIARA: Okay.

5 BY MR. HOLLIES:

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

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

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

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

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

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

4 MR. DECHIARA: Could I have a copy?

5 BY MR. HOLLIES:

6 Q The binder itself is not always very  
7 illuminating.

8 A That's right. I agree to that. I agree  
9 with that.

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

12 A No.

13 Q Okay. That's as far as we need to go on  
14 that one.

15 A Is this mine to keep?

16 Q Sure. Well, not the binder.

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

19 (Laughter.)

20 BY MR. HOLLIES:

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

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

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

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

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

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

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

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

24           CHAIRMAN GOLDWAY: Okay. Thank you.

25           MR. DECHIARA: Ma'am Chairman, I would

1 request that NALC counsel be given copies of any  
2 documents that are being shown to the witness, and be  
3 given them prior to the witness being asked questions  
4 about them.

5 MR. HOLLIES: That's pretty reasonable.

6 CHAIRMAN GOLDWAY: Let the counsel for the  
7 NALC take a look at them.

8 (Pause.)

9 BY MR. HOLLIES:

10 Q So my question, Dr. Crew, is whether you  
11 have previously reviewed any one of these five  
12 documents?

13 A No. Is it 5 or 6?

14 Q The circles -- the green circles at the top  
15 of the first copy tie back to the notice of filing  
16 by --

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

18 MR. HOLLIES: No.

19 THE WITNESS: Okay.

20 BY MR. HOLLIES:

21 Q I am handing to the witness Library  
22 Reference  
23 USPS-LR-N2010-1/14, denominated, "Mailers Technical  
24 Advisory Committee Survey Material, Public Version."  
25 And inside that are two documents, and again my

1 question is have you previously reviewed these  
2 materials?

3 A No.

4 Q At this time, I am handing to the witness  
5 Library Reference USPS-LR-N2010-1/12, "Market Research  
6 Materials Responsive To Interrogatory EFP/TS-T8-1."  
7 And there are two documents in here. And my question  
8 to the doctor is has he previously reviewed the  
9 document?

10 A This one looks vaguely familiar, but I can't  
11 say for certain that I have reviewed it.

12 Q Could you read the title for the one that  
13 you --

14 A It says, "Five Day Delivery Focus Groups,  
15 Chicago, Illinois, 9/1/09-9/2/09."

16 Q And you may have seen that, but you are not  
17 sure about that?

18 A Yes. It looks sort of familiar.

19 Q And the other document in this library  
20 reference, which is called, "Five Day Delivery  
21 Schedule, Qualitative Research Results"?

22 A I didn't review this, but it is possible  
23 that Paul Kleindorffer did when he was working with me  
24 on the text.

25 MR. HOLLIES: Thank you. That is the last

1 of the library references.

2 THE WITNESS: Well, that's interesting.

3 (Pause.)

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

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

10 MR. HOLLIES: Well, yes --

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

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

17 CHAIRMAN GOLDWAY: All right. Well, how  
18 about if we take a 15 minute break, and return here at  
19 11:20. Is that adequate?

20 MR. HOLLIES: That's wonderful.

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

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

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

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

6 BY MR. HOLLIES:

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

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

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

19 Q In this next line, I want to look briefly at  
20 the process by which your testimony was created, and  
21 similarly your responses to interrogatories. So let's  
22 start with the testimony itself. And do not share  
23 with me, please, anything that your counsel told you,  
24 unless it specifically answers this question, but I am  
25 not trying to get at his legal theories or anything of

1 that sort.

2 Is it safe to say that you discussed your  
3 testimony with your counsel before you drafted it?

4 A Yes.

5 Q And also with NALC, with others at NALC?

6 A Yes.

7 Q Did you discuss it with anyone else before  
8 the fact?

9 A Yes.

10 Q Who?

11 A Paul Kleindorffer.

12 Q Okay. For purposes of my questions, I would  
13 like to assume, and it will simplify things if you  
14 assume that he is part of your team, and so if he did  
15 so, then you should answer that you did so.

16 A Okay. Fair enough.

17 Q I presume that you two were working together  
18 with the same purposes in mind on this?

19 A Oh, yes.

20 Q And with that simplifying assumption let's  
21 proceed. Were there any others with whom you  
22 discussed it?

23 A Any others? Well, I talked to my wife about  
24 it. I talked to my son about it.

25 Q Well, let's say professionally.

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

3           MR. HOLLIES:   Okay.

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

7           BY MR. HOLLIES:

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

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

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

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

23          A     I don't recall six drafts.  I think probably  
24 there were two substantive drafts.  Six drafts is far  
25 too many.

1           Q     You live in a better world than I do.  Okay.  
2           Turning to the interrogatory responses, did you  
3           discuss those also with counsel and with NALC  
4           representatives?

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

10          Q     Did you discuss possible objections with  
11          counsel?

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

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

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

25                   CHAIRMAN GOLDWAY:  I don't see how you can

1 be asking for a discussion between the attorney and  
2 the client when --

3 MR. HOLLIES: I am asking about --

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

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

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

21 MR. HOLLIES: Excuse me, Madam Chairman, but  
22 there are two misrepresentations in that statement by  
23 counsel. First of all, answering an interrogatory by  
24 putting an objection in the response does not provide  
25 an opportunity for the Postal Service to do anything

1 about that objection, because the mechanism for doing  
2 that is to file a formal objection, which NALC did  
3 not.

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

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

10 MR. HOLLIES: I am.

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

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

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

21 MR. HOLLIES: If there was extensive  
22 discussion back and forth between counsel, that would  
23 suggest the maturity of the decisions reflected in his  
24 objections in a response. Objections in a response  
25 are not procedurally proper, and if on the other hand

1 the witness was on his own, and did not discuss this  
2 with counsel, that provides a different explanation  
3 for why we ended up with what we did.

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

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

12 CHAIRMAN GOLDWAY: Is this response adequate  
13 that you've received now?

14 THE WITNESS: Could you repeat the question  
15 again?

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

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

20 BY MR. HOLLIES:

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

23 A How many times?

24 CHAIRMAN GOLDWAY: Which questions are you  
25 referring to?

1 MR. HOLLIES: His interrogatory responses.

2 CHAIRMAN GOLDWAY: Oh, collectively?

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

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

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

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

18 BY MR. HOLLIES:

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

21 A Incidentally, something that the Postal  
22 Service Counsel said a few moments ago sort of peaked  
23 my interest. Am I allowed to raise that or not,  
24 because it peaked my interest because I am not sure  
25 that it was accurate.

1 BY MR. HOLLIES:

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

4 A That's what I thought, yes.

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

8 THE WITNESS: Okay. Okay.

9 BY MR. HOLLIES:

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

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

15 CHAIRMAN GOLDWAY: That's a good way of  
16 doing it.

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

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

25 THE WITNESS: Okay.

1 BY MR. HOLLIES:

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

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

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

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

23 Q Understood, and if you find a way to bypass  
24 that, I hope that you will advise me on how to do so.  
25 What is your understanding of the purpose for which

1 interrogatory responses are written?

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

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

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

17 Q I am asking for your personal opinion.

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

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

24 A I think so, yes. You know, in consultation  
25 with Paul Kleindorffer and Mr. Dechiara, I believe

1 that was the best that I could do at the time. You  
2 can always do better after the event, but at the time  
3 that was the best that I could do.

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

7 A Sort of colloquial, yes. That's what I am  
8 saying. I am doing my best kind of thing. That kind  
9 of view.

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

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

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

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

25 Q So your responses to interrogatories were

1 undertaken in the spirit of game theory?

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

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

11 Q Were there any other parts to the strategy?

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

20 And he may have found that it was not the  
21 answer that he wanted, but it is the answer, and maybe  
22 he might feel that it is no longer worth pursuing it  
23 further. I mean, you are asking me sort of  
24 complicated questions, and the basis is the truth, but  
25 again there are also some other things that go on in

1       there as well, and including the one that I just  
2       mentioned.

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

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

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

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

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

25                MR. DECHIARA: I'm sorry, but can you just

1 indicate where exactly in the testimony you are  
2 reading from?

3 BY MR. HOLLIES:

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

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

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

16 A That's my understanding, yes.

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

19 A Yes. Yes, it does.

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

24 A Yes. No regular delivery of mail on  
25 Sundays, right, except for express mail, right.

1 Q Does the Postal Service deliver to post  
2 office boxes on Sundays?

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

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

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

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

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

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

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

25 A I think I said that I was aware that very

1 few private delivery companies delivered on a Sunday.

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

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

6

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

9 A Yes, I know that.

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

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

15 Q No, I am not attaching that condition.

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

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

24 MR. HOLLIES: Yes, and the word gap didn't -

25 -

1                   MR. DECHIARA: No, I understand. I  
2 understand. So we are talking about Sunday and not  
3 Saturday?

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

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

11                   BY MR. HOLLIES:

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

14                   A     Okay.

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

22                   A     Yes.

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

25                   MR. DECHIARA: I would object to the form of

1 the question.

2 MR. HOLLIES: On what ground?

3 MR. DECHIARA: It's improper. There may be  
4 any number of reasons why an individual may or may not  
5 bet investment dollars on anything, including why this  
6 individual may or may not bet investment dollars on  
7 anything.

8 MR. HOLLIES: I don't think --

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

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

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

17 BY MR. HOLLIES:

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

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

24 MR. DECHIARA: I withdraw my objection.

25 CHAIRMAN GOLDWAY: Go ahead and answer it.

1 THE WITNESS: Is it okay?

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

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

8 BY MR. HOLLIES:

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

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

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

17 A Yes, and I will say that again.

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

20 A I don't.

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

24 A Yes.

25 Q Would you then agree that to the extent that

1 businesses do not want, or do not receive mail  
2 delivery on Saturdays, the demand for such delivery  
3 overall is diminished compared to the average weekday?

4 A Yes. But the type of businesses that do  
5 take mail on a Saturday are primarily small  
6 businesses. I think a lot of the businesses that  
7 don't take mail on Saturdays may not be large  
8 businesses, except for those that are receiving  
9 remittances.

10 Q On what evidence do you rely in projecting  
11 that companies would commence delivery on Saturdays if  
12 the Postal Service implemented its five day delivery  
13 proposal?

14 A On what evidence? I didn't do a formal  
15 survey of this, but it is quite common if there is a  
16 gap, and there are profits to be obtained from filling  
17 that gap, and that firms will enter if competition is  
18 present.

19 Now, to what extent this would apply in the  
20 Postal Service, I don't know, because there are legal  
21 issues involved with the monopoly, but presumably the  
22 monopoly would still apply on Saturdays under common  
23 law if you went to the five day proposal.

24 So I don't know to what extent that would --  
25 that the legal barrier eventually would affect that.

1           Q     In the last paragraph on page two of your  
2     testimony, again the purpose section, you state your  
3     belief that the Postal Service should address its  
4     current challenges by making its product "more  
5     accessible and attractive to its customers". Is that  
6     correct?

7           A     Yes, correct.

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

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

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

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

1 product more attractive.

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

4 Q We will get to that later.

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

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

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

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

25 A I agree with you.

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

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

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

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

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

24           Q     Okay. Turning back to the sentence on page  
25     two, your assertion is that the Postal Service should

1 make its services more accessible and attractive. Do  
2 you have a single suggestion along those lines that is  
3 specific to any particular product or products?

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

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

12 A Yes.

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

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

21 Q So would it be fair to characterize your  
22 beliefs regarding how the Postal Service can and  
23 should address this kind of financial challenges is  
24 that it should incur costs as necessary to make its  
25 products "more accessible and attractive to its

1 customers"?

2 MR. DECHIARA: I'm sorry, but were you  
3 quoting from the testimony? If so, can you refer to  
4 where you were quoting from?

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

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

10 BY MR. HOLLIES:

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

17 A Almost. You're close. You're close, but  
18 you are not quite there.

19 Q What is the point that is missing?

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

25 Q Understood. Turn to page three and the

1 first paragraph. The first paragraph has four  
2 sentences. Well, there is no question in your mind  
3 that ending Saturday delivery will cause a drop in  
4 mail volumes, and that is your testimony is it not?

5 A It is my testimony, and it is the one thing  
6 that the Postal Service and I agree on here. We both  
7 agree that it will.

8 Q Now, the rest of the paragraph explains your  
9 reasoning for the assertion in the first sentence.  
10 Basically using the simple notion that a quality  
11 decrease implies a drop in demand. Is that accurate?

12 A That is basically right, yes.

13 Q Yet, you qualify your point in the fourth  
14 sentence by using the word "generally". Is that  
15 accurate?

16 A Well, of course that is the economist in me,  
17 an economist speaking. That's what that is. I mean,  
18 you have got this all lawyers speak, and you have been  
19 trying to get me to give legal opinions, but on that I  
20 can give an opinion because this year the economy is  
21 speaking, and what it is saying is -- I am alluding to  
22 the fact that in economics that we use a latin term.

23 We don't use many latin terms, but we use  
24 the latin term cereri paribus, which means everything  
25 remains in constant, and I guess I was alluding to

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

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

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

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

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

20 Q You start the paragraph by asserting that  
21 there is "no question" that ending Saturday street  
22 delivery, a statement made without equivocation or  
23 qualification. Yet, the basis for your assertion is  
24 the proposition that it is "generally" true. Is that  
25 right?

1           A     It's true in general is what I am trying to  
2     say here.

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

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

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

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

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

24                 MR. HOLLIES: Madam Chairman, the questions  
25     are similar, but I am not arguing with the witness.

1                   CHAIRMAN GOLDWAY: It seems to me, counsel,  
2                   that the witness answered it the first time with an  
3                   interpretation of the word generally, which refers to  
4                   the matter of economic principles that are stated, and  
5                   in his concept of what an economic principle is, it is  
6                   not a qualification of the term.

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

14                  MR. HOLLIES: Thank you for your testimony.

15                  (Pause.)

16                  BY MR. HOLLIES:

17                  Q     Page two, the second paragraph.

18                  A     Page two, you said?

19                  MR. HOLLIES: Yes.

20                  THE WITNESS: So we go back to page two.

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

23                  BY MR. HOLLIES:

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

1 fault. Page three.

2 A All right.

3 Q In the second sentence, you state that  
4 certain customers would "readily" move to  
5 alternatives. You follow that in a third sentence  
6 where you make a probablistic assertion that local  
7 retailers who today aim for Saturday delivery of their  
8 ads "would likely seek alternative means of  
9 advertising." Do I understand your testimony  
10 correctly here?

11 A If what you are saying is written here, yes.  
12 Yes, that's correct.

13 Q What data do you rely upon to support your  
14 statement here?

15 A Well, as I indicted in my responses to the  
16 interrogatories, I did not perform a study on this,  
17 and so there is actually no data to support this.  
18 There is no econometric in our office to support this.  
19 No flawed market research. Nothing.

20 Q Did you interview anyone who fits into the  
21 group that you described?

22 A No.

23 Q Did you undertake any form of a literature  
24 search?

25 A I did do a bit of a literature search

1 actually.

2 Q And what did you find?

3 A Well, I did find that one of the -- and I  
4 have said this already, but I also found it on the  
5 internet. One of the competitors made a new made-up  
6 word, "competition". They are talking about  
7 competition now.

8 In other words, where FedEx now works for  
9 the Postal Service, and they are competitors, but they  
10 are also cooperating, and so competition. FedEx has  
11 home delivery service. So I did look at that. I was  
12 aware of their home delivery service before I looked  
13 at it further.

14 Q So your awareness of FedEx's Tuesday through  
15 Saturday service is the product of your research to  
16 support your claim that local retailers would likely  
17 seek alternative means of advertising. Do I  
18 understand you correctly?

19 A No. It is much more to it than that.

20 Q So what part do I state incorrect?

21 A I think that I answered it. I think I said  
22 it was correct, but it was incomplete.

23 Q Okay. Fine. Go ahead. You were going to  
24 explain, I think.

25 A Right. I mean, generally -- and when I use

1 the generally, generally in economics the markets are  
2 open to competition, and gaps appear, and  
3 entrepreneurs are going to come in and fill these  
4 gaps, and that's the way the competitive process  
5 works.

6 That is the way that it is understood in  
7 economics, and basically people who are not economists  
8 sort of understand this if they think about it. And  
9 entrepreneurs will come in and fill a gap. Now, in  
10 this case, there may be some doubt as to whether the  
11 alternatives will be actual delivery by other  
12 companies.

13 And the local retailers might go for an  
14 alternative form of advertising other than having  
15 someone else deliver it, and then there is also an  
16 issue of whether they are allowed on a Saturday only  
17 put flyers in a mailbox.

18 And that is also a legal issue, and so there  
19 are a number of ways -- there may be legal barriers to  
20 entry that would slow down this process, but that is  
21 basically it.

22 Q How familiar are you with local retailers'  
23 marketing strategies?

24 A Probably --

25 Q A qualitative response is fine.

1           A     Probably as similarly as most people. I get  
2 a lot of mail from local retailers, and even with the  
3 volume drop, I still get a lot.

4           Q     So do you think you have some particular  
5 large insight into their behavior?

6           A     I don't have a particular large insight. I  
7 was giving an example, and the example is based upon  
8 the fundamental notion that creating a gap, and if the  
9 gap is profitable, then entrepreneurs are going to  
10 find ways to fill in the gap, and that is a profit  
11 process at work.

12          Q     Did you read the market research testimony  
13 in this docket? I believe you said that you did  
14 earlier.

15          A     Yes, that is the ORC testimony you mean?

16          Q     Yes.

17          A     I did read that.

18          Q     Do the market research results support your  
19 probablistic assertions?

20          A     I don't think they address that particular  
21 issue that I had in mind. I don't think they terribly  
22 -- I don't think they support it or otherwise.

23          Q     Well, does it seem plausible to you that  
24 such research might instead have found that rather  
25 than seeking alternative means of advertising, they

1 might answer their peace for delivery on Friday  
2 instead?

3 A That of course is a possibility. On the  
4 other hand, it is possible that they might find it  
5 less attractive arriving on a Friday than on a  
6 Saturday, and there are a number of complexities here  
7 that we can't give absolute definitive answers on, and  
8 the marketing research folks can't to a question like  
9 that.

10 Q In the third paragraph on page three, you  
11 admit some indication that you did take a look at the  
12 Post Service market research testimony, which you  
13 characterized as involving projections by business and  
14 consumer customers of how this volume would change  
15 under five day delivery. Is that right?

16 A Yes.

17 Q By it do you mean that each Respondent was  
18 asked to project what her expected future mailing  
19 behavior would be with and without five day delivery?

20 A Yes, but the question needs a little bit  
21 more of an elaborate answer than that. The exact  
22 questions were along the following lines. The market  
23 research I think was done in the late summer of, I  
24 guess, last year, and they were asked to say what  
25 their mail volume was going to be in presumably the

1 next fiscal year, beginning in October.

2 And then it sort of gave a projection, and  
3 in it they were asked, well, how much would your  
4 volume change if instead of five day delivery, you had  
5 six day delivery. Now, they didn't ask -- well, when  
6 they asked the question, they didn't say when the  
7 change to five day or six day delivery was going to  
8 occur.

9 Was it going to occur on October 1?  
10 Certainly not. Was it going to occur within the next  
11 year? Who knows. So, if I had been asked that  
12 question, my thought would have been, well, when is  
13 this going to happen, and I will give it a shot.

14 So that is my understanding of the questions  
15 that were asked. They were asked in a way that was  
16 unlikely to give accurate information.

17 Q I understand what you said, but  
18 unfortunately I don't see the answer to the initial  
19 question. I think you are saying yes, but I don't  
20 want to put words in your mouth either. Would it help  
21 if I restate the question?

22 A I said yes, but, and then I went on. As you  
23 said, I went on, and I went on.

24 Q So if you are clarifying that you said yes,  
25 but, then that is helpful.

1           A     That is what I said, yes. We have a court-  
2     reporter here, and I heard myself say yes.

3           Q     On page four of your testimony, where you  
4     state that Opinion Research Corporation's research is  
5     unreliable because the Respondents were given a  
6     hypothetical that five day delivery had been  
7     implemented.

8                     So is it your opinion that market research  
9     has never been used by organizations to predict new  
10    product or product enhancements? New product sales or  
11    product enhancements?

12          A     Well, I said in the interrogatories that  
13    market research is used for new products, sure. I  
14    have already answered that in the interrogatories.

15          Q     So is it your opinion that the Respondents  
16    to market research cannot be asked to answer questions  
17    about their future intent to buy a future new product  
18    or product enhancement because it is hypothetical?

19          A     No. My concern is that hypothetical  
20    questions are problematical.

21          Q     I would think that that is a yes and not a  
22    no, but go ahead.

23          A     Well, ask the question again just to make  
24    sure that we got this right.

25          Q     Is it your opinion that Respondents to

1 market research cannot be asked to answer questions  
2 about their future intent to buy a future new product  
3 or product enhancement because it is a hypothetical  
4 question?

5 A The answer is no, but. I think I said no,  
6 but.

7 Q Okay. Please continue.

8 A Well, I would just repeat what I just said.  
9 I think I could go on, but I would just repeat what I  
10 just said.

11 MR. HOLLIES: Okay. That's fine.

12 CHAIRMAN GOLDWAY: We are getting to 12:30  
13 here, Mr. Hollies. What is your anticipation of your  
14 questioning?

15 MR. HOLLIES: I am on page 6 of 14.

16 CHAIRMAN GOLDWAY: Well, then we have a long  
17 afternoon then. We will take an hours break for  
18 lunch, and come back here at 1:30.

19 (Whereupon, at 12:29 p.m., a luncheon recess  
20 was taken.)

21 //

22 //

23 //

24 //

25 //

1 A F T E R N O O N S E S S I O N

2 (1:33 p.m.)

3 CHAIRMAN GOLDWAY: We will call the meeting  
4 back to order. Commissioner Acton has an unplanned  
5 meeting that may take him a bit longer to get back,  
6 and so we may not see him again this afternoon, and  
7 Commissioner Blair will be here shortly. So we have a  
8 quorum, and we will begin. Mr. Hollies.

9 MR. HOLLIES: Thank you, Madam Chairman.

10 CHAIRMAN GOLDWAY: All right.

11 Whereupon,

12 DR. MICHAEL CREW

13 having been reminded that he was still under  
14 oath, resumed the stand, and was examined and further  
15 testified as follows:

16 CROSS-EXAMINATION (Continuing)

17 BY MR. HOLLIES: (Resuming)

18 Q Dr. Crew, the last question that I asked  
19 you, and I am not going to ask you to answer it again,  
20 but rather it is just a way of trying to set up where  
21 we were, but you were asked for your opinion on  
22 whether Respondents to market research can be asked to  
23 answer hypothetical questions.

24 And I believe your answer could be  
25 characterized as a no, but, is where we left off. You

1 looked confused, and that's probably because I  
2 shortened that up too much, and I am not trying to  
3 restate what we went through before. I am just trying  
4 to get you back on task of where we were.

5 Are you aware of any case studies published  
6 in scholarly journals that support the use of market  
7 research to forecast demands for a new product or  
8 services?

9 A It is to actually give you a list of  
10 articles, I can't do that, but I know that in journals  
11 like the Journal of Marketing Research, there are  
12 articles of the kind that I think you are thinking of.

13

14 Q And perhaps also of the kind that I asked  
15 about?

16 A Perhaps, yes.

17 Q I am just trying to make sure that the  
18 record doesn't show that the question you answered was  
19 about what I was thinking.

20 A Okay.

21 Q Turning to your testimony at page four, and  
22 in the second full paragraph, in this paragraph, you  
23 make a claim that it certainly must be a surprise to  
24 most large businesses and the Commission, which have  
25 relied upon market research to make business

1 decisions, and to issue opinions effectively  
2 throughout the last 15, or maybe even, 30 years.

3 You claim that the Postal Service's estimate  
4 of volume changes in a five day environment "is  
5 unreliable because the projections by surveyed  
6 businesses and consumers were necessarily  
7 hypothetical." Did I get that right?

8 A Well, in any hypothetical study, the results  
9 are inherently uncertain and must be treated with  
10 caution. That is what I am reading here. Maybe I am  
11 missing it.

12 Q In the very first part of that paragraph, it  
13 starts with, first, the Postal Service estimate is,  
14 and then follows with unreliable, because the  
15 projections given to ORC by the surveyed businesses  
16 and consumers were necessarily hypothetical.

17 A Okay. That is correct. I mean, I go on to  
18 qualify it as inherently uncertain and must be treated  
19 with caution. Yes.

20 Q And can you confirm that your stated reason  
21 for concluding the market research is unreliable is  
22 that it is "necessarily hypothetical" when speaking  
23 about future behavior?

24 A That is part of it. The biggest problem  
25 though is with the nature of the way that this has

1       been conducted. Before lunch, I explained the problem  
2       that I had with whatever the question was in 4(a) or  
3       something, or something like that.

4               And my problem is that if you have a  
5       hypothetical study, you have to be really careful how  
6       you interpret the results, and the problem is that  
7       this has not been constructed in a manner that is  
8       likely to elicit accurate results.

9               Q       So if I understand you correctly, you are  
10       saying that the key here is the way the questions were  
11       phrased, as distinguished from there having been  
12       hypothetical in nature?

13              A       Not quite. I am saying that because they  
14       are hypothetical, you have a problem to begin with,  
15       and so the questions that you come up with have to be  
16       extremely and carefully formulated.

17              Q       Are you aware that hypothetical questions  
18       are the prototypical way of asking expert witnesses  
19       question in our jurisprudential system?

20              A       I know that it is used. Well, that was with  
21       any of the hypothetical questions that I was asked  
22       this morning.

23              Q       Yes. If you would distance yourself just a  
24       bit, and we will get a little less of that over-  
25       modulation.

1           A     I am not too good with this. I am either  
2     too close or too far away.

3           Q     It is good equipment. We are still learning  
4     how to use it.

5           CHAIRMAN GOLDWAY: At least the cell phones  
6     and Blackberries aren't getting in our way.

7           BY MR. HOLLIES:

8           Q     In the ORC market research, was the survey  
9     research Respondents experts in any sense regarding  
10    their business or residential mailing habits?

11          A     I don't know whether you consider households  
12    to be experts. I mean, they have a valid opinion, but  
13    not expert.

14          Q     Well, why can't they be experts?

15          A     Okay. I guess I am sort of thinking about  
16    your last question, and asking about experts in real  
17    proceedings, and they are not experts in that sense.  
18    I mean, they may be knowledgeable, yes. I guess I am  
19    quarreling with the term experts. I would say that  
20    they were knowledgeable. Here we are using experts as  
21    maybe a legal term. I am not sure what you are asking  
22    me.

23          Q     Okay. Well, let's explore that to make sure  
24    that we are on common grounds here. Is an expert  
25    somebody who perhaps has a graduate degree in advanced

1 education in a field?

2 A To me, an expert would be -- that's what I  
3 would think of as an expert normally, yes.

4 Q But a man who has mopped floors in many  
5 buildings over the course of a career, might he be an  
6 expert in how best to mop floors?

7 A Well, I guess it depends on the guy. I  
8 mean, he mopped floors for many years and he still  
9 kept his job. He could be characterized as an expert.  
10 I wouldn't use the term myself except perhaps in jest.

11 Q Okay. How were the ORC research respondents  
12 chose for participation in the market research?

13 A I can't remember all the details.

14 Q Do you remember any details?

15 A Do I remember any details? Well, I think  
16 they were from the Chicago area, and where they picked  
17 up a lot of the respondents. I think it say something  
18 about the business mailers were chosen because they  
19 had quite a bit of experience in mailing.  
20 I think something like that was in there, but those  
21 are the details that I can sort of remember.

22 Q Okay. And at my risk, hypothetically  
23 speaking, if those individuals were chosen based on  
24 their having satisfied the individuals conducting  
25 screening for participants in that research in a way

1 that they were thought to be experts in mailing of the  
2 business or home for which they were responsible,  
3 would they be expert witnesses in the broad sense of  
4 the word?

5 I'm sorry, would they be experts in the  
6 broad sense of the word?

7 A No, we both would agree that they wouldn't  
8 be expert witnesses, but they would be in the sense  
9 that you are using it, and that's fair enough. I will  
10 go with that.

11 Q Later in that paragraph on page four that we  
12 addressed a moment ago, you claim that the market  
13 research participants "may not have fully understood  
14 how the reduction in delivery frequency would impact  
15 them." Is that accurate?

16 A Yes, I would say so. I think I did cover  
17 this point earlier. I said that the way that the  
18 questions were formulated, they were first of all  
19 asked to indicate how much their focus mail was for  
20 the next fiscal year, and then they were asked to say  
21 how would that change if a sixth day were introduced.

22 They weren't told when a sixth day would be  
23 introduced, and in the minds of the Respondents, they  
24 could say, well, it could be two or three years from  
25 now. It is not going to be October 1. That's for

1 certain.

2 And so it may not have been clear in their  
3 minds, and that's why I was claiming that there were  
4 not well formulated questions.

5 Q Does your use of the word "may" in this  
6 context indicate the mere possibility?

7 A I think it indicates more than that.

8 Q What does it indicate?

9 A I think it indicates that it is more likely  
10 than not based on questions of that kind. I wouldn't  
11 know exactly what I was answering.

12 Q So your testimony is that it is more likely  
13 than not that the market research participants could  
14 not project how the change in delivery frequency would  
15 impact them?

16 A Based on the way that it was formulated that  
17 is my view. It was not clearly formulated.

18 Q Do you consider yourself a market research  
19 expert?

20 A No. I think that I have already indicated  
21 that my answer to that in my responses to  
22 interrogatories. I don't make my living by market  
23 research surveys.

24 Q Have you published any professional work in  
25 peer reviewed market research journals?

1           A     No. I think again that I answered that.

2           Q     What is your understanding about the extent  
3 to which, if at all, the individuals ORC surveyed did  
4 or did not have an opportunity to study the elements  
5 of five day delivery, and what elements it would  
6 entail?

7           A     Oh, I think they had an opportunity to study  
8 it, but it wasn't clear what they were responding to  
9 because of the nature of the questions. They are  
10 saying, well, how much would your volume drop when you  
11 get this reduction in frequency, at some time, and we  
12 don't know when, in the future. And I am sure that  
13 they had an opportunity to think about that.

14          Q     My question, however, is not about the  
15 questions they were asked. My question is about the  
16 opportunity for the surveyed individuals to study the  
17 elements, and understand the elements of five day  
18 delivery. You did agree that they had some such  
19 opportunity. What is your understanding of that  
20 opportunity?

21          A     I agree that I don't have any detailed  
22 understanding of the opportunity. They were given the  
23 opportunity, and I know that.

24          Q     Is it your understanding that they were not  
25 given a sufficient opportunity?

1           A     That's not my problem. I think they were  
2 probably given a sufficient opportunity. The problem  
3 was the questions that they were asked, and other  
4 problems that I referred to in my testimony.

5           Q     Would it be safe to say that your testimony  
6 on this docket is based primarily on your expertise as  
7 an economist?

8           A     Oh, absolutely.

9           Q     So would you say then that your testimony is  
10 based solely on your expertise as an economist?

11          A     Well, not solely. I mean, after all, I have  
12 taught in a business school for 30 odd years. 30 odd  
13 years indeed; 33 years. And I have been exposed to  
14 marketing types and other organization types.

15                   I do talk a bit in my managerial economics  
16 class about issues of demand and estimation, and  
17 problems of surveys, a very brief part of the class.  
18 So if you are in a business school, you have to be  
19 more than just a -- you have to get into stuff that  
20 may be arguably a lot less interesting than economic  
21 theory, but you have to get into some of that stuff.

22          Q     What scholarly journals do you read to stay  
23 current in your field as an economist?

24          A     Oh, I read one, the one that I edit, and it  
25 is called the Journal of Regulatory Economics. I was

1 the founder of that, and it has been going on since  
2 '89. I read that one on regulatory economics. I  
3 mean, every economist in the U.S. who is on the  
4 faculty of any decent place as an American economist  
5 would read it.

6 And I look at the major economic journals,  
7 plus the Journal of Regulatory Economics has 188 pages  
8 a year, of which we selected about 30. That is  
9 obviously a major part of my reading.

10 And then another major part of my reading is the  
11 reading all the papers for the Postal conference that  
12 I talked about earlier, and the book that we produced.

13 And also I read the papers  
14 for the other conferences that we have, and the ones  
15 that primarily focus on utilities, and to some extent  
16 on postal economics. So that sort of --

17 Q Are you able to attempt to quantify or  
18 qualitatively describe the relative portion of matters  
19 that you read for conferences, and the annual books,  
20 as compared to everything else?

21 A Conferences and books. The Journal of  
22 Regulatory Economics. I would say, no, I can't really  
23 quantify. I just can't. I never even thought about  
24 it actually. I think if I thought about it, I might  
25 not do it anymore.

1           Q     If you don't hold yourself out as a market  
2     research expert, which you said you don't, do you read  
3     any of -- let me read them all together. I am going  
4     to read some journal names to you. I think the answer  
5     is going to be no, and so we can deal with them all at  
6     once.

7                     But what I am interested in is The Journal  
8     of Consumer Research; The Journal of Marketing  
9     Research; The Journal of Marketing; The Journal of  
10    American Statistical Association; Marketing  
11    Science; and The Journal of the Market Research  
12    Society. Do you routinely read any of those?

13           A     Not routinely. I have read articles out of  
14    them occasionally from one or more of those, but not  
15    on a routine basis.

16           Q     Are you able to identify an example that you  
17    read recently or the most recently?

18           A     Not really, no. I can't answer your  
19    question, no.

20           Q     Okay. Do you understand these journals to  
21    be authoritative in their field?

22           A     I think that some of those are the top  
23    journals in the field, yes.

24           Q     Which ones would those be? Would you like  
25    for me to go back through them one by one?

1           A     Well, let me try and remember. I know that  
2     the Journal of Marketing Research is held high, and  
3     The Journal of American Statistical Association, that  
4     was another one. Those are the two major journals  
5     that I can think of, and what hit me right away that  
6     those are major journals.

7           Q     Dr. Crew, we have observed that you make  
8     repeated use of the word may, M-A-Y, in your  
9     testimony. Do you use that term as having any  
10    specific meaning to an expert in your field?

11          A     I wish I could say yes, but this is an  
12    uncertain world, and so what I would like to say is  
13    that I may have to say may, because of the inherent  
14    uncertainty.

15          Q     In connection with one of your uses of may,  
16    since lunch, you have indicated that it meant more  
17    probable than not. Is that generally true?

18          A     In this case, it is true. I don't think I  
19    want to go as far as what you just asked me to, and is  
20    it generally true, but in case I said it is true, that  
21    is my opinion.

22          Q     What alteration in meaning, if any, is there  
23    when you join together two statements, each of which  
24    is qualified with the word may?

25          A     Help me a little here of what you had in

1 mind.

2 Q On page four of your testimony, you claim  
3 both that survey respondents, one, "may not have fully  
4 understood" five day delivery, and two, two sentences  
5 later, that the ORC research "may" be subject to  
6 significant biases.

7 A Yes. Well, what I mean here is that I am  
8 actually being sort of generous here when I say that  
9 the ORC may be subject to significant biases, because  
10 they go on to show whether there is a definite bias,  
11 and in this case, it may be subject to significant  
12 bias because we're dealing with the issue of a  
13 hypothetical. But then subsequently I come up with  
14 this definite bias. So it could just as easily read  
15 "is."

16 Q So that conjoined use of the word "may"  
17 amounts to assertion of certainty? Is that what I  
18 heard you say?

19 A Well, it comes out that maybe I should have  
20 used it because it clearly shows that is subject to  
21 significant bias, but just referring to this  
22 particular instance here where we are talking about  
23 constructing hypotheticals, researching hypotheticals,  
24 that may would be okay if it is not absolutely  
25 certain, and can't be certain.

1           So with that qualification, it can't be  
2           certain, or there is going to be some uncertainty here  
3           on this particular issue, but later there is no doubt.

4           Q     I believe that we have agreed that market  
5           research is often used to inform business decisions  
6           and is accordingly used routinely by commercial  
7           businesses. Is that fair and accurate?

8           A     Oh, yes.

9           Q     In light of the full range of your  
10          expertise, including those in the business school, and  
11          other groups that you speak with, when should Opinion  
12          Research Corporation have chosen to conduct its market  
13          research, the market research that is the subject of  
14          two Postal Service witnesses' testimony, assuming  
15          hypothetically that opinion research had such a  
16          choice?

17          A     You are asking me when, or what are you  
18          looking for? Am I supposed to give you a number of  
19          months ahead of time, or what?

20          Q     Any way you can answer. You certainly  
21          criticized the timing of that research, and so I am  
22          asking for your expert opinion as to what timing would  
23          be superior.

24          A     Well, ultimately, you may not have  
25          alternatives, and you can do things quickly, and you

1 need to get things done quickly, and it may be that  
2 this is the only time available, and that's why I am  
3 probably asking the question when.

4 I mean, I guess the answer is that you do it  
5 when you have to, but I don't know.

6 Q Do you have any specific understanding of  
7 the challenges the Postal Service faced converting the  
8 Market Research quantitative results into volume  
9 changes for respective products?

10 A Yes, I think I have some idea.

11 Q And what is that idea based upon?

12 A Well, it is based upon the notion that the  
13 Postal Service has got its data on its individual  
14 products, and it has also got or it has also studied  
15 its demand over time, and presumably you could bring  
16 some of this into that.

17 Q Is it your understanding that is what the  
18 Postal Service did in this instance?

19 A It is something like that, yes. I mean, I  
20 don't know the details. I don't recall the details  
21 and if they are provided there.

22 Q Are you aware that this is a subject that  
23 was explored in Chairman's Information Requests?

24 A No.

25 Q I believe you answered earlier that you

1 didn't, or we concluded together that you hadn't  
2 reviewed any materials being held non-publicly by the  
3 Commission.

4 A Yes.

5 Q So that means that you did not take a look  
6 at the Postal Service library reference denominated  
7 NP2, or USPS-LR-N2010-1/NP2; is that right?

8 A You have given me all these numbers. I  
9 don't recognize those numbers. If you want to show it  
10 to me, I will look at it, but based on those numbers,  
11 I can't answer anything.

12 Q Fair enough. In this context, the NP2  
13 stands for non-public number two, and it would have  
14 been in a light blue binder, unlike the brown ones  
15 that we showed you this morning. Did you look at any  
16 such item?

17 A No, no blue binders.

18 Q That's what I expected. Thank you. To the  
19 best of your understanding was there any difference  
20 between the element of five day delivery as they were  
21 studied in the operational research, compared to five  
22 day delivery as it was proposed by the Postal Service  
23 for implementation?

24 A That is a question that I don't understand.

25 Q Let me see if I can break that down a little

1 bit. Would you agree that a description of five day  
2 delivery was necessary for informing Respondents and  
3 subjects in the ORC market research?

4 A Yes.

5 Q Did you read the testimony of Witness  
6 Polcrano, USPS-2-1? That is the lead testimony that  
7 we mentioned earlier.

8 A I did some time ago, quite a while ago, yes.

9 Q Were you able to pick out distinctions,  
10 differences, between what the market research subjects  
11 were given to understand about five day delivery from  
12 the proposal as embodied in that lead testimony?

13 A I think you're going to have to help me with  
14 this one.

15 Q I'm just asking if you're aware that there  
16 is a difference between what was studied and what the  
17 Postal Service has proposed for implementation?

18 A Well, I'd expect there to be a difference  
19 because, you know, the sort of, I don't actually  
20 recall what it was, but, you know, they had different  
21 purposes about it. I mean, ORC was trying to measure  
22 something. Be the sort of same what we're planning on  
23 doing, Polcrano.

24 Q In ideal circumstances should there be,  
25 then, a difference between what's studied and what's

1 proposed for implementation?

2 A Well, basically what you're doing, what's  
3 going on here, if I understand it correctly, is you're  
4 having someone like ORC analyze what you expect the  
5 effects are going to be. I mean, based upon the  
6 results of that, you implement a policy. There will  
7 be some differences, I mean, but you're basically  
8 looking at different things. That would be sort of  
9 apples and oranges. The apples are the ORC where  
10 they're basically undertaking an exercise in what's  
11 called positive economics. You're trying to find out  
12 what's actually happening. And then there's the  
13 proposal as to what you do after you've got that  
14 evidence. In fact, a normative economics, normative  
15 analysis. So that's where you've got me confused  
16 because it seems to be one's positive and one's  
17 normative, and that's why I'm having difficulty  
18 answering just one.

19 Q So for purposes of the distinction between  
20 normative and positive approaches, you would expect to  
21 see a difference between what's studied in the  
22 research and what's proposed for implementation.

23 A Yeah. I mean, it's an apples and oranges.  
24 Right. Okay, you base a decision, you make a decision  
25 based inter alia on the market research and then you

1 implement it. That's the normative aspect. One of  
2 the inputs into the action you take. So there is, I  
3 mean, if that's what you mean by difference, then yes.

4 Q Okay. So you would expect a difference  
5 between the two. Can you identify any single element  
6 that was different in the two in this instance?

7 A I can't recall any. No.

8 Q My colleague is going to provide you and  
9 some others who may be interested copies of three  
10 pages, the third of which has only a line or two, from  
11 the testimony of witness Polcrano and, well, I'd ask  
12 you to take a look at that first. Had you previously  
13 seen that material?

14 A This was part of the testimony, if I recall.  
15 It looks familiar.

16 Q Okay. I believe you also testified that you  
17 read the testimony of witnesses, well, I'll identify  
18 the witnesses, Elmore Yelch, who is an ORC employee,  
19 and Whiteman, a Postal Service employee, and that they  
20 were the two market research witnesses for the Postal  
21 Service in this case, is that right?

22 A Gregory Whiteman and Ms. Elmore Yelch. Yes.  
23 I can't remember her first.

24 Q Did you read the section of witness  
25 Whiteman's testimony? It's titled *Market Research*

1     *Subjects' Reliance Upon the Operational Concept:*  
2     *Means Responses Overstate Likely Marketplace Response.*

3           A     I don't recall, but I imagine I must have  
4     done it, you know, a few months ago, but I don't  
5     recall reading, but I think I did.

6           Q     Okay. I'm still circling this question of  
7     the differences between what was studied and what was  
8     proposed. Have I jogged anything with the last two --  
9     the comments about the Whiteman and Polcrano  
10    testimonies? Do you recall any specific element of  
11    distinction?

12          A     Not that was significant to me.

13          Q     Okay. Your testimony at page 5. On page 5  
14    of your testimony, I believe it's in the first full  
15    paragraph, you state that the ORC research has a  
16    problem because it was performed at one point in time.  
17    Do you believe that market research is valid only if  
18    it's done over a time series?

19          A     Okay. No. It is possible with market  
20    research to do it in, well, it's always done over a  
21    period of time, may take a week or two or something,  
22    but, you know, that's what we mean by a point in time  
23    as opposed to over a more lengthy period of time,  
24    months or years. It really is possible with market  
25    research. It's done all the time. It's done by

1 surveys that are conducted in a short space of time.  
2 So the answer to your question is it's sort of, but  
3 no, it isn't. Only if it's done over a time period,  
4 or it can be valid without that. You don't have to  
5 have that restriction.

6 Q Do you believe that businesses strive to  
7 make business decisions based on information that  
8 minimizes uncertainty regarding future customer  
9 purchase decisions?

10 A Minimizes or reduces. Yeah. Yes.  
11 Actually, let me take that back. Minimizes is a bit  
12 too strong. I'm not sure you can ever minimize  
13 something like this. You don't know what the minimum  
14 is. Reduces, I'd be more comfortable with.

15 Q Okay. And would you accept limits as a  
16 useable term as well?

17 A Limits?

18 Q The nod doesn't show up too well on a  
19 transcript. You nodded your head to me.

20 A Sorry. What was that? A nod? Would I  
21 accept limits? Yes, I would. Yeah.

22 Q Thank you.

23 A And yet -- right. I mean, I guess the  
24 stenographer could say witness nods head.

25 Q It could, but we just try to keep aware of

1 those elements ourselves.

2 A Absolutely.

3 Q Do you believe the only way for a business  
4 to limit such uncertainty is through use of an  
5 econometric analysis?

6 A It's not the only way. Econometrics is one  
7 of the tools you can use. Of course, as an economist,  
8 I have a bit of a vested interest in it.

9 Q What is your understanding of how the ORC  
10 research factored into the Postal Service's  
11 consideration of whether to pursue five day delivery

12 A I think it was pretty important. I think  
13 that it was a major plank in their decision. I think,  
14 well, I mean, I haven't asked them. I haven't had the  
15 opportunity of asking them how important it was, but  
16 that's my opinion, yeah, but it was important to them.

17 Q And would it be appropriate if you were to  
18 ask to pose that question to opinion research or the  
19 Postal Service?

20 A I meant the Postal Service. That's who I  
21 meant. Sorry. I shouldn't have used them. Yeah. I  
22 should have used the Postal Service.

23 Q In the first full paragraph or what begins  
24 as the first -- let me restate that. On the third  
25 line of page 7 you characterize the customer survey as

1 a "thin read upon which to make an unprecedented and,  
2 in practical terms, irreversible change in  
3 operations". At the very least, that sentence of  
4 yours appears to confirm your opinion that the market  
5 research was the primary or decisive element in the  
6 Postal Service's decisionmaking, is that correct?

7 A Yeah. I thought it was a major part of the  
8 decisionmaking. Yes.

9 Q And given that characterization, should thin  
10 read be read as words of exclusion to other reasoning  
11 or might there have been something beyond the market  
12 research that the Postal Service considered?

13 A There might have been. Yes. I mean, you  
14 know, I did suggest econometric analysis might have  
15 helped.

16 Q Did the Postal Service rely on anything  
17 besides the market research in determining to push  
18 forward with its proposal now subject to this request  
19 for an advisory opinion?

20 A Yeah, it did, and there were some other  
21 points made, I can't recall the details, but it  
22 exercised its, management exercised its informed  
23 judgment on this, as well as the market research, and,  
24 indeed, it's been quite likely that management was  
25 thinking of this idea of five day delivery for some

1 time and then realized there was a need to provide  
2 some evidence and the market research survey was used  
3 to provide some evidence. You know, this originally  
4 was an idea, must have been an idea that the Postal  
5 Service management thought was one that was worthy of  
6 consideration, so it must have relied on at least its  
7 own judgment.

8 Q Is it your opinion that the entire  
9 population in the Postal Service's domestic service  
10 area is sympathetic to the Postal Service?

11 A That's pushing it.

12 Q What are you comfortable with?

13 A I couldn't say the entire population. I  
14 can't, sir. I can't. I can't answer that yes. I  
15 don't know the answer to that, actually. I mean, it's  
16 such a strong, it's a sort of all-embracing question  
17 that I really have trouble answering.

18 Q Well, do you think that perhaps the majority  
19 of that population is sympathetic to the Postal  
20 Service?

21 A I don't understand what it means to be  
22 sympathetic in the context of a business situation. I  
23 mean, if I asked someone, well, are they sympathetic  
24 to General Motors? I just, I just don't know what it  
25 means. I just don't know how to answer something like

1 that.

2 Q How would the market research results have  
3 varied, or how may they have married -- excuse me.  
4 Let me start again. How would the market research  
5 results have varied if the materials did not include a  
6 statement about cost cutting efforts already made by  
7 postal officials?

8 A Well, this is sort of tricky because one of  
9 the things that's rather been well-established in  
10 these kind of survey research issues is that when you  
11 start these kind of questions, these kind of  
12 questioning, one factor that they sort of work is the  
13 desire of the respondent to please the interviewer,  
14 and if you sort of explain this up front, it gives,  
15 the respondent might well think, okay, the interviewer  
16 would like me to say, he would like me to come up with  
17 a particular answer. They want to say something that  
18 will please him. In this case, if I was trying to  
19 please the interviewer, what I would say is I would  
20 come up with a low figure because that, you know,  
21 that's what I'd be thinking would please the  
22 interviewer, right? I think that may be a common  
23 reaction, this business of -- you can influence the  
24 respondent in so many ways and then, but once you get  
25 the situation where the respondent's trying to please

1 the interviewer, then you're going to get biased  
2 results. This is a well-known phenomenon.

3 Q You were critical about the statement  
4 regarding cost cutting that was provided to the  
5 respondents, are you not?

6 A What are you thinking of in here?

7 Q Well, I don't have a cite for that. It's in  
8 your testimony. It's been suggested that we look at  
9 the bottom of page 4, the last three lines.

10 A Okay. That was what I was referring to a  
11 moment ago when I said you might please the  
12 interviewer by giving a low figure because obviously  
13 you want it to appear that this isn't going to cause  
14 disastrous consequences.

15 Q Okay. So if I understand what you're  
16 saying, had that statement not been made, then the  
17 change estimates for the projections of change under a  
18 five day environment would have been still larger, is  
19 that what you're saying, or smaller?

20 A My thought is they would probably have been  
21 larger based upon this notion of pleasing the  
22 interviewer, but obviously, I cannot say for certain.  
23 Nobody can.

24 Q Thank you. That was a genuine question I  
25 didn't know the answer to. I was trying to figure out

1 your statement. Thank you. Did you consider or  
2 attempt an econometric analysis in connection with  
3 your appearance in this docket?

4 A I state in the interrogatories, no, I didn't  
5 attempt any --

6 Q Pardon?

7 A I didn't attempt any econometric analysis.  
8 No.

9 Q Thank you. But you do generally recommend  
10 in your testimony use of econometric evaluations as a  
11 support for decisionmaking, do you not?

12 A One of the tools available. Yes.

13 Q And you're suggesting that the Postal  
14 Service might have done well to include that in its  
15 evaluation of five day delivery, is that correct?

16 A I would have liked to have seen some  
17 econometric results. It may be that the Postal  
18 Service didn't have anything available in the short  
19 time it had to put this together, but it would have  
20 been helpful to have seen such results.

21 Q Well, given your insight into the utility of  
22 econometric analysis, how would such analysis have  
23 been wielded in this context?

24 A You mean you're asking me to give you a  
25 brief outline of a kind of survey, a kind of

1 econometric analysis that would need to be performed?

2 Q Close enough. Yeah.

3 A Yeah. Well, I'm not sufficiently well-  
4 prepared to do that right now. It would take some  
5 more work. This wasn't something that came up in the  
6 course of the work that I did that I saw a need to do  
7 a study, and so I can't give you anything that would  
8 be very useful right now.

9 Q Is it your testimony that the entire Postal  
10 Service direct case in this proceeding is devoid of  
11 econometric analysis? I'm sorry. Well, it's not what  
12 I meant to say. Is devoid of economic analysis.

13 A Devoid of economic analysis? No, not devoid  
14 of economic -- there's economic analysis here.

15 Q Well then, could you explain that response  
16 while considering the sentence that crosses the page  
17 barrier between pages 7 and 8 of your testimony which  
18 reads, "The Postal Service's failure to engage in any  
19 rigorous economic analysis of demand effects of their  
20 proposal, but rather to rely solely on the ORC study  
21 further puts in doubt its projections regarding the  
22 impact on mail volume of ending Saturday delivery."

23 A You want me to explain it?

24 Q You've just testified that the Postal  
25 Service did undertake economic analysis, and then you

1 have criticized it in your testimony for doing, as I  
2 think you put it, no more than the ORC research. I'm  
3 asking how those make sense together.

4 A Well, okay. The Postal Service did use some  
5 economic analysis. That's correct. The point I'm  
6 making is that it could have used, it needed to do  
7 more than it did with just the ORC market research.  
8 It needed to use rigorous economic analysis to  
9 estimate these demand effects. I mean, those two  
10 statements are not inconsistent. Okay. They did use  
11 economic analysis in the testimony, but they didn't  
12 use maybe enough or the right kind. I mean, it's not  
13 necessarily inconsistent.

14 Q Well, are you saying that the ORC research  
15 is the only economic research or the economic  
16 examination undertaken by the Postal Service?

17 A Well, I said the ORC research was sort of  
18 economic -- it's sort of more marketing research.  
19 There are other witnesses there where there's some  
20 economic analysis in there. Like I seem to remember  
21 looking at Bradley, for example, there was some that  
22 Corbett had relied on. Okay. There are places where  
23 they've used economic analysis.

24 Q You've analyzed the Postal Service as it  
25 exists in its economic market, or markets, for a good

1 portion of your career. Looking at the sentence  
2 starting on the second to last line on page 8, is it  
3 your testimony that Postal Service competitors  
4 currently have no advantages over the Postal Service?

5 A No.

6 Q What advantages now exist over the Postal  
7 Service?

8 A Well, the competitors in the package area  
9 have considerable advantages over the Postal Service.  
10 Now, in mail it's a different matter because of the  
11 reserved area, the monopoly. But in the package  
12 service, competitors have huge advantages. I think if  
13 you sort of asked me to put my finger on what I  
14 thought the important advantage they had was, the  
15 competitors really know how to deal with big business  
16 in a way the Postal Service has not been successful.  
17 Big business contracts, packaging logistics, those  
18 sort of products. They have huge advantages there. I  
19 mean, I can name names like FedEx, UPS, the obvious  
20 names that people -- everyone knows who I'm thinking  
21 of, everyone knows of whom I'm thinking.

22 Q Don't think there's a problem with their  
23 being mentioned.

24 A I'll mention and I'll name names.

25 Q You're done with your answer?

1 A I'm done.

2 Q I'm trying not to interrupt.

3 A That's all right. Yeah. Appreciate that  
4 courtesy.

5 Q So you would agree that today Postal Service  
6 competitors do indeed press and pursue those  
7 competitive advantages they perceive, is that right?

8 A Yes. Definitely in the parcel area big  
9 time. Of course, they also attempt to work through  
10 the regulatory and political process. I imagine the  
11 Commission has noticed. Yes. It's not gone  
12 unnoticed, I agree.

13 Q In the first full paragraph on page 9, you  
14 project that volume loss will both be greater than  
15 USPS estimates, and that losses due to five day  
16 delivery will accelerate over time. Analytically, how  
17 can one distinguish volume loss due to five day  
18 delivery from volume loss driven by macroeconomic  
19 factors?

20 A Where are you looking? I'm not seeing this.

21 Q It's on page 9. First full paragraph  
22 starts, "In sum".

23 A Okay. In sum, above the -- yeah. Goes a  
24 one time honest job. That's what you're thinking of,  
25 right -- unreliable and ignores the dynamics of the

1 market. Initial job may be far greater and may grow  
2 substantially over time.

3 Q Well, we've now successfully quoted the  
4 language you use, and I'm asking how one can  
5 distinguish between volume loss carved by or driven by  
6 implementation of five day delivery from volume loss  
7 driven by other factors.

8 A Well, that's where econometric analysis  
9 comes into the situation. You basically have got to  
10 do an econometric study. That gets, addresses the  
11 issue of other things being equal. Ceteris paribus.  
12 Econometricians might, for example, in particular  
13 studies correct for size or for income, and it just  
14 depends on what you're doing. Macroeconomic activity  
15 might be a variable how you would try and distinguish  
16 between that and something else where it was related  
17 to volume loss. I mean, what you would need to do,  
18 what would happen is you'd have the, you'd change your  
19 five day delivery and you'd have to do time theories.  
20 You'd need time theories which would show, I mean, and  
21 have a number of variables in there. One would be  
22 economic activity. You'd attempt a control for these.  
23 That's roughly how you'd do it without going into the  
24 details.

25 Q Whether done prospectively or

1 retrospectively, is it your testimony that using  
2 econometric analysis one can distinguish what Postal  
3 Service volumes will be in 2013 with and without five  
4 day delivery?

5 A I can't, don't think you can do it right now  
6 because you don't have the data. It hasn't happened.  
7 I mean, you could do some type of simulation, I  
8 suppose, a simulation exercise, but it hasn't  
9 happened.

10 Q And assuming we were looking retrospectively  
11 in 2016, would one be able to determine what volumes  
12 in 2013 would have been with and without five day  
13 delivery implemented on a certain date?

14 A Don't like the term determine. I'd be much  
15 more comfortable with the term estimate. It should be  
16 possible to come up with an estimate. Can't say how  
17 good it would be without the details of the study.

18 Q Did you have cause to or did you actually  
19 examine analytical details of the Postal Service  
20 underlying its projected volume decreases, its cost  
21 savings estimates or its transition costs?

22 A Well, we discussed the volume estimates, .71  
23 of a percent, and I have indicated how the ORC was  
24 biased downwards. So I did have cause to examine  
25 that. Now, the other question you raised was -- so

1 that was the first part of it. Now, what was the  
2 second part of the question?

3 Q Cost savings estimates.

4 A Cost savings estimates.

5 Q And the third was transition costs.

6 A Well, the cost savings estimates, I looked  
7 at some of the testimony and basically I decided,  
8 along with the discussion with Paul Kleindorffer and  
9 Mr. DeChiara, that we had enough here on our plate  
10 with these ORC estimates that we were not going to get  
11 into the details of critiquing them. However, at one  
12 stage we thought about it when we were looking at, I  
13 think it was Bradley's testimony. Now, the transition  
14 costs, we put a little bit of thought into that one.  
15 We had extensive discussion of that. As soon as we  
16 saw a \$110, we thought, well, \$110 million? That's a  
17 drop in the bucket in postal terms.

18 Then we read some of the testimony that  
19 explained what it was that was in the transition  
20 costs, primarily, I think, compensation you'd have to  
21 give to employees for early lay offs or something like  
22 that, and no account was taken of cost on consumers,  
23 all the kind of unforeseen costs that occur when you  
24 make major changes. So that's basically what we did,  
25 and we concluded that the \$110 was a very limited and

1 very optimistic figure. A one time cost of \$110  
2 million.

3 Q Given that we've spent considerable time on  
4 the volume changes, what specific material did you  
5 need to examine in order to do the evaluation you did  
6 of the cost savings estimates, and also of those  
7 transition costs?

8 THE WITNESS: I have a question. Am I  
9 allowed to stipulate something? Can I sort of say  
10 what my understanding is or it is up to the lawyer to  
11 stipulate it?

12 CHAIRMAN GOLDWAY: You're certainly allowed  
13 to do whatever you choose. If you'd like to consult  
14 with your attorney, I mean --

15 THE WITNESS: I'd like to just to take a  
16 moment with him on this because this focus on these  
17 costs is just --

18 CHAIRMAN GOLDWAY: Why don't you take a  
19 moment with your attorney to clarify what it is you'd  
20 like to stipulate. That might simplify the  
21 discussions, if he does that.

22 THE WITNESS: I hope so.

23 (Whereupon, a short recess was taken.)

24 MR. DECHIARA: Thank you, Madam Chairman.

25 CHAIRMAN GOLDWAY: All right. You want to

1 respond now to the question?

2 THE WITNESS: Okay.

3 MR. DECHIARA: Maybe you could repeat the  
4 question just so we know where we are.

5 BY MR. HOLLIES:

6 Q I believe I asked you what analytical  
7 details you had cause to examine in connection with  
8 your analysis of cost savings estimates and transition  
9 cost estimates.

10 A Well, I answered the question on transition  
11 costs. In terms of the other costs, we did not  
12 perform a study.

13 Q I think I'll just move on. How far in  
14 advance of five day implementation, and separately, of  
15 legal authorization to proceed, should detailed  
16 implementation plans be developed?

17 A It's tough to give a definite answer on  
18 that. The detail implementation plans should have  
19 started really when the postal management first got  
20 the idea that it might want to make a major change of  
21 this kind. It's very hard to give you an answer. I'd  
22 love to be able to say to you, okay, 15 months or  
23 something, but it just varies with the complexity of  
24 the project. I mean, some projects, like a nuclear  
25 power plant, need maybe 20 years you have to start

1 before, maybe 15 or 20 years. It just varies with the  
2 project, and I wouldn't like to come up with a pointed  
3 estimate for you on that.

4 Q Yet you criticize the Postal Service for  
5 failing to include certain analytical details you  
6 think are necessary, a detailed implementation plan  
7 being part of that. Anybody can recognize there's  
8 still a significant amount of time between now, as we  
9 sit here today, and whenever the Postal Service might  
10 be able to actually effectuate, or plan to effectuate,  
11 five day delivery, and so I'm asking you to contrast  
12 the available amount of time with your criticism so as  
13 to tell the Postal Service when, even on the Postal  
14 Service's ideal schedule, you think those plans should  
15 be available or should be completed.

16 MR. DECHIARA: I would object to the form of  
17 that question. I don't know how many clauses were  
18 piled on top, one after the other, but I could not  
19 follow that question. I would also note that within  
20 that convoluted question was testimony by Postal  
21 Service counsel as to the asserted fact that there is  
22 a great length of time between now and when  
23 implementation may occur, so on that grounds, I would  
24 object to the question.

25 MR. HOLLIES: I guess I would start by

1 asking if the witness is able to answer the question  
2 as stated. If not, I'll work from there.

3 THE WITNESS: Well, I'm not going to answer  
4 a question with an objection on the table. I may be a  
5 greenhorn, but I'm not that green.

6 CHAIRMAN GOLDWAY: Is there a way you can  
7 simplify the question?

8 MR. HOLLIES: Certainly is.

9 CHAIRMAN GOLDWAY: That might help moving  
10 things forward.

11 BY MR. HOLLIES:

12 Q Do you have any understanding of when the  
13 Postal Service might first be able to implement five  
14 day delivery?

15 A I have an idea.

16 Q And what is that?

17 A It could be a few years down the road. Two  
18 years down the road, three years, a little while.  
19 It's not going to be -- this year, for certain. I  
20 doubt it will be next year. So I have an idea, but  
21 that's all it is.

22 Q And so you're willing to criticize the  
23 Postal Service for not having undertaken certain steps  
24 when it might yet have years to do so, is that  
25 correct?

1           A     Well, years, I mean, you know, I said one to  
2     three years maybe sort of thing. No. I'm criticizing  
3     them -- the Postal Service because part of the reason  
4     you need to be working on your implementation plan is  
5     so you'll come up with good estimates of items like  
6     transition costs. One of the big things for me about  
7     an implementation plan, it gives you a better estimate  
8     of transition costs. The fact that this was such a  
9     small estimate and that what was described in the  
10    transition costs was so minimal led me to conclude  
11    that not much thought had been given to  
12    implementation. Now, I may be unduly harsh in  
13    thinking that, but that's what I concluded because  
14    there was so little involved in these transition  
15    costs.

16           Q     How much experience, if any, do you have  
17    managing large, complex operations like the Postal  
18    Service?

19           A     I've never managed a large, complex  
20    organization, so the answer is none.

21           Q     What logistical glitches has the Postal  
22    Service failed to project accurately?

23           A     What are you thinking of?

24           Q     That's my question to you.

25           A     Yeah, but is there some basis for this in

1 the testimony here about logistical glitches? If you  
2 can relate this to the testimony, I might be able to  
3 give you a more informative answer.

4 Q Well, the word logistical reasonably relates  
5 to the necessary steps for implementation. You're  
6 criticizing the Postal Service for not having taken  
7 comprehensive steps, and so I'm asking what you want,  
8 what you think the Postal Service should have done. I  
9 could refer you to the bottom of page 10, and also to  
10 the last two sentences in Footnote 5 on that page to  
11 provide context around my question.

12 A Yeah. What I say here is it's hard for me  
13 to imagine how such a monumental change in the Postal  
14 Service's operations would not give rise to logistical  
15 glitches. One of the points about the footnote here  
16 is that when you've got complex projects, complex  
17 change, there all sorts of aspects that you can't  
18 foresee and logistical glitches is one possibility.  
19 As to examples of logistical glitches, I just want to  
20 think for a moment as to possible examples.

21 Q That is my question.

22 A Yeah. Just give a moment on that. Well,  
23 back in the 1960s there was a huge logistical glitch,  
24 I think it was in Chicago, which had a disastrous  
25 effect on the mail. I don't know the details of how

1 that occurred. Now, it could be that when you go to  
2 five day delivery, there could be a pile up of mail  
3 initially. It could be the confusion among employees,  
4 among customers.

5 Q Have you read the testimony on those topics?

6 A I believe I have. I think, was there some  
7 testimony by Carney? Wouldn't he have something  
8 related to that? Was it Carney's testimony? I did  
9 read the, yeah, something on this.

10 Q My point here is that you're criticizing the  
11 Postal Service for failing to anticipate the kinds of  
12 problems that will be coming, and I'm challenging you,  
13 in turn, to please identify any challenges the Postal  
14 Service has failed to anticipate.

15 A Actually, well, that's true. I wasn't  
16 talking about the Postal Service in the 1960s. That  
17 was the United States Post Office.

18 Q No. I'm talking about your testimony.

19 A Just say the question again.

20 Q Well, we started with what logistical  
21 glitches has the Postal Service failed accurately to  
22 project?

23 A Well, we won't know actually until it  
24 happened, but I gave an example of a possible build up  
25 of mail, possibly the routes may have to be

1 redesigned, they may not be redesigned in time, there  
2 might be problems with excessive overtime. There are  
3 a number of issues like that. Customers may get  
4 confused, there may be a number of -- it's such a  
5 complex organization.

6 Q Yes, it is.

7 MR. DECHIARA: I would ask counsel to let  
8 the witness finish his answer.

9 THE WITNESS: Well, I'm sort of done. So  
10 I'll end with there are innumerable opportunities for  
11 things to go wrong, and since, as I've admitted, I'm  
12 not ever managed a large organization like the Postal  
13 Service, and I'm not able to identify particular ones,  
14 but we'll know when they happen.

15 BY MR. HOLLIES:

16 Q Thank you for that. Is any major element of  
17 the Postal Service plan for five day delivery at least  
18 adequate, in your opinion?

19 A Let me think. Well, I didn't contest the  
20 cost savings, which I think is a major part of it.

21 Q So do I understand you to be saying that the  
22 Postal Service estimates of cost savings are at least  
23 adequate?

24 A Yes, I would, but remember, they have to be  
25 coupled with the demand estimates and with the

1 transition costs, but the other cost savings, yes, I  
2 would say so. I didn't contest them.

3 Q What experience in any capacity do you have  
4 working with large mailers?

5 A Large mailers. I've talked to a few of  
6 them, but I've never actually worked with them. I've  
7 done some what I thought were large mailings myself  
8 from the center, some search and regulate industries,  
9 once had to mail over 200 books to various locations  
10 in the U.S., Canada and the rest of the world, and at  
11 least 30 of them came back even though we had the  
12 Postal Service pick them up, and the bullseye put on  
13 them and everything, and they still sent them back.  
14 So, you know, my personal experience is not the large  
15 mailing or large mailers, but that was my experience  
16 of trying to do what to me was a large mailing.

17 Q What Postal Service manuals or other  
18 guidance, policy documents, do you think could most  
19 use simplification?

20 A Wow. As you asked me what economics do I  
21 read, and I indicated where I read my economics, I  
22 actually don't have time or the stomach to go through  
23 those kind of manuals. I mean, they're pretty thick  
24 things and quite dangerous to handle. If you drop one  
25 of those on your toe, you might need surgery.

1 Q Well, if you have no specific experience  
2 with those manuals, how did you arrive at your  
3 conclusion that they required simplification?

4 A Just because they're so huge, just because  
5 I've heard individuals give papers on the complexity  
6 of these and how un-user friendly they were.

7 Q You may have answered this but what Postal  
8 Service manuals have you ever read?

9 A I think I indicated that I haven't.

10 Q I thought so, too. When most recently did  
11 you personally undertake any econometric analysis that  
12 was published?

13 A That was answered in the interrogatories.  
14 That was published, I think, in 1985. That was the  
15 one in what's called the *Journal of Institutions*  
16 *Theoretical Economics*.

17 Q Is that a peer-reviewed journal?

18 A Yes.

19 Q When did you last undertake econometric  
20 analysis that was relied upon by your client, or  
21 perhaps even others, to make business decisions?

22 A That's not the kind of work I do, so the  
23 answer is never.

24 Q Do you observe in your testimony that the  
25 relatively -- let me try again. Do you observe in

1 your testimony that the existing, perhaps anomalous,  
2 circumstances, with a historic volume loss and a  
3 similarly historic consideration of modifying street  
4 delivery practices, presents some analytical  
5 challenges?

6 A Yes.

7 Q How typically is econometric analysis used  
8 to project volume consequences for historic levels of  
9 change?

10 A For historic levels of change, it's all the  
11 time it's -- the data used. You're talking about  
12 time, but I'm not sure that's what you mean. It's  
13 used frequently. Yeah. Very common.

14 Q Could you give an example?

15 A Give an example of when econometric analysis  
16 is used?

17 Q When historic changes --

18 A I see. I understand the question now.  
19 Okay. You're talking about maybe -- when you say  
20 strike, you mean maybe cataclysmic or something like  
21 that, right? Major change.

22 Q Well, the foundation for the question was  
23 the previous one where you point out that the market  
24 research was taken at a time of historically high  
25 volume loss, and obviously at a time when the Postal

1 Service is considering a change that would is itself,  
2 or would itself, be historic, that is, implementation  
3 of five day delivery, and so my question built on that  
4 is how typically is econometric analysis used to  
5 project volume consequences for historic levels of  
6 change?

7 A These kind of levels of change, major levels  
8 of change, you don't get these kind of things  
9 happening very often, so, you know, it's hard to use  
10 the term typically, but if, you've got to go with what  
11 you can get, and in this case, the Postal Service went  
12 with a quick market research sort of a, but if you do  
13 with that, you have to understand the limitations of  
14 that.

15 Q Thank you, but my question was about  
16 econometric analysis.

17 A And I think I answered it. I think I  
18 answered the beginning of the question. I guess we  
19 can try having it read back, but I thought I said  
20 because these changes are by their very nature very  
21 rare, you're not going to get many instances where  
22 econometric analysis can be used in these cases.

23 Q That is where I thought I was headed. Can  
24 you give an example where it is used?

25 A You mean on a regular basis?

1 Q No. I mean for the same historic levels of  
2 change.

3 A If you've got to come up with something in  
4 short order, I think it's going to be hard to come up  
5 with a kind of econometric analysis.

6 Q That's fine. That's what my expectation  
7 was. Okay. Please refer to your response to our  
8 Interrogatory No. 4 to you.

9 A I don't have that handy, incidentally.

10 MR. HOLLIES: Counsel, are you able to equip  
11 your witness with his responses?

12 THE WITNESS: Actually, I can get it out my  
13 briefcase. That would be fine with me.

14 MR. DECHIARA: Well, the Postal Service does  
15 not have a copy of the document they would like the  
16 witness to review?

17 MR. HOLLIES: It's common practice for a  
18 witness to have interrogatory responses in testimony.

19 MR. DECHIARA: I've been practicing law for  
20 20 years. And the kind of practice I know is when you  
21 cross-examine a witness and you want him to look at a  
22 document you show them the document.

23 THE WITNESS: I actually thought this was a  
24 closed book exam, else I would have brought my  
25 briefcase with me.

1           MR. HOLLIES:  Madame Chairman, could the  
2 witness be allowed to get his copies?

3           CHAIRMAN GOLDWAY:  Yes, he certainly can.  
4 How much longer do you think you have?

5           MR. HOLLIES:  Not that much.

6           CHAIRMAN GOLDWAY:  Because I think the  
7 Commissioners have a few questions as well.

8           Should we take a break now or should we wait  
9 until after you're done with your questions.

10          MR. HOLLIES:  I could see this easily going  
11 until four.  I have begun cutting and shaping.  We  
12 could take a shorter break.

13          CHAIRMAN GOLDWAY:  I think perhaps when  
14 you're done with this question, we can take a five-  
15 minute little housekeeping break.

16          THE WITNESS:  Okay.  I think I have them  
17 here.

18          MR. HOLLIES:  Okay.  Thank you.

19          BY MR. HOLLIES:

20           Q     Part 2 of Interrogatory 4 to you from the  
21 Postal Services reads, "Would you regard provision of  
22 cross-functional 'temporal templates or plan for  
23 implementation' by the Postal Service to the  
24 government accountability office over six months prior  
25 to implementation to satisfy accepted principles

1 regarding timely submission of such templates/plan?"

2 A Could you tell me the number again, would  
3 you?

4 Q 4(C). Your response simply states, "Refer  
5 to my response to B. Now Question C, by its form,  
6 invites a yes or no answer, and perhaps with an  
7 explanation. I do not see any explanation in your  
8 response to B. So I'm still looking for the response  
9 to Part C.

10 A You don't see B as --

11 Q Your microphone is a bit aside.

12 A I said in response to B, I said there's no  
13 single answer to this question. Well, that's why I  
14 said refer to B because it's basically the same  
15 answer.

16 Q So if it says to characterize your testimony  
17 then as criticizing the Postal Service for failure to  
18 take steps when it's not clear that such steps could  
19 or should have yet been taken.

20 A No.

21 Q Why not?

22 A Well, these are complicated and you're  
23 asking me to put a very definite number on something  
24 that's really complicated. And I can't say whether  
25 six months is sufficient.

1           Q     Can you say with certainty that it's  
2     insufficient?

3           A     I can't. No. I can say very few things  
4     with certainty.

5           Q     So is your testimony then criticizing the  
6     Postal Service for not undertaking steps that it might  
7     or might not have needed to take by this time? Is  
8     that accurate -- an accurate paraphrase of your  
9     testimony?

10          A     I think that's close. I wouldn't actually  
11     use those words, but it's close.

12          Q     If the semantic proximity is moderately  
13     sufficient, I'll leave it at that and move on.

14                 MR. HOLLIES: Let's take the break.

15                 CHAIRMAN GOLDWAY: Thank you.

16                 We'll take a five-minute break. We'll be  
17     back at 3:15.

18                 (Whereupon, a brief recess was taken.)

19                 CHAIRMAN GOLDWAY: Mr. Hollies?

20                 MR. HOLLIES: Thank you, Madame Chairman.

21                 BY MR. HOLLIES:

22          Q     Dr. Crew, I would like to move next to your  
23     responses to Questions 5 and 6, which are parallel.  
24     And I'm going to take them one at a time, but  
25     basically the same questions for both. Do you

1 understand that Question 5 was intended to inquire  
2 into your knowledge, understanding, and use of  
3 quantitative market research?

4 A No, I understood it to read what it said,  
5 have I conducted, directed, or managed. And I  
6 haven't. I didn't read anything into other than what  
7 was there.

8 Q That's fair enough.

9 Q Part C of that interrogatory asks you to  
10 provide a copy of a study that you have conducted,  
11 directed, or managed. Have you done so? Is a copy  
12 attached to the response?

13 A No. I participated in studies, obviously.  
14 But I've not actually directed.

15 Q You've not actually directed.

16 A Uh-hum.

17 Q Okay, maybe that's where we're going to go.  
18 That might be a short answer. Do you provide a  
19 summary of the study's objectives?

20 A What study's objectives?

21 Q The study that you were asked whether you  
22 had every conducted, directed, or managed, a  
23 quantitative market research study?

24 A No.

25 CHAIRMAN GOLDWAY: How could he have done a

1 copy if he didn't --

2 THE WITNESS: Okay, I haven't the --  
3 Conducted -- what did you say again? Conducted and  
4 what was the other one?

5 BY MR. HOLLIES:

6 Q I was reading Part A. And the Chairman has  
7 pointed out quite correctly that you said no to A.  
8 But you said yes to B, so I should be focusing on B  
9 and not A. Have you ever used a quantitative market  
10 research survey or study in your study of regulatory  
11 economics and the economics of postal services, to  
12 which you respond yes? Isn't that right?

13 A Right.

14 Q And then Part 2 says for any positive answer  
15 it asks for a copy of the study, a summary of the  
16 objective or objectives, a description of your role or  
17 roles, and a description in your involvement in the  
18 design or execution of the study. Are any of those  
19 provided in your response?

20 A Well, we provided you with the reference to  
21 the studies because they were public information. We  
22 didn't provide you with the physical document.

23 Q I agree you did not provide a copy of the  
24 study, what about a summary of the objectives?

25 A Didn't provide a summary of the objectives

1 because in a way it's -- well, it's hard to do that  
2 with a book of this kind. This is a book we're  
3 referring to where we published studies that were --  
4 the kind of studies that we thought you had in mind.

5 Q Well, we asked for information about a  
6 quantitative market research survey or study that  
7 you've used in your regulatory economics work and in  
8 the economics of postal services. And you said such a  
9 thing exists. We've agreed you haven't provided a  
10 copy or a summary of the objectives. I think you're  
11 trying to tell me somehow that you can't do that; is  
12 that where you're headed?

13 A I don't think that I'm saying that I can't  
14 do that. What I'm saying is that I don't think it's a  
15 meaningful question in this context. So to that  
16 extent, yeah, I can't -- I can't do that because it's  
17 not a meaningful question. The thing at Crew --

18 Q We're losing you. Speak up.

19 A Was a major study on the European Union,  
20 which included qualitative market research in there  
21 and quantitative analysis too. And this book we had;  
22 most of our books have included econometrics or  
23 quantitative studies, that we've used them.

24 MR. DECHIARA: Madame Chairman, if the  
25 Postal Service counsel is just asking these questions

1 to clarify Dr. Crew's answers to these  
2 Interrogatories, we have no objection. But if somehow  
3 this is leading up to setting the foundation for some  
4 sort of motion to compel him to provide a summary of  
5 the surveys or studies, we would have an objection on  
6 two grounds.

7 First of all, the answer to subsection C  
8 begins by saying the entire fabric of postal economics  
9 to which Dr. Crew has made many contributions over the  
10 years is underpinned by demand studies of various  
11 types. What he's saying is essentially the entire  
12 body of his studies in econometric work is based on  
13 these sorts of studies. So to ask him to summarize  
14 years of articles and books is not an appropriate  
15 question. But the books -- so that's one part of the  
16 objection.

17 The other part is the books are published  
18 books. If the Postal Service wants to read them and  
19 make its own summaries of them, it's obviously able to  
20 do that. And in particular, Dr. Crew cites two  
21 particular articles, which the Postal Service can also  
22 obtain and review and analyze and summarize itself.  
23 So if this is somehow leading up to some sort of a  
24 motion to compel the witness to do what we believe  
25 would be overly burdensome and entirely unproductive

1 work, we would object. But if this is solely to ask  
2 the witness to clarify his answer, we have no  
3 objection.

4 CHAIRMAN GOLDWAY: My general counsel isn't  
5 here to counsel, Mr. Hollies, but I must say that you  
6 spent a great deal of time this afternoon focusing on  
7 this witness's level of expertise and range of  
8 awareness of subject at hand. I'm not aware of any of  
9 the Postal Service's expert witnesses being asked in  
10 any degree this level of cross-examination. And since  
11 Mr. Crew, for all of his strengths and weaknesses, is  
12 well known in the postal world, I'm not exactly sure  
13 what the benefit of this lengthy cross-examination is.

14 I would appreciate it if you'd get to the  
15 substance of the issues that Mr. Crew and you are  
16 disputing and not his particular level of expertise.  
17 I think to the extent he's demonstrated he's  
18 demonstrated it. To the extent we know it, we know  
19 it. I don't think the Commission is served by  
20 spending a great deal of time interviewing and  
21 examining the great detail of all of the expert  
22 testimony -- witnesses that we have here.

23 Certainly, some questions are legitimate and  
24 I've given you a great deal of time. But I really am  
25 coming to the end of my patience with this line of

1 questioning.

2 MR. HOLLIES: Madame Chairman, I am simply  
3 trying to exercise the due process rights of the  
4 Postal Service.

5 CHAIRMAN GOLDWAY: I appreciate that and I'm  
6 trying to be patient. But I'm advising you about what  
7 I think is not going to lead us any where.

8 MR. HOLLIES: There is no limit in the rules  
9 on cross-examination. I have asked a finite number of  
10 questions. I am following up on those answers. This  
11 particular set of questions goes directly to the  
12 witness's competence to testify about qualitative and  
13 quantitative market research. He says he has used  
14 such research and so the questions asked that he  
15 provide a few salient details of a study. It does not  
16 ask him to summarize a book as counsel would have you  
17 believe.

18 These are imminently reasonable questions  
19 that exercise the due process rights and I'm -- I  
20 can't tell you all of why we are asking these  
21 questions right now, but I'm sure you will see it in  
22 the Postal Service brief. That is exactly what this  
23 is all about.

24 CHAIRMAN GOLDWAY: If you would like  
25 Mr. Crew to provide a summary for some of these things

1 that have been referenced in this question and answer,  
2 I'd appreciate you asking a specific question for a  
3 specific document. And he could perhaps provide you a  
4 yes or no and we could move on.

5 MR. HOLLIES: Part C of Question 5 asks  
6 specifically for a copy of such studies, a summary of  
7 the objectives of the survey or study, a description  
8 of your role and involvement in its design and  
9 execution, and your use of its results. That is, at  
10 most, four paragraphs about two studies, if we look at  
11 Questions 5 and 6 together.

12 We asked this interrogatory directly to the  
13 witness. His answer, frankly, Part C is not  
14 responsive to the questions. That is what I am  
15 following up on. I am not looking to file a motion to  
16 compel, although if the witness were to volunteer to  
17 provide the details the questions asks for I would  
18 leave these and go on.

19 BY MR. HOLLIES:

20 Q Doctor, does this discussion lead you to any  
21 further illumination on your part? Do you have  
22 anything constructive you can help with here?

23 A I doubt it, but I'll try.

24 CHAIRMAN GOLDWAY: Mr. Crew, might you try  
25 to answer this question in somewhat more detail with a

1       brief summary of the work that you've referenced in  
2       this book so that Mr. Hollies has some better  
3       information about your particular role in this book?

4               THE WITNESS:  First of all, the book is  
5       actually an article we wrote, Paul Kleindorfer and I  
6       wrote.  And the article was about what's called two-  
7       tier pricing, which is pricing according to timely  
8       delivery.  So if mail is delivered first day after --  
9       first day, then that's one level of service.  The  
10      second tier might be two or three days.  And we -- in  
11      working on that paper, we took into account a number  
12      of econometric studies that had been undertaken over  
13      the years which were part of the conferences we've  
14      been involved with.

15             Now item 2 on there is actually a summary of  
16      a very small part of a much bigger project.  This  
17      bigger project was by the European Union -- I'm sorry,  
18      European Commission to determine the impact of  
19      allowing the market to be opened.  And as I've  
20      indicated earlier, the market is going to be opened in  
21      2011 -- generally in 2011.  And in this we sum some  
22      quantitative and qualitative market research was done  
23      by some of the members of the team, not Paul  
24      Kleindorfer and me, which was relied on in this study  
25      to come up with its conclusions on what would be the

1 impact of full market opening.

2 CHAIRMAN GOLDWAY: And do you with  
3 Mr. Kleindorfer use your own experience with  
4 econometrics to review the economic formulas that are  
5 presented to you so that you're not actually doing the  
6 economics, but you are using your expertise to review  
7 what you perceive to be correct or incorrect  
8 econometrics in these papers?

9 THE WITNESS: yes, indeed. The other people  
10 actually perform the work, but we reviewed it. Yes.

11 CHAIRMAN GOLDWAY: Does that clarify your  
12 answers, Mr. Hollies?

13 MR. HOLLIES: It does add some clarity and  
14 it does not answer the question.

15 CHAIRMAN GOLDWAY: I think it answers the  
16 question to the extent it's going to be answered.  
17 This is the work they do --

18 MR. HOLLIES: Let me try one more time.

19 BY MR. HOLLIES:

20 Q Dr. Crew, I know you're a very smart man.  
21 You've achieved a lot. And it seems to me that Part C  
22 of the question is asking for some very  
23 straightforward response. And at this point it is  
24 clear that you don't think you can provide that  
25 information, is that correct?

1           A     No, I believe I've provided a reasonable  
2     answer to that. I gave you what the objectives of the  
3     study were. I responded to the Chairman's question on  
4     what Paul Kleindorfer and my involvement. I don't  
5     agree with that at all.

6           Q     So your role consists not of performing or  
7     undertaking the research, but purely of reviewing  
8     research of others, is that correct?

9           A     No, we did our own research in that as well,  
10    but we ultimately reviewed the research of others.  
11    But it may not have been -- our research was not  
12    confined to the econometrics. It was more to that  
13    study than any market research econometrics. It was a  
14    major study, as you might expect, about a big change  
15    like that. To open up the market is a major change.  
16    This covered a lot of bases.

17          Q     You talked about various elements. Is there  
18    an objective of one study that you can share?

19          A     I thought I did.

20          Q     Okay.

21          A     I mean didn't I say the objective of this  
22    study was to determine impact of fully opening the  
23    market?

24          Q     And were you involved in its design or  
25    execution?

1           A     Of the entire study?

2           Q     Of a quantitative study, this is what the  
3 question asks?

4           A     Was I -- I reviewed it. So to that extent,  
5 I was involved.

6           Q     In your answer to that question you state  
7 that you're confident competitors would seek to fill  
8 the gap if the Postal Service eliminated Saturday  
9 delivery. What competitors and what products do you  
10 think that competitors would deliver?

11          A     I need to answer that question a bit more  
12 broadly than that. When you mean deliver, I think of  
13 physical mail. But I want to go beyond that. There  
14 are all sort of ways in which competitors might take  
15 advantage of this gap. One is through -- if there was  
16 no monopoly on Saturday, they might go into -- there  
17 might be guys going in there and putting flyers in the  
18 mailboxes. And assuming the continuation of a  
19 monopoly, there's no monopoly in the Internet and  
20 radio for people who want to use the mail for  
21 advertising purposes.

22                   Packages is maybe -- Saturday delivery of  
23 packages for competitors becomes more attractive now  
24 the Postal Service -- when the -- if the Postal  
25 Service is not delivering on a Saturday. There are, I

1 think, numerous potential opportunities that may be  
2 profitable for competitors to enter if Postal Service  
3 gives up its ownership of Saturday.

4 Q Thank you. Would you expect UPS or FedEx to  
5 lower their prices when faced with such an  
6 opportunity?

7 A To lower their prices when faced with such  
8 an opportunity? Normally, when you find that a  
9 competitor is being less competitive that's not a time  
10 when you'd lower your prices. It might be an  
11 opportunity to maintain your prices or increase them  
12 if your competitor is weaker. So I wouldn't expect  
13 them to lower their prices.

14 Q Are you aware of private attempts to provide  
15 alternate delivery operations for magazines?

16 A In the U.S. or in the rest of the world?

17 Q I was asking about the United States. Thank  
18 you.

19 A Actually, I've heard of a few things over  
20 time. Yes, I have. But have I -- do I know any  
21 details, no, I can't bring up -- pull up any details  
22 right now.

23 Q Are you aware whether any continue in  
24 operation today?

25 A No. Could I just -- we still have paper

1 boys. I mean I'm obviously aware of those. I mean I  
2 don't want you think I'm completely in my ivory tower.  
3 My son was a paper boy.

4 Q And newspapers are sometimes mailed as  
5 periodicals too, are they not?

6 A Yes, and delivered by the Postal Service.

7 Q Yes.

8 A Absolutely.

9 Q Looking at your response to No. 9, you  
10 indicate an awareness that Singapore eliminated  
11 Saturday delivery. Are you aware of when that  
12 occurred? Excuse me, you actually say that in the  
13 answer. You say 2010, do you not?

14 A I think so. Yes, that's my understanding.

15 Q Do you understand that Singapore Post is a  
16 well-managed post?

17 A You're talking about Singpost is the name of  
18 the company, Singpost. I really don't know enough  
19 about Singpost to say whether it's well managed. I  
20 know the Singaporeans tend to do a good job at most of  
21 the things they do. So you know, my hunch is it is.  
22 But I can't -- I don't know enough about it to say.

23 Q Fair enough. Do you know whether Singpost  
24 relied on econometric modeling in its consideration of  
25 whether to eliminate Saturday delivery?

1           A     I don't.

2           Q     Are you aware of any basis for its 2010  
3 decision?

4           A     I didn't study it. I was just -- I was  
5 trying to answer the question.

6           Q     That's fine. No. 18?

7           A     Did you say another number, sorry?

8           Q     1-8.

9           A     Okay, 1-8. Okay.

10          Q     In this question we address a theme that  
11 will be featured in some sense hereafter, not  
12 exclusively here in your cross-examination. But it  
13 has to do with the basic question of whether in  
14 quantitative market research Respondents have any  
15 tendency to under or overstate their purchase  
16 expectation? That's a general question I think is  
17 familiar to you, is it not, Dr. Crew?

18          A     That you ask here, yeah.

19          Q     Have you reviewed any literature regarding  
20 specific tendencies, one way or the other, regarding  
21 intent to purchase?

22          A     No. That's why I said I've got no firm  
23 belief. It depends. In this case, though, I think  
24 it's very likely that the Respondents underestimated  
25 in this ORC case.

1           Q     Do you know what an awareness factor is  
2 among survey research respondents? If not, I'll take  
3 you through it.

4           A     I can't recall. No.

5           Q     Okay. Can we define it for the moment as  
6 describing the percentage of a population that is  
7 aware of a new product at the time of its  
8 introduction?

9           A     I'm going to have to accept that because I  
10 just can't remember enough to --

11          Q     Okay. Take it as a hypothetical then.  
12 That's fine. Would 100 percent of a population  
13 ordinarily be aware of that new product's  
14 introduction?

15          A     I wouldn't expect so of a population.

16          Q     Let's contrast that situation with one in  
17 which the market research is conducted to estimate how  
18 much of a new product or a feature might be purchased  
19 by respondents. If a market research participant were  
20 able to indicate an interest in purchasing that new  
21 product or feature, would she need to know about it  
22 first?

23          A     Yes.

24          Q     So she would have to be aware of it, if you  
25 will, right?

1           A     Yes.

2           Q     Would a business using market research to  
3 estimate a product's potential on the market be safe  
4 in projecting market research results from a  
5 statistically representative sample of that population  
6 to the entire population?

7           A     I think it depends. I'd need something more  
8 specific before I could give you a yes or no.

9           Q     Okay. Well, a little louder.

10          A     A little more specific. I mean I think it  
11 just -- it depends is the answer to the question.

12          Q     Might it be prudent for that businesswoman  
13 to discount the market research results before basing  
14 business decisions, such as production volume on the  
15 market research?

16          A     I think it would -- it might make sense.  
17 Yes.

18          Q     Would it make sense for the market  
19 researchers themselves to discount their own results  
20 before delivering them to the clients' business?

21          A     It might.

22          Q     So the existence of an awareness factor  
23 reflects whether or not a person is aware of what that  
24 product is. And because the total population might  
25 not be aware of a new product introduction, it may be

1       Cappropriate to adjust for -- to adjust estimates  
2       downward to reflect the lack of awareness at the time  
3       of a product's release.

4             A       It might. But I don't know what this is  
5       related to this. But okay. It might.

6             Q       Well, we've covered what I want on that. It  
7       will be connected up with -- through rebuttal  
8       testimony. I think that's a small piece of logic for  
9       something, however, I'm done with that. Please turn  
10      to your response to Question 21.

11            A       21?

12            Q       Could retailers accustomed to in-home dates  
13      for advertising features on Saturday possibly adapt in  
14      a five-day delivery environment and instead utilizing  
15      an in-home date of Friday?

16            A       That's not part of the interrogatory, right?  
17      That's a new question.

18            Q       This is a question that springs from your  
19      objection to Part C in which you -- you say you don't  
20      understand the question and so I'm providing a  
21      specific example that might fit in that question.

22            A       Yeah, I've already given you answers to that  
23      question in the course of today, even though it may  
24      not be answered here. Your question is if they were  
25      given date certain delivery on Friday instead of

1 currently being delivered on Saturday could they  
2 accommodate to that? Well, the answer is they could  
3 accommodate to that as long as the Postal Service  
4 could deliver. As long as it really was date certain.  
5 If they ended up delivering on Monday when the sale  
6 was on Saturday, then there could be problems. But  
7 yeah, I would have thought retailers might be able to  
8 adopt to that, the question you said -- with those  
9 caveats.

10 Q You state on page 4 of your testimony, and  
11 in your answer to Interrogatory 24 from the Postal  
12 Service that respondents may not have fully understood  
13 and did not have the opportunity to study the five-day  
14 operating concept that was read to them. Have you  
15 reviewed or read transcripts of the qualitative market  
16 research?

17 A No. But I have voiced my objection, my  
18 problem with the way these questions were formulated.

19 Q Yes, that was clear from what you state. In  
20 formulating your response to Interrogatory 26, were  
21 you aware that in the focus groups virtually all  
22 respondents said they would adapt to five-day delivery  
23 by adjusting how they send and receive mail?

24 A I recall that -- something to that effect.  
25 Yes, there was a large chunk of them I think said they

1 would.

2 Q Are you aware that respondents in the in  
3 depth interviews also said they would adapt similarly?

4 A I think I recall that. And I also indicated  
5 why they might have responded in that way, this notion  
6 of pleasing the interviewer.

7 Q Is that the only reason why they might have  
8 answered that way?

9 A They could have answered out of self-  
10 interest. It could have maybe certainly gone to their  
11 minds that, hey well, maybe this is a way we can avoid  
12 a price increase.

13 Q Do you believe that survey respondents might  
14 ever have honesty in mind when answering a question?

15 A I don't think I've cast doubt on peoples'  
16 honesty.

17 Q Is that a yes?

18 A What's that?

19 Q Is your answer a yes?

20 A Do they answer honestly? Yes, I would think  
21 they -- in their minds they've answered honestly, I'm  
22 sure. I'm sure. I take that back. Yes, I think they  
23 attempted to answer honestly is my answer to your  
24 question.

25 Q You've made a correction from the stand in

1 your testimony -- well, excuse me. Either your  
2 testimony on your interrogatory response this morning  
3 where you changed the word "adopt" to "adapt," do you  
4 recall that?

5 A It's right here. Yes.

6 Q Is it your understanding that the adaptation  
7 reported by the market research qualitative studies  
8 indicate that surveys -- that respondents will adapt  
9 to a five-day delivery environment by recognizing they  
10 will accept delivery of mail under more limited  
11 circumstances and that there may be some impacts on  
12 them as to when they may enter pieces into the mail?

13 A Oh yes, I think they'll adapt. The question  
14 is what effect is this adaptation going to have on  
15 them. And this is what I'd be concerned about if I  
16 was the Postal Service.

17 Q We're certainly concerned, but it's not my  
18 question at this time. Thank you. Are you aware of  
19 any independent public opinion polls asking the  
20 American people whether they supported five-day  
21 delivery?

22 A No.

23 Q Did you review the independent public  
24 opinion poll summarized in the Postal Service direct  
25 case?

1 A No, I don't recall that.

2 Q Are you aware of the survey conducted by  
3 MTAC in August of 2009?

4 A No.

5 Q Do you know what MTAC is?

6 A No.

7 Q Please accept on my representation that it's  
8 the Mailers Technical Advisory Committee.

9 A Oh, I've heard of that.

10 Q You've heard of that on that name?

11 A Yes. The acronym is what threw me.

12 Q Well, we don't have many of them in the  
13 Postal Service.

14 (Laughter.)

15 A Although, as it happens, I think the  
16 telecommunication industry beat you guys with  
17 acronyms. I looked into that once.

18 Q So you wouldn't be aware that the impact  
19 surveys covered 41,000 -- excuse me, 4,100 businesses  
20 regarding how they might respond to implementation of  
21 five-day delivery?

22 A I wouldn't. No.

23 Q Okay.

24 CHAIRMAN GOLDWAY: Are we getting to the end  
25 here, Mr. Hollies?

1 MR. HOLLIES: We are.

2 BY MR. HOLLIES:

3 Q Are you aware that Canada Post and  
4 Australian Post eliminated Saturday delivery over 30  
5 years ago?

6 A It was a long time ago. I can't -- if you  
7 say 30 years ago, I'll accept it. But I can't recall  
8 the exact, but I know it was a long time.

9 Q Do you recall whether they sustained any  
10 loss in volume when doing so?

11 A I don't. But remember mail was growing at  
12 the time. Mail grew steadily in the past 30 years or  
13 so. And you raise an issue at one time regarding how  
14 would you isolate these changes resulting from five-  
15 day delivery from other factors. And so I don't know  
16 of any studies on that and how it affected it.

17 Q Are you aware of any plans that Italian post  
18 may have regarding elimination of Saturday delivery?

19 A I'm not aware of any plans. I think someone  
20 mentioned it. I guy I know from Post Italiane I think  
21 he mentioned it to me, but I'm not -- I don't know any  
22 of the plans.

23 Q So I think that means you wouldn't have any  
24 understanding of why a decision might have been made  
25 there.

1           A     You could think that. But I would disagree.

2           Q     Okay, please enlighten us.

3           A     The Post Italiane is a very different  
4 operation from the U.S. Postal Service. One of the --  
5 the major difference is Post Italiane is very low  
6 volume per capita, whereas the U.S. Postal Service is  
7 a very high volume per capita. And none other than  
8 Bob Cohen who used to be the chief of technical staff  
9 here and wrote an article on this volume issue quite a  
10 few years ago in one of our books. And this is a  
11 major difference between the two post offices. And I  
12 think they have such low volume.

13                     Another thing -- the other major difference  
14 between the Post Italiane and the U.S. Postal Service  
15 is they've got financial and banking operations that  
16 the Postal Service doesn't have. So it's a very  
17 different kind of organization. I guess what I'm  
18 trying to say is that it may not be too helpful, that  
19 comparison.

20           Q     And you described some distinctions between  
21 respective posts, but I think you're also agreeing  
22 that you don't have any clear understanding of the  
23 basis for a decision they may have made.

24           A     They've not shared them with me, or with any  
25 of their plans and what decisions have been made. I

1 mean you didn't say decision makers if you plan.

2 Q You object in your response to Part B of  
3 Question 29 apparently because five-day delivery is  
4 still something in our future, if at all. And you  
5 declined to provide any estimate of the impact of the  
6 change five-day delivery would bring, is that correct?

7 A That's correct. I couldn't do a study of  
8 this. I'm not going to provide an estimate of  
9 something that I don't have confidence in.

10 Q And I'm curious whether the logic of the  
11 position you take there is that no economist could  
12 ever provide a credible response to the question, is  
13 that correct?

14 A Oh, no. It's forthcoming. That's the  
15 problem. I wouldn't want to go that far to say no  
16 economist could ever provide a credible response. I  
17 mean I think I won't go that far. I'm just saying  
18 based upon -- I'm just saying that -- I'm not saying  
19 that at all. No. I'm just concerned about a  
20 forthcoming change.

21 Q Are you trying to state that you can't  
22 answer a question based on a hypothetical?

23 A I'm having -- I had problems with -- as  
24 we've indicated, there are problems when you're  
25 dealing with hypotheticals. I can answer some

1 questions based on hypothetical, some I may not be  
2 able to answer.

3 Q In Question 30(b), which states in specific  
4 part, "Is it your opinion that \$2.5 billion in annual  
5 cost savings would help the Postal Service regain  
6 financial stability?" And your answer says, "Not if  
7 eliminating Saturday delivery triggered a mail volume  
8 loss that continued to grow in subsequent years."

9 I'm asking if you can answer the question  
10 without employing an "if" clause or it's logical  
11 equivalent?

12 A No.

13 Q Why not?

14 A Because sometimes it's not possible to give  
15 yes or no answers. Sometimes you have to qualify  
16 things. And the Postal Service is not taking into  
17 account the fact that the losses in volume may  
18 continue as a result of the five-day. Basically, what  
19 the Postal Service has assumed it's assumed that  
20 there'll be a drop of .71 percent and that will be a  
21 one-time drop. And there'll be no continuation of it.

22 Well, it's no -- we talk in economics about  
23 the short run and the long run. And short-run  
24 adjustments are usually less than long-run  
25 adjustments. It seems you can't exclude the idea by

1 any means that a loss in volume would continue. So  
2 I'm not going to answer that question in any way other  
3 than the way I have here.

4 Q I believe you brought up the concept I  
5 understand as *ceteris paribus*, although I believe you  
6 pronounced the first consonant differently. *Ceteris*  
7 *paribus*, it is your opinion that 2.5 billion in annual  
8 cost savings would help the Postal Service regain  
9 financial stability?

10 A Other things being equal, if that was the  
11 only thing that happened, sure 2.5 billion would be  
12 very helpful. But I do not believe that *ceteris* would  
13 remain *paribus*.

14 Q One last matter. My co-counsel is  
15 distributing a document that we provided to you and  
16 your counsel this morning. It has been marked for  
17 identification as Cross-examination Exhibit USPS/NALC-  
18 XE-T4-1 and is entitled the Juster Purchase  
19 Probability Scale, a Bibliography. The author is Mike  
20 Brennan. Do you have one in front of you?

21 A I do not. I was served one earlier by the  
22 process server.

23 Q Do you have one in front of you now?

24 A I do. I saw Mr. Tidwell hand it to me.

25 Q Have you had at least a limited opportunity

1 to take a look at it?

2 A Very limited.

3 Q Had you seen it before today?

4 A No.

5 Q Would you agree that the only substantial  
6 text consists of two paragraphs at the top of the  
7 first page?

8 A Yes.

9 Q And that it otherwise lists a range of  
10 articles?

11 A Yes.

12 Q And that those articles appear in market  
13 research journals. Given your statement earlier that  
14 you have limited knowledge about market research  
15 journals, let me modify that question. So that the  
16 articles appear in at least some market research  
17 journals.

18 A To give an example, the first one appears in  
19 economics journal.

20 Q Can you answer the question?

21 A Well, they appear in market research  
22 journals and some in economics journals?

23 Q Thank you. Have you looked at the journal  
24 names then? It sounds like you have.

25 A I have.

1           Q     I will ask that this document be marked,  
2     which it is, and given to the court reporter so that  
3     it can appear in the transcript at this stage.  And  
4     I'll represent that they are in the ballpark of 50 to  
5     100 journals appearing on the list.

6                                 (The document referred to was  
7                                 marked for identification as  
8                                 Postal Service Exhibit USPS/  
9                                 NALC-XE-T4-1.)

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## 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

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1 BY MR. HOLLIES:

2 Q Does that range seem at least approximately  
3 correct to you, Doctor?

4 A I won't dispute that.

5 Q Pardon me?

6 A I will not dispute that. I mean it's got to  
7 be in that range. Yes.

8 Q How many of the journals identified in that  
9 list are ones in which you have read at least one  
10 article? And we don't need a hard, specific answer,  
11 but some feel for it would be helpful.

12 A I can think of at least a couple journals,  
13 at least three. Three.

14 Q Okay, so you're up to three and you're about  
15 three pages deep in what I think is a nine-page item.  
16 So that gives us some basis for straight line  
17 projection at least as to how many.

18 A It may over project.

19 Q Are any of those journals ones that you  
20 routinely review?

21 A No.

22 Q And I think you've explained earlier, but  
23 the reason for that is what?

24 A The reason for that is I'm so busy with my  
25 work on regulatory economics I might be interested in

1 the world, but I'm not able to pursue that interest.

2 Q Yes, perhaps we can all look forward to the  
3 days when we can stick a RAM chip in and have all that  
4 knowledge immediately accessible. Have you published  
5 an article in any of the journals listed there?

6 A I haven't. Subject to check I'd say no.

7 Q Okay. Have you been a peer whose reviewed  
8 an article submitted for any one of those?

9 A No. A peer reviewer you mean?

10 Q Yes.

11 A A referee? No, I haven't.

12 MR. HOLLIES: That concludes my questioning.  
13 Thank you, Dr. Crew.

14 CHAIRMAN GOLDWAY: Thank you, Mr. Hollies.  
15 I think there are a few questions by the Commissioners  
16 before we go to any redirect. I know Vice Chairman  
17 Hammond had a couple of questions. I'll begin with  
18 you.

19 VICE CHAIRMAN HAMMOND: Yes. Thank you,  
20 Madame Chairman. And thank you Dr. Crew for being  
21 here today. It's good to see you again. And I  
22 appreciate your responding to the Postal Services  
23 allowed you to detail the questioning.

24 But you said in your testimony that the U.S.  
25 Postal Service should consider targeted price

1 increases, such as increasing rates for nonprofit  
2 mailers. And what I was wondering is your testimony  
3 is on behalf of the National Association of Letter  
4 Carriers, AFL-CIO. And I just wanted to clarify is it  
5 the position of the National Association of Letter  
6 Carriers that rates for nonprofit mailers should be  
7 increased?

8 THE WITNESS: Not that I'm aware of. I  
9 think it -- that was just an example of mine and I'm  
10 not aware that it's NALC's position.

11 VICE CHAIRMAN HAMMOND: Okay. At the  
12 beginning of the statement it says "Testimony of Dr.  
13 Michael Crew on Behalf of National Association of  
14 Letter Carriers." So that's why I was wondering. To  
15 the best of your knowledge, it is not the position of  
16 the Letter Carriers that rates on nonprofit should be  
17 raised. That's just your -- that's your position?

18 THE WITNESS: Yes, that's my position. I  
19 put it in there when the issue was raised.

20 VICE CHAIRMAN HAMMOND: Okay. Well, I just  
21 wanted to clarify that because I had never heard that  
22 that was the position of the NALC either, so I just  
23 wanted to know about that. Okay.

24 That's the only question I have because of  
25 the time. Thank you, Madame Chairman.

1                   CHAIRMAN GOLDWAY: Thank you. Commissioner  
2 Blair? Commissioner Langley? Commissioner Blair?  
3 Okay.

4                   COMMISSIONER BLAIR: Thank you, Madame  
5 Chair.

6                   Mr. Crew, I think you've been queried about  
7 this today probably several times, but on page 8 of  
8 our testimony can you just back through with us along  
9 your lines of thinking about how the private sector  
10 would stand in to fill the -- would actually rush to  
11 fill the gap that would be caused by elimination of  
12 Saturday delivery?

13                   THE WITNESS: Yes, I think you're right  
14 Commissioner Blair. I have sort of answered this at  
15 least one once today.

16                   There are a number of ways they could do  
17 this. One is that package delivery on a Saturday was  
18 one that I mentioned. Another was the Internet  
19 advertising might be -- targeting Saturdays might  
20 increase. Another is perhaps local radio. And being  
21 absent the issue of the monopoly and more firms might  
22 get into delivering flyers and so on. I think flyers  
23 on a Saturday only.

24                   COMMISSIONER BLAIR: Well, couldn't they  
25 already do that now?

1 THE WITNESS: I thought with the mailbox  
2 monopoly they couldn't put --

3 COMMISSIONER BLAIR: Other than the mailbox,  
4 though.

5 THE WITNESS: They'd have to throw it on the  
6 driveway or something like that.

7 COMMISSIONER BLAIR: Should Congress --  
8 because this is essentially a congressional decision  
9 at the end of the day. Ours is an insructive, yet  
10 advisory opinion. Should Congress lift the ban on --  
11 grant the Postal Service the ability to cease Saturday  
12 delivery would you think it's advisable that they lift  
13 the monopoly for the mailbox or others in order to  
14 allow the private sectors to step in?

15 THE WITNESS: I haven't thought deeply about  
16 that. But I think it would be a considerable -- it  
17 would be some pressure for all that. But I haven't  
18 thought deeply about it, though. I think that there  
19 are all sorts of other things that Congress ought to  
20 be doing that are really important for the future of  
21 this country and that one I haven't really thought  
22 about.

23 COMMISSIONER BLAIR: And also, and I do  
24 believe this is -- I think everything in your  
25 testimony is the subject of inquiry today, but one

1 question I do -- another question I have is regarding  
2 the recommendation, if that's the correct way of  
3 saying it, that the Postal Service should have  
4 conducted an econometric analysis as another means of  
5 predicting how ending Saturday delivery would impact  
6 mail volume. Who would do this econometric analysis?

7 THE WITNESS: Well, the Postal Service has  
8 20 -- who can do econometric analysis. They've got in  
9 house capability. The Postal Service has in house  
10 capability and it's also got consultants that use  
11 this, so there are a number of people that could do  
12 that.

13 COMMISSIONER BLAIR: Is this something that  
14 the Center for Research and Regular Industries would  
15 do?

16 THE WITNESS: No.

17 COMMISSIONER BLAIR: Okay.

18 THE WITNESS: Absolutely not.

19 COMMISSIONER BLAIR: Well, I appreciate your  
20 answers. Thank you.

21 CHAIRMAN GOLDWAY: Commissioner Langley?

22 COMMISSIONER LANGLEY: I think that timewise  
23 I will just defer to the Chair.

24 CHAIRMAN GOLDWAY: Thank you. I just have a  
25 couple of questions. I was going to ask your thoughts

1 about the monopoly Saturday, whether you thought if  
2 the Postal Service gave up its opportunity to use the  
3 mailbox on Saturday, whether there could be a case to  
4 be made for allowing other delivery firms to use the  
5 mailbox on Saturday. Has that been something that's  
6 been researched or discussed in any of the papers that  
7 you've looked at or at the meetings you've held over  
8 the years?

9 THE WITNESS: Oh, yes. This kind of issue  
10 of whether to open up postal markets is a huge issue  
11 in Europe. In 2011 -- a number of arguments in favor  
12 of opening up Saturday to competitors -- if Saturday  
13 service is abandoned it might be a chance to see what  
14 competitors could do. And it would increase  
15 competition in the system, so as I indicate to  
16 Commissioner Blair, I hadn't really thought about it  
17 in depth. Given what's going on in Europe, there's  
18 some attractiveness to this.

19 CHAIRMAN GOLDWAY: My other question is:  
20 You basically say that a decline in the number of days  
21 of delivery is a decline in service quality and  
22 therefore there is a market response to that. The  
23 Postal Service will debate that and who shall measure  
24 that and how it's measured, but that there is a market  
25 response and that's fairly standard economic analysis.

1 The Postal Service says that its own service standards  
2 for measuring quality will not change; that their days  
3 of delivery which are 1, 2, and 3 -- they'll just take  
4 this Saturday out of the formula and that would be the  
5 same.

6 What do you think about that, the Postal  
7 Service can simply use the same formulas that it  
8 currently has, even though it's removing a day of  
9 delivery when it measures its own service standard  
10 quality?

11 THE WITNESS: I think there may be a problem  
12 with that. The problem being of course now if a piece  
13 of mail is supposed to be delivered on Friday and you  
14 miss it, it's delivered Saturday, as a result under  
15 the 5 day arrangement you'd -- it wouldn't be  
16 delivered until Monday. So it may be that if you're  
17 going to -- I'd ask for reviewing service standards as  
18 well if you're going to do this.

19 CHAIRMAN GOLDWAY: Yes, okay. I guess my  
20 final question is: You said that the Postal Service  
21 has its own in house economists. Have any of them  
22 published in this just or purchase probabilities  
23 scale, do you think?

24 THE WITNESS: I would doubt it very much,  
25 but as you know I haven't really read it very

1 carefully.

2 CHAIRMAN GOLDWAY: I appreciate your  
3 tolerance and good will in all of the questions that  
4 have been asked of you, Mr. Crew, and -- Dr. Crew, and  
5 I think that we're all concerned about these issues  
6 and will go over them very carefully when we read the  
7 final written documents. I believe that your counsel  
8 might want to check with you about possible  
9 surrebuttal. I don't think there are any other  
10 questions in the audience for you at this time. How  
11 much time do you think --

12 MR. HOLLIES: Madame Chairman, I think I can  
13 get one thing out of the way right now, if I could.  
14 One question.

15 CHAIRMAN GOLDWAY: You have one more  
16 question?

17 MR. HOLLIES: Yes.

18 CHAIRMAN GOLDWAY: Go ahead, Mr. Hollies.

19 MR. HOLLIES: Dr. Crew, do you know what the  
20 NALC's position on opening up the mailbox is?

21 THE WITNESS: My understanding is that  
22 they're not in favor of it, but I'm not absolutely  
23 certain; I've never actually discussed it with them,  
24 but I believe they'd like to retain the status quo.

25 MR. HOLLIES: Thank you. No more questions.

1 CHAIRMAN GOLDWAY: Ms. Langley, do you --  
2 you had a question; I'm sorry, I missed that.

3 COMMISSIONER LANGLEY: I have a very quick  
4 question, and it's a follow-up to what the Chairman  
5 asked you about -- that a decline in delivery is a  
6 decline in service which translates into impacting  
7 service standards. Is this generally true for all  
8 regulated industry? If they were declining; if a day  
9 of service is eliminated, or if there is a change in  
10 service that might be viewed as detrimental by  
11 customers; you know, is that true for most regulated  
12 industries?

13 THE WITNESS: Oh, I think it's true not just  
14 for regulated industries, it's true for non-regulated  
15 industries as well --

16 COMMISSIONER LANGLEY: Can you hear him?

17 THE WITNESS: Sorry. It's true for -- I  
18 forget this darn mike; I still haven't got the hang of  
19 it even with all the help from Post Office counsel, I  
20 still haven't got the hang of it. It's true for other  
21 regulated industries and it's also true for non-  
22 regulated industries.

23 COMMISSIONER LANGLEY: But in your capacity  
24 as an expert on regulated industries, it would be  
25 considered a truism?

1 THE WITNESS: Yes, there have been various  
2 studies on this sort of market research studies of the  
3 regulated industries where they sort of look into this  
4 issue of service standards and the service standard  
5 they were thinking of was reliability in the electric  
6 utilities; like how many outages a year. They don't  
7 have the ability with electricity to say we'll only  
8 deliver one -- a day a week less -- but they do have  
9 the ability to cut off the power for periods of time;  
10 often involuntary.

11 COMMISSIONER LANGLEY: Right, that's  
12 something that's impacting Pepco right now.

13 THE WITNESS: Yes.

14 COMMISSIONER LANGLEY: Thank you very much,  
15 and thank you for being with us today.

16 THE WITNESS: Thank you to the bench for the  
17 questions, thank you.

18 CHAIRMAN GOLDWAY: Mr. DeChiara, do you have  
19 time you'd like to have with your witness for  
20 surrebuttal?

21 MR. DECHIARA: Yes, I would appreciate just  
22 a few minutes and I anticipate just having a few  
23 questions.

24 CHAIRMAN GOLDWAY: All right, we'll just  
25 break for five minutes so we can get out of here.

1 (Brief recess.)

2 CHAIRMAN GOLDWAY: Thank you, Mr. DeChiara,  
3 for coming back so promptly. We're back now is  
4 session. Do you have questions for your witness?

5 MR. DECHIARA: I do.

6 Good afternoon, Dr. Crew. You testified on  
7 cross-examination that you did not contest the cost  
8 saving estimates in these proceedings by the Postal  
9 Service. To what extent did you undertake a detailed  
10 study of that cost savings analysis by the Postal  
11 Service?

12 THE WITNESS: I didn't undertake a detailed  
13 study.

14 MR. DECHIARA: Okay, so to what extent  
15 should your testimony that you don't contest the cost  
16 savings estimate be interpreted as an endorsement by  
17 you that that estimate is accurate?

18 THE WITNESS: I don't endorse the estimate  
19 as accurate because I didn't do a detailed study.

20 MR. DECHIARA: In your testimony you  
21 criticized the market research of the ORC, but you've  
22 conceded on cross-examination that you are not a  
23 market research expert. So what is the basis for your  
24 being able to criticize the ORC market research?

25 THE WITNESS: I've never held myself out to

1 be the expert in market research. The basis of my  
2 criticism is that any competent economist could have  
3 spotted the flaws here, as the flaws were so basic.

4 MR. DECHIARA: You testify that if Saturday  
5 delivery were eliminated, competitors, private sector  
6 competitors would rush to fill the gap. You were  
7 asked on cross-examination about Sunday. Can you  
8 explain to us any differences you see between Saturday  
9 and Sunday.

10 THE WITNESS: Sunday's like a non market;  
11 there's really very little as was established during  
12 what's going on by way of delivery on a Sunday and  
13 that's been the case a long time. However, Saturday  
14 we've got a pretty vibrant market in delivery with  
15 what's provided by the Postal Service and basic  
16 economic theory would imply to me if you create a gap  
17 in a market that it's going to be filled if the profit  
18 opportunity's there -- someone's going to jump in and  
19 fill it.

20 MR. DECHIARA: You testified that if  
21 Saturday delivery were eliminated, that local  
22 retailers might seek alternative means of reaching  
23 their customers, but you conceded on cross-examination  
24 that you did not have data to support that statement.  
25 So what do you base that statement on?

1 THE WITNESS: Again, it's sort of basic  
2 economics. It's a gap created and the local retailers  
3 I use as sort of an example, that's all -- was seized  
4 on with vigor.

5 MR. DECHIARA: No further questions.

6 CHAIRMAN GOLDWAY: Thank you. Anything  
7 else? Well, Dr. Crew, that completes your testimony  
8 here today. We appreciate your visit to the Postal  
9 Regulatory Commission, your testimony, and your  
10 patience with us.

11 Before we adjourn, I would like to note that  
12 we have a guest with us from the ARSEP, the French  
13 regulator, Mr. Guillaume Lacroix. He's been here  
14 watching our proceedings, I hope with some also  
15 patience and forbearance for some of the time we've  
16 taken. He and some of his colleagues will be sharing  
17 with us information about regulatory processes in  
18 France where they have six day delivery. And I'm  
19 pleased to inform you that this concludes your  
20 participation here today. You're excused.

21 (The witness was excused.)

22 Thank you again, Dr. Crew, and we are  
23 adjourned until tomorrow morning at 9:30 a.m., where  
24 we will receive the testimony of the public  
25 representative's witness, Brown, and the National

1 Newspaper Association, Cross. It should be an  
2 interesting day tomorrow as it was today.

3 Thank you very much.

4 (Whereupon, at 4:34 p.m., the hearing in the  
5 above-entitled matter was adjourned to resume at 9:30  
6 a.m., Tuesday, September 14, 2010.)

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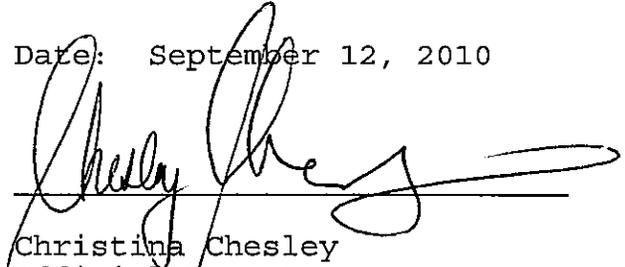
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REPORTER'S CERTIFICATE

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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