

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

COMPETITIVE PRODUCT PRICES
PRIORITY MAIL CONTRACT 29 (MC2011-3)
NEGOTIATED SERVICE AGREEMENT

Docket No. CP2011-4

**RESPONSES OF THE UNITED STATES POSTAL SERVICE
TO CHAIRMAN'S INFORMATION REQUEST NO. 1**
(October 25, 2010)

The United States Postal Service hereby provides its responses to Chairman's Information Request No. 1, filed on October 18, 2010. The response to Question 1 has been provided under seal. Attached are the responses to Questions 2-4. Each question is stated verbatim and is followed by the response.

Respectfully submitted,

UNITED STATES POSTAL SERVICE
By its attorneys:

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October 25, 2010

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2. Please confirm that Priority Mail advertising is directed at all Priority Mail shippers (retail and non-retail shippers). See, e.g.:
- a. Priority Mail tool commercial:
<http://www.youtube.com/watch?v=jLEPt9I7SNE>;
 - b. Priority Mail toy store commercial:
<http://www.youtube.com/watch?v=n9c71wRqW94>;
 - c. Priority Mail business seminar commercial:
<http://www.youtube.com/watch?v=RDEOCh29DXU>;
 - d. Priority Mail holiday commercial:
http://www.youtube.com/watch?v=fZhjMxM_Giw; and
 - e. Priority Mail clown commercial:
<http://www.youtube.com/watch?v=oKGKB5bc9DU>.

If not confirmed, please explain.

Response:

Not confirmed. Priority Mail advertising is aimed primarily at retail customers and small non-retail business owners where shipping convenience is an important feature. The FY2009 campaign, in particular, was focused on potential users of convenient Flat-Rate Boxes. It is not aimed at larger non-retail customers where price and service, rather than convenience, are the most important drivers of shipping decisions. Also, please see the response to Question 1.

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3. Please confirm that in previous Priority Mail contracts the "Advertising (Retail Campaign)" function was not a specific cost adjustment category, and therefore included in "Other Costs" (See, e.g., Docket No. CP2010-9, File: ContractAnalysisPrio_Public_FlatParcel.xls). Please reconcile the different treatment of previous Priority Mail contracts that did not include a potential cost adjustment for "Advertising (Retail Campaign)" with the instant contract that includes a potential cost adjustment for "Advertising (Retail Campaign)".

Response:

Not confirmed. Three Priority Mail contracts, filed in dockets CP2010-75, CP2010-76, and CP2010-77 also included this adjustment. All three contracts used cost data from the ACR2009. Priority Mail contracts prior to these three were based on cost data from earlier fiscal years and did not include the adjustment.

In FY2008, Priority Mail advertising cost was relatively insignificant. In FY2009, an expensive marketing campaign was implemented to specifically attract retail and small-business customers to convenient Postal Service shipping products such as Flat-Rate Boxes. This campaign was not targeted to large companies that ship hundreds or thousands of pieces per day where price and service, rather than convenience, are the primary drivers, nor was it targeted to companies that do not use Flat-Rate Boxes. The magnitude of the expense in FY2009 for this campaign was sufficiently large that it was separately accounted for when evaluating contracts.

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4. Please provide spreadsheets showing the development of the allocation of Priority Mail advertising costs (Cost Segment 16.3.5) among:
 - a. Retail Priority Mail and non-retail Priority Mail; and
 - b. NSA Priority Mail and non-NSA Priority Mail.

Response:

- a. The Postal Service does not have data separating advertising costs for retail from non-retail Priority Mail where non-retail includes small mailers.

- b. The Postal Service does not have spreadsheets making the requested separation, but the specific nature of the FY09 advertising made it abundantly clear that FY09 Priority Mail advertising was targeted at non-NSA mailers. If the nature of Priority Mail advertising changed in future years, that conclusion might not be as clear cut as it was in FY09, and the issue might thus need to be re-examined when evaluating the costs of similar NSAs based on costs from those years.