

Before The
POSTAL RATE COMMISSION
WASHINGTON, D.C. 20268-0001

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POSTAL RATE COMMISSION
OFFICE OF THE SECRETARY

Mailing Online Service

Docket No. MC98-1

RESPONSE OF THE UNITED STATES POSTAL SERVICE
WITNESS GARVEY TO INTERROGATORIES OF
MAIL ADVERTISING SERVICE ASSOC.
(MASA/USPS-T1-1-11)

The United States Postal Service hereby provides the response of witness
Garvey to the following interrogatories of Mail Advertising Service Assoc.:
MASA/USPS-T1-1-11, filed on August 4, 1998.

Each interrogatory is stated verbatim and is followed by the response.

Respectfully submitted,

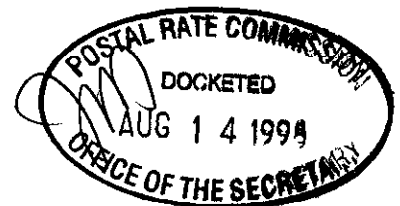
UNITED STATES POSTAL SERVICE

By its attorneys:

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August 14, 1998



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MASA/USPS-T1-1. Identify the "increased functionality" referred to in note 2 to your testimony. Describe each feature encompassed by this term, and for each one state whether it has been discussed at the Postal Service, whether any information has been generated concerning the cost and desirability of offering the feature (and, if so, describe such information in detail), and when it could be provided as part of the MOL service.

RESPONSE:

The "greater functionality" referred to in note 2 is broadly defined as functionality which requires resident client software on the user's computer. Examples of this would be functions which a user would perform off-line such as document creation, mail list maintenance and perhaps graphic design. Some of these have been discussed at the Postal Service in the context of customer requested features; however since they do not fit the Web-enabled model deployed for the test, no serious discussion, planning or cost analysis has taken place .

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MASA/USPS-T1-2. Identify the "increased user utility" referred to in note 2 to your testimony. Describe each feature encompassed by this term, and for each one state whether it has been discussed at the Postal Service, whether any information has been generated concerning the cost and desirability of offering the feature (and, if so, describe such information in detail), and when it could be provided as part of the MOL service.

RESPONSE:

See my response to MASA/USPS-T1-1. The "increased user utility" refers to activities the customer might engage in if provided "greater functionality". An example of this might be an ability easily to convert and prepare imported mailing lists for Mailing Online input. Again, those activities which require user based software have not been considered for the early phases of Mailing Online.

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MASA/USPS-T1-3. Describe all consideration given by the Postal Service to the question whether any volume of MOL mail will be diverted from other sources of mail. Include in your answer the identification of any study bearing on this question, and produce any report of any consideration bearing on this question.

RESPONSE:

As described in my testimony at page 13, consideration has been given by the Postal Service to the question of diversion. To my knowledge, no studies or reports exist. It is also worth noting that diversion (in the context of this question) frequently occurs due to factors outside of the control of the Postal Service. For instance, businesses are frequently evaluating their printers and letter shops to determine which are appropriate for their needs. Also commercial ventures are constantly starting up and some move on to other areas of opportunities and some go "out of business". This is not to say that the subject of diversion should not be considered. In fact the Postal Service is concerned only that any discussion of "diversion" should be placed in the context of the normal dynamics of commercial enterprise.

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MASA/USPS-T1-4. At page 9 of your testimony, you state that "virtually all direct mail materials are designed using desktop computer technology." State in detail the basis for this assertion, and include in your answer an identification of all information sources upon which you relied or to which you referred in reaching the conclusion stated in your testimony.

RESPONSE:

Given the acknowledged predominance of desktop computer technology in the graphic arts and publishing industries, the conclusion is not counter-intuitive.

This opinion was provided by National Analysts as part of their market research but I have no knowledge of the original source.

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MASA/USPS-T1-5. At page 9 of your testimony, you state that one third of all direct mail pieces designed using desktop computer technology "are produced in short-run quantities" (defined elsewhere in your testimony as consisting of mailings in volumes of less than 5000).

- (i) State in detail the basis for this assertion. Include in your answer an identification of all information sources upon which you relied or to which you referred in reaching the conclusion stated in your testimony.
- (ii) Confirm that all of the short run direct mail pieces referred to are part of the potential market for MOL. If you cannot confirm, state why not and describe the categories of short run direct mail pieces referred to that are not part of the potential market for MOL and why not.
- (iii) State what the volume estimates are for short run direct mail pieces referred to in your testimony.
- (iv) Confirm that all of the short run direct mail pieces referred to in your testimony referenced above are currently being sent through the mail. If you cannot confirm, state why not and describe the categories of short run direct mail pieces referred to in your testimony that are not now sent through the mail.
- (v) For those pieces of short run direct mail now sent through the mail, identify the rate categories at which they are currently sent and the percentages of such mail sent at each category.
- (vi) State whether any estimates have been made of how much of the mail projected to use MOL will come from each of the rate categories at which it is currently mailed.
- (vii) State whether any estimate has been made of how much of the volume projected for MOL is currently being prepared and entered into the mail stream by lettershops or other third party providers of mailing services, as opposed to being presented directly by the customer for whom the piece is mailed. If the answer to the question is yes, state in detail the manner in which the estimate was made and the results obtained.

RESPONSE:

- (i) This information was provided by National Analysts as part of their market research. I have no knowledge of the original source.

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- (ii) Not confirmed. Criteria for MOL include printing limitations (digital black and white and spot color only; maximum 600 dpi), material limitations (no glossy substrates) and design limitations to name a few; short run direct mail pieces falling outside these limitations are not part of the potential market for Mailing Online. "Short run" is a convenient proxy for predicting Mailing Online candidate mail because it is a characteristic of digital printing, but it is not an exact match.
- (iii) Volume estimates are provided in USPS-T-4/MC98-1.
- (iv) Confirmed.
- (v) I have no information regarding rate categories or percentages for short run direct mail.
- (vi) No estimates have been made.
- (vii) No estimates have been made, however as stated in my testimony at page 13, lines 2-4, it is believed that much of the existing volume in the target segment is produced on desktop printers and entered directly.

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MASA/USPS-T1-6.

- (a) Are there any qualification criteria that would make MOL undesirable or unavailable for long run print jobs (defined for purposes of this interrogatory as any mailing that is 5000 pieces or more)? If so, identify each such criterion and explain its impact on long run print jobs.
- (b) Are there any other factors (e.g., capacity limitations, design limitations, etc.) that, in your view, would cause MOL not to be used by mailers for long run print jobs? If so, identify each such factor and explain why it would have this effect.
- (c) With respect to each criterion and factor identified in response to the preceding subsections of this interrogatory, are there any modifications to MOL under discussion for future implementation that would ameliorate the limitations on MOL, for long run print jobs? If so identify the modifications and state what the Postal Service's plans are with respect to their implementation.

RESPONSE:

- (a) Qualification criteria that would make MOL undesirable or unavailable for long run print jobs are: 1) a willingness to forego many of the printing and finishing options available directly from commercial printers, and 2) a willingness to relinquish control of many of the complex aspects of long run mailings such as variable insertion and personalization.
- (b) Currently, the primary factors causing MOL to be unsuitable for long run print jobs are: 1) the economic impact of flat rate pricing which characterizes on-demand digital printing as opposed to other printing technologies; 2) lack of availability of significant postage discounts for large volumes and high ZIP Code densities; 3) design restrictions imposed by limited printing and finishing options; 4) file size upload limitations of browsers and the MOL system.
- (c) We will be evaluating these factors during the market test and experiment to better understand their impact on the target customers for MOL. Although no

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plans currently exist which specifically address amelioration of volume limitations, we intend to keep an open mind and respond to the voice of the customer.

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MASA/USPS-T1-7. Confirm that the "time-specific entry, graphic flexibility, and production convenience" referred to at page 9 of your testimony are, in your view, all features of MOL. If you cannot confirm, explain why not.

(a) For that part of the projected MOL volume that will come from mail pieces already in the mail stream, state in what respects you believe that MOL is superior to the rate categories at which the mail is already being carried.

RESPONSE:

Confirmed.

(a) I am unable to answer this question.

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MASA/USPS-T1-8. Referring to lines 13-15 on page 12 of your testimony, describe in detail the "procurement strategy" and identify who is referred to as "qualifies service providers."

RESPONSE:

The referenced procurement strategy is simply a site-by-site competitive procurement for printing and mailing services. See LR-5/MC98-1 for an example of the solicitation and contract, the award of which qualifies a service provider.

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MASA/USPS-T1-9. Referring to your testimony at line 14 page 13, describe in detail the way in which "lettershops may be impacted by Mailing Online." Include in your answer a detailed description of any attempt by the Postal Service to quantify any loss of business that may be suffered by lettershops as a result of MOL.

RESPONSE:

No quantified information is available. Some lettershops likely qualify to bid on MOL printer solicitations, with a resultant direct impact upon them should they participate. If the economies of digital printing improve sufficiently, traditional lettershop activities could be impacted, although as noted above, this could just improve the lettershops' competitive position, perhaps by evolving a capacity to bid on MOL contracts.

In the long run, if MOL proves successful, I expect that some – perhaps many - MOL customers – recognizing the benefits of direct mail advertising for their business – may outgrow MOL and become lettershop customers. This is consistent with witness Hamm's testimony that MOL should increase overall demand for printing services.

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MASA/USPS-T1-10. Referring to your testimony at line 17 of page 13, describe in detail "the shift into electronic methods" referred to and how any such shift would impact lettershops in your opinion. Identify all source material on which your opinion is based.

RESPONSE:

Although I have anecdotal knowledge of the shift referred to, I am unable to provide specific detail regarding lettershops. Reading of trade journals and conversations with industry participants have informed me to the extent I have any knowledge. In my opinion, it is clear that all industries are experiencing a shift into electronic methods. Such technologies and business practices as EDI and electronic document management are shifting the business paradigm on all fronts. Lettershops and their customers are not exclusive in that regard.

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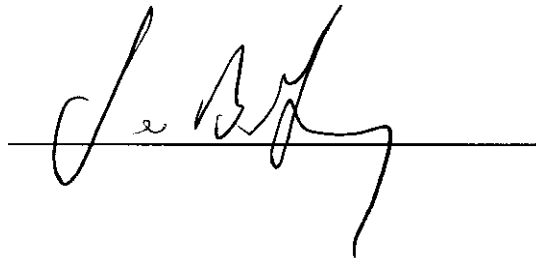
MASA/USPS-T1-11. Who are the "established players" referred to and what is the basis for your understanding as stated in the second paragraph of your testimony on page 13?

RESPONSE:

Reading of trade journals and conversations with industry participants have given me some knowledge of the bulk hybrid mail segment; however, I am not an expert. "Established players" include companies such as Output Technologies, Inc., International Billing Services, Business Mail Express and Diversified Data Corporation

DECLARATION

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

A handwritten signature in black ink, appearing to read "Lee Garvey", is written over a horizontal line.

Dated: 8/14/98

CERTIFICATE OF SERVICE

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

K N Hollies
Kenneth N Hollies

475 L'Enfant Plaza West, S.W.
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August 14, 1998