

**BEFORE THE
POSTAL RATE COMMISSION
WASHINGTON, D.C. 20268**

ORIGINAL
001503

RECEIVED

SEP 4 4 32 PM '98

POSTAL RATE COMMISSION
OFFICE OF THE SECRETARY

Mailing Online Services

Docket No. MC98-1

**REBUTTAL TESTIMONY
OF PATRICK BRAND**

Communications with respect to this document should be directed to:

Ian D. Volner
N. Frank Wiggins
Venable, Baetjer, Howard & Civiletti, LLP
1201 New York Avenue, N.W., Suite 1000
Washington, DC 20005-3917
(202) 962-4800

September 4, 1998



REBUTTAL TESTIMONY OF PATRICK BRAND**Autobiographical Sketch and Purpose of Testimony**

My name is Patrick Brand and I am Vice President, Marketing for Pitney Bowes' Small Office Division. I have responsibility for DirectNET among other products. I have been employed by Pitney Bowes for 15 years and have been responsible for DirectNET since the beginning of 1997, when we were market testing the service. My prior experience and educational background are set forth in more detail in the attached resume.

The purpose of this testimony is to demonstrate that Pitney Bowes' DirectNET Service and the Postal Service's proposed Mailing Online Service are functionally equivalent from the perspective of a potential user of these services and that the testimony of Postal Service Witness Lee Garvey to the contrary is simply mistaken. Because the services are functionally equivalent and in competition for the same market of customers, mail users -- and particularly small mail users -- will have a choice whether to use DirectNET or Mailing Online. However, the Postal Service proposes to offer certain postage discounts to its Mailing Online users who do not otherwise qualify for those discounts but will not permit Pitney Bowes to pass through or make available those discounts to its DirectNET customers unless the customer fully qualifies for the discount. In my opinion, and based upon my experience, the Postal Service has conferred upon itself an unfair competitive advantage in its structuring of the Mailing Online market test.

1 In the testimony which follows, I first describe and compare the functional
2 characteristics of DirectNET and Mailing Online and, in that context, rebut Mr.
3 Garvey's erroneous characterization of the DirectNET Service. I then discuss
4 the obvious competitive advantages that the Postal Service will enjoy if it is
5 permitted to grant special discounts to users of Mailing Online that will not be
6 offered to users of competitive services such as DirectNET.

7 Functional Equivalence

8 Based upon my review of Mr. Garvey's testimony and cross-examination,
9 Mr. Garvey seems to be saying that the two services differ "fundamentally"
10 because DirectNET is exclusively a client-based, point-to-point dial-up service
11 while Mailing Online offers access to any consumer with Internet access and
12 Web Browser capability. (TR. 2/368) Mr. Garvey's characterization of DirectNET
13 is incorrect. Although DirectNET started out as a client-based, point-to-point
14 dial-up service, we recognized the growing importance of the Internet and
15 introduced an Internet-based service in March of 1998. Developed and
16 marketed in alliance with Microsoft, the new service allows users to submit their
17 jobs and track their progress on the Internet. The USPS also participates in this
18 project, by providing list cleansing services. Thus, DirectNET customers now
19 have a choice of dial-up access or Internet access.

20 To the extent that Mr. Garvey intended to differentiate Mailing Online from
21 DirectNET based upon the precise form of communications technology
22 employed, his statement does not reflect the communications technologies now

1 being employed by DirectNET. More importantly, the precise communications
2 technology -- e.g., dial-up vs. Internet access -- will not significantly influence the
3 user's decision whether to subscribe to Mailing Online or to DirectNET, so long
4 as the basic benefits of convenience and quality are the same and the cost of
5 access to the data center is not materially different. Mr. Garvey is basically
6 correct that users of Internet access through the Worldwide Web pay only the
7 cost of a local telephone call. Of course, that will be true of both DirectNET
8 Internet access and the Postal Service's proposed Mailing Online. But, even in
9 the case of dial-up DirectNET users, Pitney Bowes does not charge for the
10 software and has established toll-free lines for data communications, and the
11 client software can be downloaded from our Website. Therefore, from a
12 customer's viewpoint, the technological distinctions that Mr. Garvey seeks to
13 draw are immaterial.

14 In view of these considerations, I think the conclusion that DirectNET and
15 Mailing Online are functionally equivalent is inescapable. Both services are
16 designed to take advantage of recent advances in electronic communications,
17 state-of-the-art printing technologies and conventional postal functions to create
18 integrated services for the production, processing and delivery of mail. Both are
19 intended to enhance the capabilities of small businesses to use a PC and the
20 modern telecommunications network as a means of creating a mailing piece,
21 delivering it to a printer and having it entered into the mailstream for delivery by
22 the United States Postal Service. The Postal Service proposes to offer certain

1 service enhancements (such as mailing of flats) that Pitney Bowes does not now
2 offer. On the other hand, Pitney Bowes offers a number of service
3 enhancements (including the ability to produce and insert in the mailing a reply
4 envelope) that the Postal Service does not propose. But these differences in
5 service characteristics do not alter the fact that the two services are functionally
6 equivalent.

7 **Competitive Effects**

8 In these circumstances, it is not clear to us why Postal Service Witness
9 Garvey has chosen to omit DirectNET from his discussion of the competitive
10 effects of the proposed Mailing Online service, and why Witness Plunkett has
11 apparently ignored competitive considerations entirely in his pricing proposals.
12 Mr. Garvey's testimony (at pages 12-13) acknowledges that Mailing Online will
13 compete for mailing dollars with traditional printing and mail preparation houses.
14 I am at a loss to understand why the Postal Service believes that Mailing Online
15 will not compete with DirectNET for mailing dollars given the fundamental
16 similarities of the two services. Moreover, DirectNET is not the only electronic
17 communication-based access service in the market. I understand that Neopost
18 offers a similar service. The Postal Service should be aware of this fact because
19 Neopost is a participant in the Microsoft project along with Pitney Bowes and the
20 Postal Service.

21 The adverse effect on competition is exacerbated because of the way the
22 Postal Service has structured the postage rates applicable to mailings that it will

1 enter into the mailstream as agent for its Mailing Online customers. The Postal
2 Service proposes to exempt itself and therefore its Mailing Online customers
3 from the volume minima applicable to Standard (A) and automation First-Class
4 mail. The Postal Service also proposes to confer upon itself and pass through to
5 Mailing Online customers certain drop entry discounts even though, as I
6 understand it, no mail will be drop entered at a destination BMC during the
7 proposed Market Test. The Postal Service apparently believes that eventually
8 the volume of Mailing Online mail that does not qualify for discounts will be
9 relatively small. Of course, that remains to be seen. What is clear is that the
10 Postal Service has sought special discounts for itself so that it can pass through
11 to its customers very favorable postage rates for which those customers would
12 not otherwise qualify.

13 *Despite the functional similarity of Mailing Online and DirectNET, Pitney*
14 *Bowes cannot offer these special discounts. On the contrary, Pitney Bowes has*
15 *been obliged to establish specific volume limitations on Standard (A) mail and on*
16 *First-Class automation compatible mail. We offer our customers the lowest rate*
17 *"practical" but we cannot, as the Postal Service proposes to do, offer a rate that*
18 *is lower than the customer would otherwise be able to obtain. The Postal*
19 *Service's rejoinder to this obvious pricing inequity is, from a marketing*
20 *perspective, unconvincing. The Postal Service admits that Pitney Bowes would*
21 *need to "solicit enough customers" to achieve the volume and geographic*
22 *distribution (in the case of drop entry discounts) in order to be able to offer the*

1 rates that the Postal Service intends to offer to Mailing Online customers. Both
2 of these services are, however, in start-up. What happens until Pitney Bowes is
3 able to solicit enough customers? It must either lose money on postage or
4 remain noncompetitive. Of course, the Postal Service will not lose money on
5 unearned postage discounts; that revenue shortfall will be absorbed by other
6 customers.

7 The question, then, is what effect these special postage discounts the
8 Postal Service proposes to offer to Mailing Online users will have on competition.
9 The answer, it seems to me, is quite clear. Certainly during the proposed Market
10 Test and the proposed two-year experimental phase, potential customers
11 deciding whether to use Mailing Online or DirectNET will be faced with the
12 opportunity to obtain from the Postal Service postage discounts for which they
13 would not otherwise qualify and which they cannot obtain from DirectNET. For
14 customers for whom price is the primary or perhaps the only consideration, the
15 choice seems reasonably clear -- they will opt for Mailing Online. It is true that
16 some of the Postal Service's competitive edge in price terms may be offset
17 because of service enhancements that Pitney Bowes offers and that the Postal
18 Service does not propose. Nonetheless, my experience strongly suggests that
19 for many potential users of these two PC-based postal systems, the choice will
20 come down to price. As to price, the Postal Service has conferred upon itself a
21 significant and unfair competitive edge. I also do not understand how the Postal
22 Service can consider that the results of the proposed Market Test or the

1 experiment will provide meaningful information as to the value of Mailing Online
2 service in a competitive marketplace when it seeks to arrogate to itself, and its
3 Mailing Online customers, rate preferences that will not be available to other
4 functionally equivalent and competitive services.

5

6

PATRICK BRAND
Resume

Pitney Bowes 1983 - 1998

- VP Marketing Small Office Division (1997 - Current)
Responsible for all revenue generation and business development for this new and growing division of Pitney Bowes
- Director Worldwide Product Management, Mailing Systems (1993-1997)
Responsible for managing the entire worldwide postage meter product line for Pitney Bowes
- Director, Small Business Marketing, Mailing Systems (1988-1992)
Responsible for all marketing efforts to small businesses through both direct sales and direct marketing channels
- Controller, Supplies and Direct Response Marketing (1986-1987)
Responsible for all aspects of financial reporting, budgeting and management of the Supplies and Direct Response Marketing Division
- Assistant Controller, Copier Division (1984-1985)
- Senior Internal Auditor (1983-1984)
- Deloitte, Haskins and Sells (1980-1983)
Staff Auditor and Senior Consultant

Education

- 1979 - BS Finance Major, University of Connecticut
- 1980 - MBA Finance/Accounting

Certifications

Certified Public Accountant - Connecticut 1983
Certified Management Accountant - 1983

Patents

Patentholder relating to printing security in postage meters - 1998

CERTIFICATE OF SERVICE

I hereby certify that I have this day served the foregoing document upon all parties in this proceeding in accordance with sections 12 and 20(c) of the rules of practice.


Ian D. Volner

001513

DECLARATION

RECEIVED

SEP 14 7 56 AM '98

POSTAL RATE COMMISSION
OFFICE OF THE SECRETARY

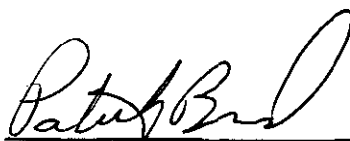
I, Patrick Brand, declare as follows:

1. The testimony to which this Declaration is appended, styled

"Rebuttal Testimony of Patrick Brand" was prepared by me or under my direction

and control; and

2. If I were to testify orally, my testimony would be the same.



Patrick Brand

Dated: Sept. 10, 1998

