

ORIGINAL

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

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MAILING ONLINE SERVICE

Docket No. MC98-1

RESPONSE OF UNITED STATES POSTAL SERVICE
WITNESS GARVEY TO INTERROGATORIES OF
MAIL ADVERTISING SERVICE ASSOCIATION INTERNATIONAL
(MASA/USPS-T1-19-22)

The United States Postal Service hereby provides the responses of witness Garvey to the following interrogatories of Mail Advertising Service Association International: MASA/USPS-T1-19-22, filed on October 28, 1998.

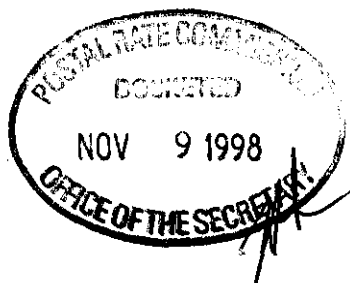
Each interrogatory is stated verbatim and is followed by the response.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

Daniel J. Foucheaux, Jr.
Chief Counsel, Ratemaking



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November 9, 1998

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MASA/USPS-T1-19. Referring to you answer to MASA/USPS-T1-9:

- a. Explain in detail how "traditional lettershop activities could be impacted" by improvement in the economies of digital printing.
- b. Is it your opinion that lettershops would be positively impacted by "evolving a capacity to bid on MOL contracts[sic]? Explain your answer fully.
- c. Confirm that at most, only 25 lettershops could be awarded MOL contracts.
- d. Explain how those lettershops that bid on but were not awarded MOL contracts were positively impacted by "evolving a capacity to bid on MOL contracts."
- e. Explain in detail every way you can think of in which lettershops would be positively impacted by MOL, including in your answer your assessment of the likelihood that such positive impact would occur and with respect to what percentage of the mailing services industry.
- f. Identify all support for your opinion that "some – perhaps many – MOL customers may outgrow MOL and become lettershop customers." Identify any studies, data, research or other source that supports your opinion. If you intend to develop further support for the opinion, please describe in detail how you plan to do so.

RESPONSE:

- a. As I understand the business model, traditional lettershop functions involve a wide variety of mailpiece creation, assembly and preparation activities. These functions are performed in response to customer requirements which are ultimately a product of customer expectations regarding cost, speed and quality. I believe that improvements in the economies of digital printing will increase the awareness, understanding and consequent usage of this technology, and furthermore, that its improved speed and flexibility will impact the expectations of mail users. As competitive businesses, lettershops are driven by their customers' expectations in the adoption of new technologies and capabilities. Digital printing is complementary to many of the existing functions of lettershops

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and the integration of this technology would tend to improve the competitive position of a full-service provider looking for ways to satisfy existing customers and attract new ones.

- b. Any lettershop which evolves a capacity to bid on MOL contracts will of course be in a position to benefit from the award of such a contract. In addition, for the reasons stated in (a) above, this capacity is also likely to generate new revenue by benefiting their ability to satisfy latent and emerging demand from their own or other customers having requirements for digital printing services in conjunction with the use of mail.
- c. Not confirmed. As indicated in my response to OCA/USPS-T1-5(a), if demand is sufficient to warrant it, more than 25 contracts could be awarded.
- d. See my response to part (b), above.
- e. With the understanding that Mailing Online is expected to improve the usefulness of mail to small businesses and other small volume mailers, and that new mail volume will be generated thereby, it is my firm opinion that lettershops might also expect to benefit from new volumes of mail types not suitable for MOL that will be generated by this underserved market segment as they grow aware of the many benefits of mail as a cost effective communications tool. Additionally, it is my opinion that there is a strong likelihood that the positive results achieved through the combined benefits of data manipulation, document personalization,

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address standardization and automation compatible mail preparation, available on a small scale in MOL, will compel MOL users to investigate the more robust capabilities of lettershops and other mailing services providers. This will be especially true if such nascent businesses grow to the point of mailing in volumes better suited to traditional lettershop technologies.

- f. My opinion comes from personal knowledge of business and the mailing public as well as from discussions with members of the mailing services industry. My opinion is rooted in two basic understandings. The first is that, in general, the volume threshold for lettershop mailings is higher than that for MOL mailings, and that the variety and complexity of lettershop capabilities far exceeds what is possible using MOL. The second is the simple expectation that successful small businesses grow and that successful users of the mail expand their use of it in both quantitative and qualitative senses. This growth would leave them with mailing needs not able to be satisfied by MOL and it is likely, in my opinion, that they would seek out lettershops for this reason. I remain open to new information that may bear on this question, and will continue to gather information on this subject through personal observation and informal investigation.

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MASA/USPS-T1-20.

- a. How many bidders were there for the contract awarded to successful bidder reflected in LR-11? If there were any other bidders, identify them and provide a price chart comparing each other bid by price to the one accepted.
- b. Have [sic] any request for bids been solicited with respect to other print contracts? Describe the status of the USPS effort to solicit [sic] other bidders on printing contracts.

RESPONSE:

- a. Two offerors responded to the solicitation. Release of unsuccessful offerors' pricing or technical proposals would violate postal regulations. *Purchasing Manual* § 4.2.8.d. Information must not be disclosed to any supplier as to another supplier's: (a) trade secrets; (b) restricted data or privileged or confidential manufacturing processes or techniques; or (c) business and financial information that is privileged or confidential, including cost breakdowns, profit, indirect cost rates, and similar information.
- b. A prequalification process has been initiated for the next three print locations. The Postal Service's Purchasing and Materials Service Center recently invited the submission of prequalification statements from suppliers in the Chicago, Los Angeles and New York areas. This process will prequalify the most suitable suppliers in these areas, from whom competitive proposals will be solicited in the near future.

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MASA/USPS-T1-21. In response to OCA/USPS-T1-12, you state that the costs of informing potential MOL customers and advertising during the market test have been included in cost estimates. Identify where in the testimony these costs have been accounted for.

RESPONSE:

My response to OCA/USPS-T1-12 states "It is my understanding that as appropriate, these costs have been included". I am not, however, the judge of what is appropriate; nor am I a costing witness. See Tr. 2/290-91.

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MASA/USPS-T1-22. In your testimony at page 10, lines 2-5, you state that MOL customers "will be notified of addresses that cannot be matched with existing Postal Service's Address Management System database and are therefore being purged from the list." In response to DFC/USPS-T5-2 (redirected from witness Plunkett), you indicate that early in the market test, the MOL system "will be modified to use the FastForward system to check addresses for address change status."

- a. Confirm that addresses for which a change is identified by the FastForward system will not be purged.
- b. Confirm that mail for which an address change is identified by the FastForward system will be forwarded to the addressee at the correct address.
- c. Confirm that the mailer will not be provided with the address for any changed address identified by the FastForward system. Will a MOL user be notified of the names of those addressees whose mail has been forwarded as a result of the FastForward system?
- d. Confirm that the mailer will not be charged for the FastForward system. Describe the circumstances in which Fastforward is available to mailers who are not using MOL, and state whether any charge is levied in connection with use of the FastForward system.
- e. Explain whether, after FastForward is implemented for MOL, the statement in your testimony referred to in the interrogatory will still be true. If it is, explain the circumstances in which it will be true and estimate as best you are able the percentage of incorrectly addressed MOL mail that will still be purged when FastForward is in use.

RESPONSE:

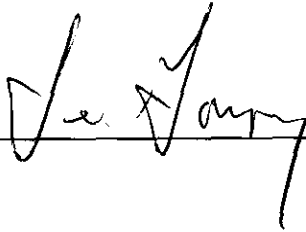
- a. Confirmed.
- b. Confirmed that mail for which an address change is identified by the FASTforward system will be forwarded to the addressee at the address recorded in the FASTforward database.
- c. Confirmed that at the present time, mailers will not be provided with any address changes nor any notification of the identity of those addressees whose mail has been forwarded as a result of the FASTforward system.

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- d. Confirmed that as is the case today, neither mailers nor addressees will be charged by the Postal Service for the forwarding of First-Class Mail. The use of FASTforward with MOL will however make the process more efficient for the Postal Service than it is today. In general, a standalone FASTforward system is available to licensees for an annual fee of \$10,000 for each system; multiple or networked systems are priced differently, as are upgraded platform implementations. Under the conditions of the licensing agreement, licensees are authorized to offer the service to others on whatever financial terms they may choose.
- e. The statement in my testimony refers to address standardization, not address change status and will continue to be true. The Address Management System (AMS) database is used to check address elements only and does not involve checking names or forwarding status. The percentage of addresses purged based upon use of AMS will vary depending upon many factors, but will be unaffected by the use of FASTforward. FASTforward will not be used to purge addresses.

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.

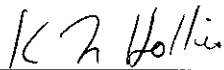


A handwritten signature in black ink, appearing to read "Lee Garvey", is written over a horizontal line.

Dated: 11/9/98

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.



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