

ORIGINAL

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

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Mailing Online Service

Docket No. MC98-1

RESPONSE OF MAIL ADVERTISING SERVICE ASSOCIATION  
INTERNATIONAL/PITNEY BOWES  
WITNESS PRESCOTT TO INTERROGATORIES OF  
THE UNITED STATES POSTAL SERVICE  
(USPS/MASAPB-T1-1-13)

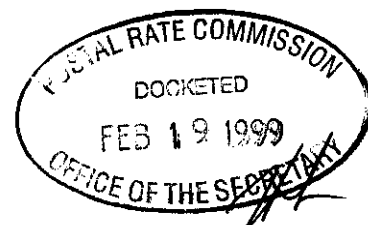
The Mail Advertising Service Association International/Pitney Bowes hereby provides the responses of witness Prescott to the following interrogatories of the United States Postal Service: USPS/MASAPB-T1-1-12, filed on February 12, 1999; and USPS/MASAPB-T1-13, filed on February 16, 1999.

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

Respectfully submitted,

By its attorneys:





**RESPONSE OF MAIL ADVERTISING SERVICE ASSOCIATION  
INTERNATIONAL/PITNEY BOWES  
WITNESS PRESCOTT TO INTERROGATORIES  
OF THE UNITED STATES POSTAL SERVICE**

USPS/MASAPB-T1-1. On page 4, lines through 6, you state that:

Many of MASA's members are letter shops, print shops and other mail preparation companies of varying sizes that could compete for the printing and production of the type of mail to utilize Mailing Online.

Please confirm that some MASA members could compete to become a Mailing Online printer under contract to the Postal Service. If you do not confirm, please explain.

**USPS/MASAPB-T1-1 Response:**

Confirmed.

USPS/MASAPB-T1-2. Please provide the source of the Aggregate Costs figures in your Table 1, on page 8 of your testimony. The listed source of Exhibit USPS-2A, page 10 provides only volume numbers.

**USPS/MASAPB-T1-2 Response:**

The Aggregate Cost figures are developed from the sources shown in footnote 3. The reference to footnote 2 on Line 2 of Table 1 should be changed to footnote 3.

USPS/MASAPB-T1-3. Please refer to your Table 2, on page 9 of your testimony. Please confirm that Mailing Online revenues of \$90 million would be less than 0.2 percent of total Postal Service revenues of about \$60 billion. If you do not confirm, please explain.

**USPS/MASAPB-T1-3 Response:**

Confirmed.

USPS/MASAPB-T1-4. On page 10, lines 7 to 10, you estimate a diversion from private business of \$121 million during the Mailing Online experiment. Please confirm that the \$121 million estimate assumes that all existing mail which uses Mailing Online is currently using the mail preparation services of private businesses. If you do not confirm, please explain why. If you do confirm, please explain the basis for this assumption.

**USPS/MASAPB-T1-4 Response:**

Confirmed. Existing mail that uses Mailing Online is currently prepared either by a company that provides mail preparation services or in-house by a private business that is a potential customer of the companies that provide mail preparation services.

USPS/MASAPB-T1-5. On page 10, lines 11 to 12, you refer to the "potential economic impact on the competitive market for mail preparation services".

- (a) How do you define the "competitive market for mail preparation services?" Please specify how it corresponds to the approximately 670 companies that belong to MASA?
- (b) Please provide an estimate of the total amount spent per year on private mail preparation services. Please indicate whether your response is limited to MASA members.

**USPS/MASAPB-T1-5 Response:**

- (a) The phrase "competitive market for mail preparation services" is defined in my response to OCA/MASA/PB-T1-1. The 670 companies that are members of MASA consist of part, but not all, of the competitive market for mail preparation services.
- (b) The total amount spent per year on private mail preparation services was not needed for my analysis and, therefore, I have not developed that value.

USPS/MASAPB-T1-6. Please refer to page 12, line 3 of your testimony, where you state “when two (or more) functions in the stages of production are merged together under the control of one company, vertical integration occurs.”

- (a) Please confirm that private printing companies will supply MOL services under contract to the Postal Service, rather than being merged with the Postal Service. If you do not confirm, please explain.
- (b) By the use of the word “control”, do you mean that the Postal Service will forbid Mailing Online contractors from obtaining other printing and mailing business on their own? Please explain any affirmative response.

**USPS/MASAPB-T1-6 Response:**

- (a) Not confirmed. Because the private printing companies are under contract to the USPS and all of the Mailing Online jobs come through the USPS, the printing and mail production function is merged through vertical integration with the USPS’ mail delivery function.
- (b) No.

USPS/MASAPB-T1-7. Please refer to page 15, lines 7-9 of your testimony, where you argue that:.

Mailing Online will not charge sales tax and the USPS does not pay corporate income taxes. Thus, the USPS may be able to offer lower prices than its competitors who are subject to sales and income taxes.

- (a) Please confirm that the Postal Service's fee proposal for Mailing Online calls for marking up the costs of private printers. If you do not confirm, please explain.
- (b) Please confirm that these private contractors are subject to sales and corporate income taxes. If you do not confirm, please explain.
- (c) Would you agree that in preparing bids for provision of MOL services, potential printing contractors would include sales and corporate income taxes in estimating their costs? Please explain any negative answer.
- (d) Do you believe that any sales taxes currently apply to the sale of products and services over the Internet? Please explain any affirmative answer.

**USPS/MASAPB-T1-7 Response:**

- (a) Not confirmed. The USPS will mark-up the price charged by the private printer contracting with the USPS.
- (b) Not confirmed. Whether or not the private contractor pays sales or corporate income tax is a function of several factors, including the tax regulations of the state where the printer is located, the profitability of the company and, with respect to sales, the nature of purchasing entity.
- (c) Not necessarily, as discussed in my response to part (b).
- (d) Yes. For example, the popular website called Amazon.com that sells books, music and videos states that "Washington State and Nevada State laws require that we charge a sales tax on the full amount of the order."



USPS/MASAPB-T1-8. On page 22, line 17 of your testimony you mention Pitney Bowes' DirectNET service. Please provide a price schedule for DirectNET.

**USPS/MASAPB-T1-8 Response:**

I do not have a price schedule for DirectNET.

USPS/MASAPB-T1-9. Please refer to Table 4 on page 28 of your testimony. In estimating the amount of revenue leakage due to migration of volume from First-Class Mail to Standard Mail (A), did you consider cost savings resulting from this migration? Please explain any affirmative response.

**USPS/MASAPB-T1-9 Response:**

No. Table 4 only calculates revenues. However, as noted in footnote 28 on page 27 of my testimony, the contribution for Standard (A) Regular mail is less than First Class Mail.

USPS/MASAPB-T1-10. Please refer to page 32, line 6 of your testimony, where you state that "Mailing Online will benefit from the advertising developed for POL."

- (a) In your view, does the fact that a product benefits from an expenditure justify distributing at least part of that expenditure to the product. Please explain your answer.
- (b) To the extent that Mailing Online makes it easier to use First-Class Mail and Standard Mail (A), and increases First-Class Mail and Standard Mail (A) volumes, will First-Class Mail and Standard Mail (A) "benefit from" the advertising of POL? Please explain any negative response.

**USPS/MASAPB-T1-10 Response:**

- (a) In my testimony I used the word "benefit" to mean an expenditure intended to increase demand for Mailing Online. The fact that a product benefits in the sense of experiencing increased demand as a result of an expenditure justifies distributing at least some part of the expenditure, however large or small, to the product.
- (b) Yes.

USPS/MASAPB-T1-11. Please fully define the term "incremental" as you use it on page 32, line 7 of your testimony.

**USPS/MASAPB-T1-11 Response:**

The sentence in my testimony states that "...while no advertising costs may be incremental to Mailing Online, no reason exists for Mailing Online not to share in the costs...." (footnote omitted). The term incremental refers to any specific advertising costs that would not have been incurred but for the addition of the Mailing Online service.

USPS/MASAPB-T1-12. Please refer to page 32, line 9 through page 33, line 3 of your testimony. Please assume that POL offers two services, MOL and POL [sic], and that over a given time period there are 60 MOL transactions and 40 SOL transactions, as you defined transaction in this section of your testimony. Please further assume that over that same period, advertising costs for POL total \$100. Please confirm that the distribution approach described on page 33, lines 1 to 3 would distribute \$60 of advertising costs to MOL and \$40 to SOL. If you do not confirm, please explain.

**USPS/MASAPB-T1-12 Response:**

Confirmed.

USPS/MASAPB-T1-13. Please refer to your testimony at page 24, lines 15 to 16, where you claim that the Postal Service "has not shown that the Mailing Online contribution is maximized with a 25 percent mark-up."

- (a) Do you consider contribution maximization to be a relevant criterion in establishment of rates and fees under the Postal Reorganization Act? Please explain your answer.
- (b) Please confirm that the aggregate cost figure of \$194.7 million you use in your Table 4 excludes those costs characterized as "fixed" by the Postal Service. If you do not confirm, please explain.
- (c) Please confirm that your Table 4 assumes that aggregate costs drop in proportion to the drop in volume when moving from a 25 percent to a 50 percent mark-up ratio. If you do not confirm, please explain.
- (d) Please reconcile your assumption about the relationship between volumes and aggregate costs with the evidence that high-cost options, such as documents over 10 pages, 11 x 17 inch documents, and spot color documents, decrease disproportionately when moving from a 25 percent to a 50 percent markup. See Tables 15 and 16 of witness Rothschild's testimony (USPS-T-4), and Tables 1, 2, and 3 of witness Seckar's testimony (USPS-T-2).

**USPS/MASAPB-T1-13 Response:**

- (a) No. Maximization of contribution is not a criterion of the Postal Reorganization Act.
- (b) Confirmed, if the correct reference in the question is to Table 3 of my testimony.
- (c) Confirmed, if the correct reference in the question is to Table 3 of my testimony.
- (d) The change in costs in Table 3 was based on the average costs for simplicity. The data required to perform the analysis shown in witness Seckar's exhibit, and utilized by the USPS' witness Plunkett, are not available in the USPS' data for projected volumes with the 50 percent mark-up.

**DECLARATION**

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

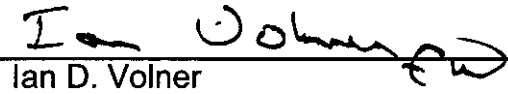
Roger C. Prescott

Date: February 19, 1999

**CERTIFICATE OF SERVICE**

I hereby certify that I have on this date served this document upon all participants of record in this proceeding in accordance with section 12 of the rules of practice.

DATE: February 19, 1999

  
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Ian D. Volner