

ORIGINAL

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

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Mailing Online Service

Docket No. MC98-1

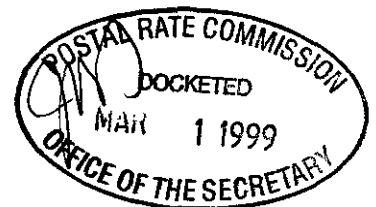
RESPONSE OF MAIL ADVERTISING SERVICE ASSOCIATION
INTERNATIONAL/PITNEY BOWES
WITNESS PRESCOTT TO INTERROGATORIES OF
THE UNITED STATES POSTAL SERVICE
(USPS/MASAPB-T1-15-20)

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-T1-15-20, filed on February 22, 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-T1-15. On page 23, lines 5 to 6, you state that "In order to maximize the possibility that the USPS' start-up costs are recovered, Mailing Online should receive the highest mark-up possible." On page 24, lines 5 to 6, you state that a "higher mark-up would help insure that the initial costs are recovered."

- (a) Would you support a higher mark-up even if it resulted in decreased contribution for Mailing Online, because of lost volume?
- (b) Please confirm that, compared to the Postal Service's proposal, you are proposing to both increase the costs attributed to Mailing Online, and increase the cost coverage for Mailing Online.
- (c) Are you confident that these changes, in conjunction with each other, will not decrease volume so much that contribution would be reduced? Please explain your response.

USPS/MASAPB-T1-15 Response:

- (a) Yes.
- (b) Confirmed.
- (c) Based on the data available, I am unable to determine the impact to contribution. The extent to which contribution may change is a function of both volume and the mark-up ratio. Even if contribution is reduced, the mark-up should be increased during the experimental phase in order to avoid competitive harm to MASA members, Pitney Bowes, Inc. and similarly situated businesses.

USPS/MASAPB-T1-16. Please refer to page 30, line 9 of your testimony. Please confirm that the cost of 0.41 cents is per impression, rather than per piece. If you do not confirm, please explain.

USPS/MASAPB-T1-16 Response:

Confirmed.

USPS/MASAPB-T1-17. Please refer to page 31, lines 17 to 18 of your testimony. Please confirm that you intended to refer to witness Garvey, rather than witness Stirewalt.

USPS/MASAPB-T1-17 Response:

Confirmed.

USPS/MASAPB-T1-18. Please refer to page 32, line 12 to page 33, line 3 of your testimony, where you state that the advertising costs for PostOffice Online should be distributed based on the percentage of transactions for PostOffice Online, Mailing Online, and Shipping Online. Consider a hypothetical in which POL provides only two services, Shipping Online (SOL) and Mailing Online (MOL). During year 1, SOL had 25 transactions and MOL had 50 transactions. During the end of year 1 and the beginning of year 2, the Postal Service conducts \$1 million of POL advertising. During year 2, SOL has 50 transactions and MOL has 50 transactions. Based on your approach, which of the following methods should be used to distribute the advertising cost to SOL and MOL?

- (1) 25/75 to SOL, and 50/75 to MOL, based on year 1 transactions?
- (2) 50/100 to SOL, and 50/100 to MOL, based on year 2 transactions?
- (3) All to SOL, based on the changes in transactions from year 1 to year 2 for SOL and MOL, respectively?
- (4) Another alternative?

Please explain your choice.

USPS/MASAPB-T1-18 Response:

The methodology to be utilized should be other than shown in your example because based on the data provided, insufficient information is available to determine the level of advertising costs incurred for each year.

USPS/MASAPB-T1-19. Please refer to your response to OCA/MASA/PB-T1-1(b), where you define the competitive market for mail preparation services as "those private companies that could compete for any of the services provided by Mailing Online." Does this market include firms that prepare mail in-house as an adjunct to major business activities, such as insurance companies preparing policy statements for mailing? Please explain.

USPS/MASAPB-T1-19 Response:

It might. If Mailing Online solicits business for mail preparation services provided in-house then the USPS is competing in the market to obtain that business.

USPS/MASAPB-T1-20. Please refer to your response to USPS/MASAPB-T1-10, where you state that “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.”

Consider a hypothetical in which the Postal Service designs and runs advertisements promoting Priority Mail. These advertisements address Priority Mail only, and make no mention of other Postal Service products. Assume, however, that the advertisements are effective in raising the image of the Postal Service in the public’s mind, and that this improved image in turn leads to increased purchases of other products, such as First-Class letter mail and various special services. Please confirm that, consistent with your response to USPS/MASAPB-T1-10, these other products that benefitted from this advertising should be assigned a portion of its costs. If you do not confirm, please explain.

USPS/MASAPB-T1-20 Response:

Not confirmed. Attributable or variable costs are associated with a product (or products) because a quantifiable causative relationship is shown between the cost and the product. The hypothetical does not provide sufficient information to determine whether an increase in volume related to improved image due to Priority Mail advertising represents a quantifiable causative relationship because of the numerous other factors that could have impacted volumes.

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: March 1, 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: March 1, 1999



Ian D. Volner