

ORIGINAL

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

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POSTAL RATE COMMISSION
OFFICE OF THE SECRETARY

Mailing Online Service

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Docket No. MC98-1

ANSWERS OF THE OFFICE OF THE CONSUMER ADVOCATE
TO INTERROGATORIES OF UNITED STATES POSTAL SERVICE
(USPS/OCA-5-6)
(MARCH 5, 1999)

The Office of the Consumer Advocate hereby submits answers to interrogatories USPS/OCA-5-6, dated February 23, 1999. The interrogatories are stated verbatim and are followed by the responses.

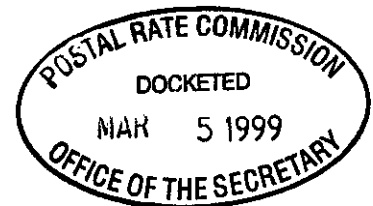
Respectfully submitted,

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ANSWERS OF THE OFFICE OF THE CONSUMER ADVOCATE
TO INTERROGATORIES USPS/OCA-5-6

USPS/OCA-5. On page 10 of the Office of the Consumer Advocate Response to Issue No.5 of Notice of Inquiry No.1, filed February 8, 1998, the OCA "proposes that the relative usage of POL for access to the various services available at the site is the logical distribution key." 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 late year 1 and early 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.

A. Based on the hypothetical details given in the question, alternative (2) appears to be the proper method for distributing the advertising costs. From the circumstances described, it sounds like the 50 SOL transactions and 50 MOL transactions occurring in year 2 probably reflected the advertising expenditures made in late year 1 and early year 2. Logically, advertising expenditures made late in year 1 and early in year 2 would have had little or no effect on the number of transactions made in year 1, so alternative (1) is ruled out. An observer might jump to the conclusion that the advertising expenditures of late year 1 and early year 2 had no effect on MOL transactions in year 2. But the possibility should not be overlooked that MOL transactions might have declined from their level of 50 in year 2 if no advertising expenditures had been made.

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USPS/OCA-6. On page 9 of the Office of the Consumer Advocate Response to Issue No.5 of Notice of Inquiry No.1, filed February 8,1998, the OCA states that "[o]nly those services that are facilitated or purchased at the POL website benefit from the marketing of POL." Please also refer to the OCA's response to USPS/OCA-1.

(a) Please confirm that the use of First-Class and Standard Mail (A) is facilitated by the POL website. If not Confirmed, please explain why.

(b) Please refer to the OCA's response to interrogatory USPS/OCA-1(d), in which the OCA states that it unable to make the assumption that Postal Service advertising for POL is in part driven by goals of increasing volumes of First-Class Mail and Standard Mail (A). Also, please refer to the testimony of witness Plunkett (USPS-T-5), at page 7, which discusses the Postal Service's expectation that Mailing Online will result in a net increase in mail volume. Would it be irrational for the Postal Service to decide to undertake advertising for POL in part to increase volumes for First-Class Mail and Standard Mail (A)? Please explain.

(c) Does the OCA believe that the amount of First-Class Mail and Standard Mail (A) volume that might be generated by advertising for POL should play no role in deciding how much advertising to conduct? Please explain.

(d) If the impact on a class or subclass of mail is one factor in determining how much to spend on advertising for a particular topic, should that class or subclass of mail bear some responsibility for the costs of that advertising? Please explain.

A. (a) Not confirmed. As was stated in response to USPS/OCA-1a. and 1c.,

First-Class Mail and Standard Mail (A) are offered merely as adjuncts to the Mailing

Online service. Neither can be purchased directly or independently at the POL website,

but can only be purchased in conjunction with Mailing Online printing services.

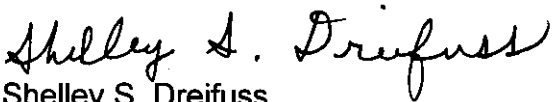
(b)-(d) It would be unexpected for the Postal Service to make expenditures on advertising for the specific purpose of acquainting the public with First-Class Mail and Standard Mail (A). Both of these subclasses are subject to the private express statutes, giving the Postal Service a monopoly over the processing, transportation, and delivery of these pieces. In H.R. 22, proposed legislation currently under consideration by a subcommittee of the House of Representatives, First-Class letters and Standard Mail (A) are clearly recognized to be "noncompetitive" products. One might question the wisdom

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of an enterprise going to the expense of advertising a noncompetitive, monopoly product. By contrast, Mailing Online is clearly a competitive product. MASA/PB witness Prescott has so testified. It is more reasonable to expect that advertising expenditures for POL are for the purpose of stimulating public interest in Mailing Online. Similarly, Express Mail and Priority Mail, which may be purchased directly at the POL website, are generally regarded as competitive products. H.R. 22 places them in the competitive products category. Although OCA staff members have limited knowledge of Postal Service advertising nationwide, OCA staff has been exposed to Postal Service television and radio advertising locally. These advertisements are most often for the purpose of acquainting the public with the advantages of choosing Priority Mail, and sometimes to point out the advantages of using Express Mail. No advertisements for First-Class Mail nor for Standard Mail (A) have ever come to the attention of OCA staff. The judgment of OCA staff is that the object in incurring advertising expenditures for POL is to increase the volume of *competitive* products purchased at the POL website—Mailing Online, Priority Mail, and Express Mail.

CERTIFICATE OF SERVICE

I hereby certify that I have this date 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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Washington, DC 20268-0001
March 5, 1999