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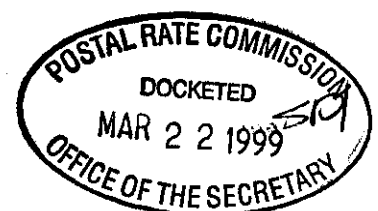
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BEFORE THE  
POSTAL RATE COMMISSION  
WASHINGTON, D.C. 20268-0001

MAILING ONLINE SERVICE

Docket No. MC98-1

REBUTTAL TESTIMONY  
OF  
LEE GARVEY  
ON BEHALF OF  
UNITED STATES POSTAL SERVICE



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**1 LIST OF EXHIBITS**

**2 USPS-RT-1A: Memorandum Announcing Effectiveness of Y2K Moratorium**

**Rebuttal Testimony**  
**of**  
**Lee Garvey**

**AUTOBIOGRAPHICAL SKETCH**

This updates the autobiographical sketch that appears in my direct testimony, USPS-T-1. My name is Lee Garvey. I currently serve as an acting Manager in the Internet Business Group of the Technology department of the United States Postal Service. I am responsible for managing the development of Internet Correspondence and Messaging services, including the strategy designed to provide small businesses with convenient internet access to First-Class Mail and Standard (A) Mail, Mailing Online.

A 28-year employee of the United States Postal Service, I began my postal career as a letter carrier in the Arlington, Virginia post office. I have since held positions as Station Manager, Account Representative, International Account Representative and National Account Manager. In these latter positions I have worked extensively with a wide variety of postal customers, including printers and lettershops, and have been instrumental in analyzing and facilitating solutions for a multitude of mailers' needs. I am a past member of the Washington Direct Marketing Association and have planned and participated in Postal Customer Council (PCC) activities throughout the United States.

- 1 I have a bachelor's degree in business administration from Columbia Union
- 2 College in Washington, DC.
- 3

1     **I.       PURPOSE OF TESTIMONY**

2           My rebuttal testimony responds to inquiries from the bench and participants,  
3     while rebutting the testimony of OCA witness Callow, OCA-T-100, and MASA/Pitney  
4     Bowes witness Prescott, MASA/PB-T-1. I also rebut certain unsubstantiated allegations  
5     made or implied by MASA witnesses Jurgena and Schuh. I describe the current status  
6     of the Mailing Online development and schedule, and Postal Service plans for  
7     operational implementation of the Mailing Online experiment. Reasons for low usage  
8     and volume during the market test are explained. I also describe the status of  
9     FASTForward integration and address our plans for offering nonprofit rate categories.

10          I discuss the importance of design and rate simplicity for Mailing Online  
11     customers and describe those characteristics that clearly differentiate Mailing Online  
12     from both functional and claimed direct competition. Further, I review the intent of the  
13     Postal Service in developing Mailing Online and enumerate the benefits of the service  
14     to the American people.

15  
16     **II.     PROGRAM DEVELOPMENT STATUS**

17           **FASTForward**

18          In previous testimony I indicated that the FASTForward address change system  
19     would be utilized for Mailing Online service during the market test. Technical  
20     implementation problems associated with FASTForward have caused a delay in  
21     integrating it with Mailing Online, although our resolve to do so remains unassuaged.  
22     Proper and complete addresses constitute a key to production of mailpieces that

1 ultimately drive costs from the system of hardcopy delivery. However, the  
2 FASTForward system consists of a small computer that, due to the extreme sensitivity  
3 of change-of-address information residing in the database upon which FASTForward is  
4 based, is highly secured and into which the PostOffice Online developers have been  
5 unable to look as they develop the necessary hardware and software links. If  
6 necessary, other means of providing FASTForward functionality will be examined and  
7 implemented.

#### 8 **Nonprofit rate categories**

9 In our original filing, we had indicated that we would make nonprofit rates  
10 available as soon as an online verification system could be integrated into Mailing  
11 Online. That verification system, which we had expected to be able to utilize by this  
12 time, has not been completed. The major hurdle here is the existing means by which a  
13 mailer's nonprofit status is authorized and tracked. This means is currently based upon  
14 specifically authorized points of mail entry, which, since entry may occur virtually  
15 anywhere in the domestic service area, results in records being maintained all over the  
16 country. The mandatory ease-of-use requirements of Mailing Online design require the  
17 Postal Service to simplify the application of this nonprofit status system to PostOffice  
18 Online registrants, yet still maintain a strong revenue protection mechanism. Ultimately,  
19 we intend to use digital certificates for that purpose, but the technological means to  
20 implement such a system are several months away from readiness. Until that hurdle  
21 can be cleared, we are instead planning on an application/password system that should  
22 be part of the experiment when it is implemented.

1           **Batching and co-mingling capability**

2           My direct testimony addresses the goal of developing a capability to merge,  
3   within classification categories, mail pieces sharing similar processing characteristics to  
4   the greatest extent possible. The system developers assure me that we should see this  
5   capability enhanced in the next major release of the software coinciding with the  
6   experiment. However, the degree to which we will be able to approach a complete  
7   merger of all letter size mailpieces and all flat size mailpieces is as yet unknown. The  
8   batching capability is limited by system, print production, and classification constraints.  
9   Notwithstanding, the system batching capability designed into the next major release of  
10   the software promises to increase batching of letter size mailpieces substantially, thus  
11   improving Mailing Online volume's levels of batching, presortation, and automation  
12   compatibility, and thereby reducing the cost of processing Mailing Online pieces.

13           **Witness Callow's Proposal and the Y2k Moratorium**

14          Witness Callow's proposal, while intriguing in certain respects, has some  
15   important shortcomings that argue against its implementation for the experiment. In  
16   effect, witness Callow proposes a concrete means by which rates unique to Mailing  
17   Online could be defined. On the one hand, witness Callow's proposal has the positive  
18   attributes of improving flexibility and responsiveness to demand. One the other hand,  
19   two significant flaws militate against adoption of his proposal at this time. Witness  
20   Callow's proposal rests on the assumption that the rate structure appropriate for  
21   traditional hard-copy mail is also appropriate for hybrid products. I disagree with this  
22   assumption. Indeed, if traffic at the Mailing Online site reaches expected levels,  
23   individual transaction costs will be so low that volume minimums of any kind will prove



1 anachronistic. It bears repeating that the Postal Service proposed Automation Basic  
2 rates as a proxy that simplifies a filing that already breaks new ground. While rates  
3 have nonetheless received considerable attention in this case, the goals of the  
4 experiment would not be advanced by adoption of witness Callow's proposed rate  
5 setting mechanism. The Postal Service does expect to consider the unique merits of his  
6 approach during the experiment if plans for filing a request for permanent Mailing  
7 Online service mature.

8       There is an additional, more pragmatic, reason for rejecting witness Callow's  
9 proposal. The Postal Service recently announced a moratorium on information system  
10 development activity in order to insure readiness for Y2k. The Moratorium is currently  
11 in effect and is proposed to remain in effect through March of 2000 (see exhibit USPS-  
12 RT-1A). As it stands now, implementation of system expansion for experimental  
13 Mailing Online, dubbed version 3.0, is scheduled for a slightly delayed installation in  
14 September. Accordingly, Postal management is exploring means of reconciling the Y2k  
15 moratorium with the need to implement experimental Mailing Online service. While I  
16 have not studied how long it would take to implement changes of the kind that witness  
17 Callow proposes, his assertion that they require a mere few minutes of coding time  
18 (based on an interpretation of my response to OCA/USPS-T1-72) is mistaken. Making  
19 even modest changes to a production system requires a non-trivial effort. Incorporation  
20 of a system using thousands of lookup tables into the Mailing Online system is simply  
21 not feasible given our current timetable, and would likely result in a delay of the service  
22 until some time later than March, 2000.

1     **III.     MARKET TEST VOLUME**

2             The expanded test began October 30, 1998 in three new metropolitan areas:  
3     New York, Boston and Philadelphia, together with the operations test cities of Hartford  
4     and Tampa.

5             Our experience thus far bears out the expectation that witness Rothschild's  
6     volume projections provide the most accurate projections of volume for the experiment.  
7     While actual market test volume has fallen short of my hopes, a more significant goal  
8     for the market test is to gain experience in a live, production environment. In so doing  
9     we have experienced a number of development problems that could not have been  
10    foreseen. As we have worked to resolve these issues, we have deliberately slowed the  
11    pace of our marketing efforts to avoid drawing additional traffic to a site that is still  
12    functioning at a suboptimal level. Our focus remains upon the long term interest of our  
13    customers whom we hope to serve continuously through implementation of a  
14    permanent service. The volume level thus far has nonetheless been sufficient to gain  
15    experience with merger of customer jobs, a printing contractor, and mail entry. The  
16    relatively low volumes have also led us to postpone the schedule for adding print sites  
17    in New York, Los Angeles, and Chicago until volume has reached levels sufficient to  
18    warrant additional sites. Identification of qualified contractors has, however, continued  
19    and we will be ready to bring additional sites on-line as soon as Mailing Online is ready  
20    for national availability.

21            During the remainder of the market test we plan to increase the number of  
22    Mailing Online customers from the current two hundred to several thousand. We will  
23    thereby conduct further tests of the technology and refine our understanding of the

1 relationships necessary with contract printers for the nationwide experimental service.  
2 This process should continue until implementation of the experimental Mailing Online  
3 service.

#### 4 **IV. EFFECT ON COMPETITION**

5 MASA and Pitney Bowes witnesses improperly generalize upon the target  
6 market for Mailing Online so as to justify their claims of entitlement to any and all mail  
7 that is, or could be, prepared by existing providers of mail preparation services. Taken  
8 to its logical extreme, their collective position would appear to justify claims that any  
9 action taken by the Postal Service which has the effect of making direct entry by  
10 customers (as opposed to using preparation services) more appealing constitutes anti-  
11 competitive behavior entitling them to relief from this Commission. This extreme view  
12 also could justify opposition to service improvements, changes in acceptance  
13 procedures, or a reduction in single-piece rates. Even using this excessively broad  
14 definition of market, the impact of Mailing Online during the experiment is a maximum of  
15 812 million out of 400 billion First-Class Mail and Standard (A) pieces—less than two-  
16 tenths of one percent.

17 The target market for Mailing Online however, is considerably more narrow than  
18 witness Prescott asserts. He claims that the Mailing Online market consists of all  
19 customers who do – *or could* – take advantage of mail preparation services. Tr. 9/215.  
20 While this universe of customers may constitute a theoretical basis for laying claim to a  
21 portion of a market, it ignores the fact that Mailing Online targets a more narrow – and  
22 currently ill-served – group of customers. It is impossible to reconcile witness Prescott's

1 all encompassing view of the Mailing Online target market with the service's expected  
2 features or its maximum projected impact.

3 As reflected in the market research and my direct testimony, Mailing Online  
4 targets specific customers because of features it does – and does not – include, and  
5 the economies that underlie such features. In this respect, the testimonies of witnesses  
6 Wilcox and Campanelli, USPS-T-7 and USPS-T-8, are quite informative. Many such  
7 small business owners either no longer use or never have used traditional mail  
8 preparation services for lack of a suitable match with their business requirements.  
9 Their volumes are quite low, and Mailing Online permits them to mail simple invoices,  
10 statements and solicitations readily, thus accelerating cash flow and targeting  
11 customers specifically. Moreover, mailpieces can be designed quickly and conveniently  
12 on a standard desktop computer for time-specific entry in quite small volumes, when  
13 traditional mail preparation firms typically require more lead time and personal  
14 interaction between customers and preparers. Even at lower volumes, traditional mail  
15 preparation activities often require multiple printing and production technologies, and  
16 complex design and assembly requirements unavailable through an automated on-line  
17 system such as Mailing Online.

18 Furthermore, as stated in my direct testimony, Mailing Online is not well suited  
19 for large volume direct mail or catalogs, because the economics of on-demand digital  
20 printing are currently unacceptable for long runs. However, it does make localized,  
21 short-run direct marketing feasible for smaller businesses that may never have used  
22 direct mail before and is likely to result in a long term increase in demand for the  
23 generally more personalized and volume-oriented services of MASA members.

1 My understanding of mail preparation services is that they typically provide a  
2 very broad range of services, many involving a high level of customization, and usually  
3 with a substantial amount of customer interaction. This differs substantially from the  
4 limited capabilities and automated functionality inherent in the design of Mailing Online.  
5 However, I can see no substantial barrier to any mail preparation services provider  
6 implementing an on-line job submission solution for their customers and offering the  
7 same, albeit limited, design functionality as Mailing Online, but with the benefit of  
8 personalized service and potentially greater postage discounts due to finer sort and  
9 deeper entry. Awareness of, and publicity for, Mailing Online could have the effect of  
10 facilitating the success of such an endeavor by helping to convey an understanding of  
11 the technical concept and thereby generating a demand for the provision of localized  
12 and/or more customized on-line offerings.

13 **V. BENEFITS TO FIRST-CLASS MAIL AND STANDARD (A) MAIL**

14 In arguing that a greater portion of total POL costs should be attributed to Mailing  
15 Online, the OCA argues that the products which "benefit" from the availability of  
16 PostOffice Online should bear the costs of developing and advertising the PostOffice  
17 Online. While I am not an expert in Postal Service costs,<sup>1</sup> and would therefore not  
18 presume to debate the appropriate means of cost attribution, I take issue with OCA's  
19 assertion in response to interrogatory USPS/OCA-1 that First-Class Mail and Standard  
20 (A) Mail are not beneficiaries of the Post Office Online. The purpose of Mailing Online is

1 to facilitate small mailers' access to these classes of mail, thereby fostering increased  
2 use. Mailing Online does not allow the user to purchase printing services except as a  
3 means of sending either First-Class Mail or Standard (A) Mail. There appears to be no  
4 dispute that Mailing Online will lead to additional mail volume, so Standard (A) and  
5 First-Class Mail will clearly "benefit from" Mailing Online.

## 6 VI. GOALS OF MAILING ONLINE

7 The primary goal of Mailing Online is to improve customer service by providing a  
8 convenient electronic means for entry of single piece and short run mailings that affords  
9 new groups of customers access to the benefits of automation, while driving costs from  
10 the mail processing system by capitalizing upon automation compatibility.

11 For the desktop computer-based mailer, Mailing Online reduces the aggregate  
12 cost of producing and entering a small mailing and provides a lower cost and more  
13 efficient way to use the mail. The testimonies of witnesses Wilcox (USPS-T-7) and  
14 Campanelli (USPS-T-8) confirm that Mailing Online produces those results for them.

15 The Postal Service chose a design for Mailing Online that harmonizes its own  
16 expertise in hard copy delivery with commercial firms' expertise in printing and Web  
17 development. While both MASA and Pitney Bowes oppose Mailing Online services,  
18 both MASA members and Pitney Bowes have already taken advantage, in their  
19 commercial capacities, of this harmonized approach. Pitney Bowes, for example, sells  
20 the finishing equipment used by the current printer. MASA members, some of whom

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(footnote continued...)

<sup>1</sup> Witness Takis, USPS-RT-2, who is such an expert, addresses attribution of  
(footnote continued...)

1 indicate to me that they share the Postal Service's expectation that Mailing Online may  
2 stimulate the market for on-demand print services, also hope to participate as printers.

### 3 **VII. EFFECT ON THE ESTABLISHED MAIL MARKETS**

4 Mailing Online promotes the growth of direct mail and newsletter publishing  
5 among small businesses because of Mailing Online's convenience and ease of use.  
6 Consequently, it will increase the satisfaction of postal customers while providing new  
7 business opportunities to printers, list brokers, and content providers.

8 Again, the target customer for Mailing Online is the relatively small mailer and  
9 the current non-mailer, much of whose current volume is produced on desktop printers  
10 and entered at single-piece rates. These very small volume mailers will learn about the  
11 benefits of automation compatible mail, and may be inclined to seek greater discounts  
12 through the use of existing presort services when their volumes increase. Nothing has  
13 prevented existing providers from developing their own internet based services, as  
14 Pitney Bowes claims it has. See *also*, <http://www.ELetter.com>, which currently offers  
15 basic automation rates with no minimum volume requirement. Moreover, such internet  
16 acceptance systems could extract a competitive advantage by offering even deeper  
17 discounts.

18 Today's small volume communication market is already shifting into electronic  
19 methods due to the greater convenience these methods provide users. Some of this  
20 shift may go to hybrid methods such as Mailing Online, but the shift will take place with

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(footnote continued...)  
advertising costs in much greater detail.

1 or without Mailing Online. If successful, Mailing Online could enhance the image of  
2 postal services among technology adopters, stem their migration to purely electronic  
3 methods, and enable creative lettershops to build more personalized and individually-  
4 responsive systems capitalizing on the on-line approach. In addition, lettershops can  
5 themselves enter their customers' mail via Mailing Online if they find its attributes  
6 preferable to building their own systems.

7 Accordingly, Mailing Online does not compete directly against existing mail  
8 preparation services; it targets mailers whose needs currently go unmet. Although  
9 simply part of a societal trend toward more electronic means of communication, Mailing  
10 Online, at the same time, is intended to enhance the image and use of traditional hard  
11 copy delivery. Existing providers of mail preparation services will have to adapt to this  
12 societal change in the marketplace, and they are free to do so on their own terms or by  
13 making use of Mailing Online.

#### 14 **VIII. EFFECT ON FIELD MARKETING SUPPORT INFRASTRUCTURE**

15 Mailing Online is not causing a Postal Service withdrawal of infrastructure on  
16 which MASA members have traditionally relied for support and referrals. Two MASA  
17 witnesses speculate that the advent of Mailing Online will cause the Postal Service to  
18 abandon a range of existing efforts that benefit lettershops.

19 To believe this speculation, one would have to conclude that the Postal Service  
20 is prepared to abandon its traditional and proven system for accepting hard copy mail in  
21 favor of electronic entry such as that afforded by Mailing Online. The Postal Service  
22 seeks to respond to a change in methods of business process and communication, not



1 to force a change in the needs of postal customers, especially individual customers,  
2 who can be expected to continue to require the Postal Service to provide means for  
3 handling hard copy mail for a long time to come.

4 Through presort, automation, and destination entry discounts, the Postal Service  
5 in large measure created the now huge lettershop industry. The Postal Service has an  
6 overwhelmingly obvious reason for continuing to assist lettershops. In FY 1998, the  
7 Postal Service handled 73.8 billion pieces of automation presort mail. Comparing this  
8 number with projected Mailing Online volumes of 1.6 billion pieces from 1999-2001,  
9 Mailing Online clearly has no realistic expectation of compelling a paradigm shift by all  
10 such mailers. Indeed, automation presort volume grew by 7.8 billion pieces in FY 1998  
11 – nearly 5 times the projected total Mailing Online volume for a three year period. The  
12 suggestion that the Postal Service would risk alienating suppliers of such an important  
13 source of volume for the sake of a service that will account for a comparatively meager  
14 volume is absurd. While field marketing programs are subject to a number of influences  
15 and are in fact often crafted to benefit mail preparation services, as the manager  
16 responsible for Mailing Online, I can give my personal assurance that the Mailing Online  
17 program will in no way direct or encourage withholding of support from existing  
18 suppliers.

## 19 **IX. CONCLUSION**

20 The proposals for Mailing Online service constitute the Postal Service effort to provide  
21 individual and small mailers convenient and cost effective access to letter mail services  
22 and discounted postage rates. The Postal Service anticipates that the

- 1 recommendations requested of the Postal Rate Commission herein will permit the
- 2 Postal Service to gauge customer demand and refine features of the service while
- 3 collecting data necessary to support a request for permanent Mailing Online service

March 9, 1999

**MANAGEMENT COMMITTEE**

**SUBJECT: Year 2000 Freeze Policy and Approach**

Effective immediately, there will be a "freeze" of all planned changes to any existing Postal component (application, infrastructure, or mail processing equipment), nor will any new components be deployed into production without the explicit approval of the Year 2000 Change Control Board. The Change Control Board is a group of key executives assigned the responsibility for reviewing all proposed changes and/or new deployments. This freeze policy excludes those changes which are mandatory for Year 2000 remediation

This memo serves as the policy for limiting and controlling potential risks associated with changes and enhancements to our applications and infrastructure leading up to the Year 2000. This policy outlines the process for identifying and approving exceptions to this policy. As Postal executives, I know you share my interest, concern, and commitment in this area. A critical success factor in our efforts to be ready for the Year 2000 is our ability to control the changes in our applications and infrastructure. Our efforts in this area will minimize our risk and ensure the proper focus for our limited resources.

The March 5, 1999, Year 2000 Executive Council made three key decisions regarding the freeze policy:

1. The freeze policy and process are effective immediately.
2. The scope of the freeze policy encompasses all impacted component types including both Information Systems (IS) and non-IS supported applications, IS and non-IS supported hardware and software infrastructure, mail processing equipment and facility systems. The scope includes nationally supported and area supported components.
3. The freeze policy includes all projects not yet started and those currently underway, regardless of implementation date.

Further details outlining the freeze policy, the Change Control Board makeup and functioning, and the Freeze Exception Process are attached for your information and review. To move forward with the freeze policy, we need to immediately begin to review all of our projects and activities using the freeze criteria. Please contact your IS Portfolio Manager if you have any questions.

The successful conclusion to this critical initiative requires our combined commitment.

Michael S. Coughlin

Attachments