

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

MAIL PROCESSING NETWORK
RATIONALIZATION SERVICE CHANGES, 2012

Docket No. N2012-1

RESPONSES OF AMERICAN POSTAL WORKERS UNION, AFL-CIO,
WITNESS MARC SCHILLER TO UNITED STATES POSTAL SERVICE
INTERROGATORIES USPS/APWU-RT2-13-24

(May 30, 2012)

The American Postal Workers Union, AFL-CIO, hereby files the responses of APWU witness Marc Schiller (APWU-RT-2) to the above-listed interrogatories of the United States Postal Service dated May 18, 2012. Each interrogatory is stated verbatim and followed by the response.

Respectfully submitted,

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USPS/APWU-RT2-13. On page 16 of your testimony you state:

Analysis comparing FY2012 Q1 origin service standards to proposed standards as reflected on the RIBBS website indicates substantial potential degradation in service standards across all protected parcel classes. Results of this analysis are discussed below and summarized in Table 1.

- a. Please clarify what Table 1 illustrates:
 - i. What are the units in respective cells, and from what universe or population are they drawn?
 - ii. To what specific service standard proposals does Table 1 correspond, particularly as to your understanding of date, products and shapes?
 - iii. How does Table 1 relate to parcels? Please explain the extent to which Table 1 relates in part, in full, or not at all to parcels delivered by the Postal Service.
 - iv. To what specific Postal Service products and price categories does Table 1 relate?
- b. Please explain and document the specific calculations underlying Table 1.

RESPONSE:

(a)

- (i) As labeled and stated on page 17 lines 2-4, of my testimony, Table 1 represents the estimated number and respective percentage of 3-digit origin/destination pairs that would experience a change in service standards under the USPS proposal. The total number of 3-digit origin/destination pairs shown under each product class represents all active 3-digit Zip Code pairs in the United States. The two source files were: FUTURE ORIGINATING SERVICE STANDARDS (MARKET DOMINANT) and ORIGIN ENTRY SERVICE STANDARDS.XLS (FY12 Qtr 3). These files were downloaded from the RIBBS website: <https://ribbs.usps.gov/index.cfm?page=modernservice>
- (ii) Table 1 represents the service standards proposed in this case as reflected on the RIBBS website as of April 10, 2012. It is understood that the data reflected in the source file is preliminary in nature and may be subject to change. However, as described on RIBBS, the data are

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illustrative of the “nature and magnitude of the service standard changes that could potentially result from the network consolidation plan under review.” Products and shapes impacted would include:

- First Class Mail (letters, flats and parcels)
- First Class Mail Package Service
- Periodicals Mail
- Bound Printed Matter (flats and parcels)
- Media Mail/Library Mail
- Parcel Post

To the extent that portions of First Class Mail parcels and Standard Mail parcels have been reclassified as competitive products (First Class Package Service and Parcel Select Lightweight respectively), these parcels would continue to reflect the service standards of their former classification.

(iii) Table 1 is inclusive of service standard changes for parcels in the categories/shapes described in response to part a-ii of this interrogatory. The understanding that parcels would be impacted by changes to the categories in question is provided in the responses to APWU/USPS-T1-29 and 33.

(iv) Please see my responses to subparts ii and iii above.

My understanding is that the service standards represented would impact all products within the following classes: First Class Mail, Periodicals, Package Services and Standard Mail.

(b) The service standard changes reflected in Table 1 of my testimony result from the following calculations.

For and each origin/destination pair within a specific service class,

- 1) Subtract the value of the existing standard from the proposed standard.
- 2) Count the number of occurrences where the outcome to instruction ‘1’ is positive. This yields the number of O/D pairs

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that would receive a slower standard (more days to delivery) than today.

- 3) Count the number of occurrences where the outcome to instruction '1' is negative. This yields the number of O/D pairs that would receive a faster standard (fewer days to delivery) than today.
- 4) Count the number of occurrences where the outcome to instruction '1' is zero. This yields the number of O/D pairs that would experience no change to the current service standard.

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USPS/APWU-RT2-14. Please confirm the sixth bullet on page 27 of your revised testimony says, “UPS/FDX deliver[sic] within 250 miles (generally) overnight.”

- a. Please identify the sources of UPS and FDX data on which this statement relies.
- b. What is the source of the 250 mile limit? Was the source for the original version of your testimony (which uses “150” in lieu of “250”) any different? Please explain the foundation for this bullet and what led to the erratum; was this a simple typographic error or was there some real import to the 150 mile description?
- c. Please identify (separately) the specific UPS and FDX products to which this bullet refers.
- d. Please explain the meaning and source of the qualification “generally” in this bullet. To the extent any judgment was involved, please explain who made that judgment, what that judgment was based upon, and what criteria lead to inclusion within or exclusion without what “generally” encompasses.

RESPONSE:

Confirmed. However, more precisely, it should read “UPS/FDX deliver ground products within 250 miles (generally) overnight.”

- (a) The referenced statement relies on years of industry experience among the Shorter Cycles team, including roles as head of Marketing Services—Planning, Forecasting and Pricing, Ground Products Manager, Residential Strategy Project Leader, and Retail Products Marketing Manager at UPS. Additionally, UPS and FedEx ground service area maps available on UPS.com and FedEx.com, respectively, reflect a range of overnight ground service capability depending on origin. In some cases, overnight coverage reaches less than 200 miles or as much as 350 miles. As a general rule, 250 miles provides a good estimate. The 250 mile range also roughly corresponds to pricing and distance in Zones 2 and 3 and sometimes Zone 4 in the UPS and FedEx rate chart mechanisms.
- (b) Please see response to subpart ‘a’ above. The change from 150 to 250 miles simply reflects the correction of a typographical error.
- (c) Ground products: UPS Ground, FedEx Ground and FedEx Residential Delivery Service.
- (d) Please see my response to subpart ‘a’ above.

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USPS/APWU-RT2-15. Please refer to the volume, revenue, share numbers reported in eleven bullets that cross the page 26 to page 27 boundary. Please specify data sources for each number and provide copies of the reports or other sources upon which you rely. Also, please document all underlying calculations showing how you aggregate to each carrier's total or share, and then aggregate to overall totals or shares.

- a. Please explain how you were able to verify that these bullets refer only to parcels transported on the ground.
- b. Please explain how you were able to verify that these bullets focus upon ground parcels shipped no further than 350 miles and "mostly overnight" thereby excluding other shapes (flats and letters), transportation modes (other than ground), longer distances than 350 miles (including, for example, successive trips), and business segments beyond business to consumer. Please include in your explanation challenges presented by information available regarding respective carriers.
- c. If you are unable to provide specific verification for parts (a-b), then please explain your opinion as to how or why parcels transported (at least in part) via transportation other than ground were excluded, and that higher priced products were excluded.
- d. Please explain what you mean by "mostly overnight" (p. 26 line 19), the limitations inherent in "mostly", and how that term applies to establish comparability within and across bullets and carriers.
- e. Please discuss how the respective carriers' business rules apply to ground parcels and explain how these shaped or impacted the analysis presented in the eleven bullets.

RESPONSE:

The source for these numbers is a Shorter Cycles team estimate, based on our knowledge of the industry and specific experience using data of this nature for many years. Using estimates of average daily volume, average revenue per piece, and relative share of each major player in the identified ground market segment, we have roughly estimated the numbers as shown in the bullet points to which you refer and we have used, as backup and to refine the estimates, data contained in APWU-LR-N2012-1-/NP14.

There are no further specific underlying analyses, reports or studies that inform these estimates. We are confident that these estimates reflect the general conditions in the ground market that show there is a significant opportunity available to the USPS in the overnight ground segment to gain share against the two established main competitors.

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- (a) The bullet points reflect numbers for products marketed as “Ground Services”. Both FedEx and UPS market “ground” products that, in effect, define the market category or segment. We specifically chose this sub-segment of the ground parcel market as an example with excellent opportunity for USPS to gain share. We verified the numbers with the data contained in APWU-LR-N2012-1/NP14. It is important to note that other parcel products marketed as “Air” or “Express” products are often transported by ground in the same short-distance geography and frequently include other features and characteristics which may differentiate the products from “Ground” products, despite the fact that they are transported in similar fashion on the ground. We did not include those products in the chosen example market segment.
- (b) Please see the response to USPS/APWU-RT2-15 and 15 (a) above. Also, please note, our estimates do not distinguish parcels by “shape” as this is not a common definition in the competitive parcel market.
- (c) The parcel market is often segmented by product categories or segments described in one of three ways: 1) “Express”, “Next Day”, “Air” or some combination thereof; 2) “Deferred Air” or “Deferred Express” or similar; and 3) “Ground”, “Ground Services” or similar. The actual mode of transport of each of the first two product segments can be by surface or ground transport for relatively short distance origin-destination movements while generally moved by air transport for longer distances. The product names and categories reflect more the product differentiation by a combination of features than a strict adherence to mode of transport.
- Again, these product category or segment definitions are supported by the data contained in APWU-LR-N2012-1/NP14.
- (d) The actual distances covered with overnight service vary with every geographic origin and destination combination, based on geographical, operational and market constraints. In defining the short-distance or short-zone ground delivery segment, we chose the 350 mile distance parameter as a general indicator of the approximate maximum distance covered with overnight service by the major parcel carriers and regional parcel carriers for products marketed in the “Ground”

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category. From any given origin most Zip Codes within 350 miles can be reached overnight. Every destination is defined by Zip Code and address and is specified in terms of days of transit. It is not a matter of performance but rather committed days in transit; “mostly” refers to the logic that most destination Zip Codes within 350 miles distance will be defined as one-day (overnight).

(Performance in achieving that overnight standard will generally be 98% for competitive carriers currently.) Because not all Zip Codes within 350 miles are defined as overnight and that the combinations vary from every origin Zip to every destination Zip, it can only be generalized that typical ground parcel products of the private carriers are defined as one-day generally within the 350 miles, and mostly so within 250 miles.

- (e) Overnight service coverage by FedEx and UPS ground services is not a matter of business rules applied to individual shipments. Rather, provision of overnight delivery of FedEx Ground, UPS Ground and other carriers’ shipments is determined by operational capabilities that are developed to meet the product designs as determined by market expectations and demand. There are not decision rules in place as to whether some packages receive overnight ground service while others from the same origin to same destination do not. From any given origin, there is an operating plan that defines the specific destination area to which Ground service delivery will be made in one day. This area is defined by the maximum coverage within which service reliability (delivery by committed day) can be consistently maintained at acceptable levels, typically at least 98%.

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USPS/APWU-RT2-16. Please refer to Appendix 2 of your testimony (pp. 51-66).

- a. Please explain how this appendix was prepared by identifying who developed it; whether (and if so, how) it was reviewed to avoid its imparting bias to the results; whether it was built from a pre-existing form (if so, please identify the predecessor and provide a copy); the credentials of those who reviewed it to ensure its utility, propriety and fairness; and your understanding of whether it did or did not lead customers to specific responses.
- b. You indicate on page 41 (Appendix 1) that you rigorously screened 40 prospects to complete 17 interviews. What was the basis for screening and what were the qualifications of those who completed the 17 interviews versus the 23 who did not?
 - ii. Who did the screening and how was the screening conducted?
 - ii. What reasons were given for refusing to complete the interviews.
 - iii. Without disclosing anything that would reveal respondent identifiable information, what are the characteristics of the prospects who refused to complete the interviews.
- c. Without disclosing any respondent identifiable information what are the characteristics of the firms interviewed—e.g., firm size, industry type, mailing volume, location, etc.
- d. In Appendix 2 you requested information on the interviewee's shipping profile. You reference a form they filled out? Did this form contain additional information on the respondent's shipping profile beyond the number of shipping locations? Please provide copies of this form with respondent-identifiable information redacted?
- e. If limited to number of shipping locations, why didn't you obtain other information on their shipping and mailing characteristics? Specifically why were there no questions on the total volume of parcels and mail they send, nor any breakout of how they send those parcels and mail? Specifically, to what extent do they use First-Class Mail?
- f. You indicate that the screening resulted in interviews with managers of firms engaged with shipping of parcels or mail primarily to residential (consumer) recipients. Why was the focus on shipping primarily to consumers?
- g. Of the 17 interviews completed, you indicate that several were completed at the National Postal Forum in Orlando.
 - i. Please define "several" by providing the exact number of interviews completed at the Forum.
 - ii. Please provide details as to the purpose of your attendance.
- h. How important to your research, its goals and results, and its ultimate utility is an accurate description in Appendix 2 of the changes the Postal Service proposes?
 - i. The Postal Service used a more detailed description of the changes to First-Class Mail Service Standards as detailed in Witness Elmore-Yalch's testimony. Why did you choose not to use this more detailed description?

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- i. Please identify who performed the in-depth interviews, together with their professional background and qualifications to undertake the interviews. More generally, what measures were taken to ensure that Appendix 2 meets professional standards for such instruments?
- j. You indicate on page 41 that questions were both rating scales to determine relative value of various features and open-ended to draw as much perspective as possible. You further indicate this provided to be a very effective approach. On what basis and for what purpose do you contend that this is an effective approach?
- k. What is the validity and reliability of the responses to the rating scales?
- l. Please provide (if you have not already) copies of each respondent's completed Appendix 2. If any redactions are necessary beyond what is necessary to protect participant identity, please provide non-public versions without redactions.
- m. What if any analysis of participants' completed response forms (for which Appendix 2 is the blank form) was undertaken? Please describe what was done and provide copies of any write-up or other evaluation that involved one or more participants.
- n. What do you believe is interviewees' understanding of speed or time-in-transit (expected transit time)?
- o. You ask for the importance of a variety of service characteristics (section E). In Section F you then ask for your impressions of the Postal Service. It does not appear that you followed up directly or indirectly with a question as to the extent to which USPS currently meets customer needs and expectations regarding these service characteristics.
 - i. Why didn't you follow-up with these questions?
 - ii. What is the standard market research practice when asking questions regarding the importance of service features?
 - iii. Is it common or uncommon to ask a corresponding set of questions to garner insights or data on satisfaction with delivery service on respective features or, as an alternative, the extent to which the company in question meets customer needs and expectations?
- p. Please confirm that the following statement appears in section G. of Appendix 2: "As a result of Network Rationalization, First Class Mail would no longer be delivered in one day."
 - i. Do you understand this statement to be accurate? Please explain and include in the explanation any source materials on which the quoted statement relies.
 - ii. Is it your understanding that, after implementation of Network Rationalization, the Postal Service would be required to avoid delivery of First-Class Mail the day after entry? Please explain how you arrive at your understanding?
- q. Please explain your understanding of the role that leading questions should, or should not, play in research tools such as Appendix 2. Include in your response the extent to which consideration of leading questions should focus upon single questions as opposed to question sequences.

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- r. Please confirm that the following statement appears in section G of Appendix 2: “It is possible that this proposal could affect parcels as well.”
- i. Please explain the circumstances that create the possibility asserted. Please also explain what circumstances support the clear counter-implication that “this proposal” might **not** affect parcels.
 - ii. Why was this statement inserted in Appendix 2 and what purpose(s) does it serve?
 - iii. Who made the judgment that inclusion of this statement was appropriate?
 - iv. Please identify each Postal Service product for which this possibility exists and explain how the impact on each such product was determined.
 - v. What impact, if any, would you expect upon participants’ responses had the statement instead included word(s) of negation (such as changing the syntax by replacing “could” with “might not” or otherwise denoting semantic negation)?

RESPONSE:

- (a) Appendix 2, the Discussion Guide, was developed by the Shorter Cycles team discussed on pages 3-4 of my testimony, revised May 1, 2012. The Discussion Guide was reviewed by the team collectively. We each have experience in conducting customer interview market research from many previous similar projects in this industry and other industries. We do not believe it to impart any bias. The entire design and execution was developed to listen to customers about factual issues.
- (b) From several large lists of shippers from multiple industries, we screened down to 40 prospective respondents/companies who we believed represented diverse industries, geographies, and company sizes. We limited the prospect list so that we could call quickly, set up at least 15 interviews (our target was 15 to 20 interviews), and do so within the time available. The screening was based on the criteria outlined in the Interview Candidate Profile sheet (see APWU-LR-N2012-1/13). We contacted prospects until we had confirmed 17 interviews that could be achieved within our allotted time and that met the correct distribution of size, geography, and parcel shipping experience.

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- (i) The Shorter Cycles team divided the list of prospects and each team member contacted a group of prospects as defined in the Interview Candidate Profile (see APWU-LR-N2012-1/13).
 - (ii) Various reasons were given by prospective respondents for refusing to complete the interview. The most often cited reason was company policy, followed by lack of time and/or fitting into the respondent's schedule, or we did not have the correct name in the list we referenced with appropriate knowledge of the issues at hand.
 - (iii) There are no specific characteristics related to the prospects that refused the interview. All were qualified parcel shippers primarily in B2C markets and they were of varying sizes, geographies, industries.
- (c) Please refer to the file "Interview Candidate Profile—Completed" in APWU-LR-N2012-1/13, and my response to USPS/APWU-RT2-23.
- (d-e) Please see my response to USPS/APWU-RT2-13 for profile information and also please refer to APWU-LR-N2012-1/13.
- To avoid potential bias, we did not disclose the sponsor of this project. We were operating as a third-party research resource with no specific customer relationship with any respondent. As a result, most respondents were reluctant to share their specific shipping data with us. We therefore focused our attention on more general shipping profile information.
- (f) We focused on the B2C residential parcel delivery market as the primary market of focus for USPS parcel products presently, and as the market with the greatest near-term opportunity for future success for the USPS. We do not exclude the B2B or commercial market. However, we believe B2B to require longer-term efforts in order for the USPS to become fully competitive.
- (g) (i) 4 interviews were conducted at the National Postal Forum
- (ii) The purpose of our attendance was to further immerse our team in the business activity of the Postal Service in the parcel shipping market and the mail market generally.

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- (h) We believe it is important to use not only an “accurate” but also an easily-understood description of the changes that the Postal Service proposes that are relevant to the respondents.
 - (i) It is important to use a simple, clear and concise description, but also one that is relevant to predominantly parcel shippers and that is detailed enough that the respondents can easily understand to facilitate discussion and responses.
- (i) The Shorter Cycles team personally performed the in-depth interviews. The professional biographies of the team are discussed in my revised testimony, pages 2-4. Each Shorter Cycles team member has extensive market research experience with various Fortune 500 companies as research project owners, designers and participants. We applied standards learned through years of participation in qualitative and quantitative projects.
- (j) This approach was effective because it allowed us to concentrate on issues of importance to each customer, probing further with each respondent to draw out the discussion of these issues.
- (k) See my response to subpart (j) above. We believe it is always valid and reliable to listen to customers. The responses to the rating scale were not intended, nor were they used, for any quantitative analysis.
- (l) Please see APWU-LR-N2012-1/13.
- (m) Please see APWU-LR-N2012-1/13 which contains the IDI interviewer’s notes from each interview. The summary of findings appears in Appendix 1 of my testimony revised May 1, 2012. Please also see my response to USPS/APWU-RT2-23.
- (n) Time-in transit is a commonly accepted industry term for the time, measured in business days, from carrier pickup or injection of a parcel to ultimate delivery where the date of pickup/injection is Day ‘0’ and each successive calendar day represents an additional day in transit. Practically, shippers and consignees may include non-business days in their characterization of time-in-transit, but it is widely understood when dealing with the transportation providers that time-in-transit reflects business days only.

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- (o) (i) The purpose of these questions was to determine for each individual respondent what areas should be discussed in further depth. Our follow-up involved probing more deeply on the features of most import to each respondent.
 - (ii) This question is so broad that only a general response can be given. The answer depends on whether the research in question is quantitative or qualitative. Standard practice in qualitative research such as ours would be to identify what is important to respondents and then attempt to gain deeper understanding by probing further on areas relevant to the purpose of the study. In this case, we probed for deeper understanding on the service features each respondent deemed to be relatively more important to them among the features listed in the discussion guide.
 - (iii) It is common to proceed as stated in your question when seeking quantitative results reflecting customer satisfaction, typically through a survey. Our purpose was to gain qualitative insight into what features are important, how such features relate to the respondents' overall business, and to allow respondents to elaborate on their impressions of provider capabilities. It is not typical to ask questions designed to provide quantifiable results within an exclusively qualitative research effort. Therefore our research instrument was designed as a discussion guide, rather than as a survey.
- (p) Confirmed.
- (i) The statement relies for accuracy on the statement made by USPS in "Frequently Asked Questions" contained in a Service Standards document dated September 2011/1, on the USPS website, entitled Electronic Press Kits—Our Future Network/Service Standards. Link: <http://about.usps.com/news/electronic-press-kits/our-future-network/service-standards-110915.pdf>
In addressing the question "What are service standards now?" the document stated "First-Class Mail: 1-3 days." The follow-up question, "What could the service standards be changed to?" stated "First-Class

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Mail: 2-3 days.” Our declarative statement relies on the USPS actually taking action, as they describe “would be to eliminate the expectation of overnight service.” I do understand that in actual operating practice some FCM may continue to be delivered overnight; the point is the Postal Service has clearly stated that it wishes to “eliminate” that expectation with customers.

- (ii) I have seen no evidence that USPS would be “required to avoid delivery of First-Class Mail the day after entry.” The “Frequently Asked Questions” published by USPS in a SERVICE STANDARDS Bulletin dated September 2011 states “Customers will likely no longer receive mail the day after it is mailed.”
- (q) In our research design we attempt to focus on statements of fact in order to elicit comments and opinions from respondents. We intend to ask only questions based on facts. I cannot comment on a technical theoretical question regarding “the role that leading questions should, or should not, play in research tools”.
- (r) Confirmed.
 - (i) Please see my response to Interrogatory USPS/APWU-RT2-12(b). The responses provided by USPS witnesses referred to in 12(b) were made prior to the design and implementation of our qualitative research. Our statement and question “that this proposal could affect parcels as well” is therefore a statement of fact and is not in any way a leading question.
Because the current proposal could have an impact on parcel products, a fact acknowledged by the Postal Service as described in response to USPS/APWU-RT2-12(b), it is irrelevant to discuss a theoretical counter-implication.
 - (ii) The respondents included in our research are mainly shippers of parcels. Therefore, it is directly relevant to ask a respondent if he/she is aware of the possible changes to parcel products that the USPS has testified could occur and that the customer may experience in its shipping practices.
 - (iii) The Shorter Cycles Team.

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- (iv) Please see my response to subpart (i) above and page 17 of my revised testimony dated May 1, 2012.
- (v) It is irrelevant to consider any impact upon participants' responses had the statement in question included "word(s) of negation". We made a factually correct statement to respondents in our research that the network rationalization proposal could affect service on parcels, based on responses provided by the Postal Service as detailed in my response to Interrogatory USPS/APWU-RT2 12(a). Please also refer to my response to interrogatory USPS/APWU-RT2-13 (a)(ii) and my response 16 (r)(i) above.

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USPS/APWU-RT2-17. What is your understanding of service standard changes the Postal Service has proposed that would impact parcels? Please identify each affected postal product, the applicable service standard change and explain the source of your understanding as to effect.

RESPONSE:

Please refer to my responses to interrogatories USPS/APWU-RT2-13 (a)(ii), and USPS/APWU-RT2-16(r)(v).

In general, our sources for understanding the possible service standard changes are documents from the USPS and testimony of witnesses from the USPS.

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USPS/APWU-RT2-18. Please confirm that on page 7 you claim, “the added day of service for all of FCM is troubling.”

- a. Is it your understanding that each such mail piece will take at least one day longer between entry and delivery? Please explain.
- b. Please explain the complete foundation for your assertion that the Postal Service plans to add a day of service for all First-Class Mail. Please include citation to or quotation from pertinent materials the Postal Service has filed in this case or which appear on official postal information sources.
- c. What is your understanding whether mailers would respond to the circumstances described in the interview guide by entering First-Class Mail one day sooner than they now do? Are you able to draw upon responses to in-depth-interviews to inform your answer? Please explain why or why not.

RESPONSE:

Page 7 of my testimony states “the added day of service for all of FCM is troubling to customers.” However, “all” should be replaced with “much.” Otherwise, I cannot confirm that I make this claim, as is clear from my testimony, this statement reflects the concerns expressed by customers we interviewed: the complete statement includes the words “troubling to customers.”

- (a-b) See my response to USPS/APWU-RT2-16 (p)(i and ii) and my response to 18 and 18 (a) above.
- (c) We did not explore nor discuss with respondents the specific issue of mailers entering FCM one day sooner than they do now.

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USPS/APWU/RT2-19. Please explain, showing your calculations, how you arrived at the conclusion that the Postal Service can expect an 8 to 9 percent growth rate “for USPS parcels” (APWU-RT-2 at 26), and whether that is an annual or aggregate projection over some time period.

a. What parcel processing capacities does the Postal Service lose thanks to network rationalization? Please cite to sources for your response.

b. What operations capacity for higher weight parcels does the Postal Service lack today (APWU-RT-2 at 34)?

RESPONSE:

On a ten-year horizon, from year 2010 as a base to 2020, the USPS has the opportunity to grow share in the fast-growing B2C parcel market, which is growing at a 6 to 6.5 % annual rate. Product improvements that the USPS could accomplish in this timeframe (greater overnight committed coverage, more competitive pricing in heavier parcels above 10 pounds, and competitive reliability from improved tracking information) could allow the USPS to gain product parity with UPS and FedEx while capitalizing on the USPS’ inherent cost advantage in residential “last-mile” delivery.

This combination of factors presents the opportunity for the USPS to achieve market share of greater than 30% in 10 years from a current share of approximately 20% in B2C. Market share growth from 20% to greater than 30% in 2020 would imply an annual growth rate in revenue of about 12% over the same ten years. This would allow the USPS to grow from just over \$3 billion in revenue to nearly \$10 billion in B2C.

The calculations are as follows: $\$3.1 \text{ billion} \times 10 \text{ year CAGR at } 12\% = \9.6 billion
 $\$9.6 \text{ billion} / \$30 \text{ billion B2C market} = 32\% \text{ share}$

(My estimates allow for generous rounding of numbers; forecasts of this magnitude over 10 years are exceedingly difficult to quantify in any way other than round numbers).

While I believe a 12% growth rate is possible because of the unique opportunity in the market, I also believe it to be prudent to project a lower growth rate of 8-9% that

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considers and allows for competitive responses from other carriers and various operational challenges to implement such aggressive plans.

Obviously, a more substantial and complete market analysis needs to be developed to define the opportunity in the market and develop a plan for product improvements and implementation. Such an in-depth analysis is beyond the scope of this project but I am confident of the large opportunity now available in the B2C parcels market.

- (a) USPS has provided little or no information in this case as to the impact of its network rationalization proposal on parcels; however, USPS Witness Martin indicated in response to APWU/USPS-T6-7 that 22% of Priority Mail is currently processed in facilities planned for consolidation.
- (b) I do not have specific information to answer this question, as I do not have access to such detailed Postal Service operating information. To my knowledge, such operating information regarding parcel capacity has not been included in the Postal Service's case presentation.
By observation however, it is likely that heavier weight parcels in large volume are not easily accommodated in the present network sorting facilities and are not easily accommodated in the present delivery vehicles.

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USPS/APWU-RT2-20. Please describe the systematic similarities and differences among the 23 prospects screened out from the 17 interviewed (APWU-RT-2 at 41). Please explain how respective screening criteria led to exclusion of each of these 23 prospects.

RESPONSE:

Please refer to my response to USPS/APWU-RT2-16 (b).

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USPS/APWU-RT2-21. How long were respective telephone and in-person interviews?

- a. What was the limit for “time allowed” (APWU-RT-2 at 41)?
- b. How many interviews were constrained by time allowed?

RESPONSE:

- (a) Approximately 1 hour.
- (b) Six, ranging from 30 to 45 minutes each.

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USPS/APWU-RT-2-22. Please provide a copy of the “interview guide” (APWU-RT-2 at 38) or a citation to it if it is generally available.

RESPONSE:

Please see my testimony, Appendix 2 and APWU-LR-N2012-1/13.

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USPS/APWU-RT2-23. Please provide a matrix breaking out in-depth interviewees by small, medium, large, and third-party parcels shippers, while further breaking out the fourth of these into the respective three types. APWU-RT-2 at 42. Please also indicate in the breakout, to the extent available, which respective interviewees have “deep ... understanding” of Postal Service parcels products.

- a. How many interviewees inform your judgment about “most users of FCM for shipping parcels” (APWU-RT-2 at 46), especially considering your view that “parcel shippers” are mutually exclusive of “loyal mailers” (APWU-RT-2 at 45)?
- b. Assuming your statement (on page 46) that “[FCM parcels shippers] use [] USPS for shipping products for which speed of delivery may be less important than cost” has value beyond speculation (given the use of “may”), upon how many interviewees does this statement depend? Did any of them comment upon speed of delivery compared to reliability of delivery?
- c. Upon how many interviewees does the statement straddling pages 48-49 (“They suggest strongly that more diversion from the USPS is likely because they must move to protect their own needs.) depend? More specifically, what did they say ?

RESPONSE:

Please see the summary table below of the characteristics of the IDI respondents. Each of our respondents was directly involved and responsible for shipping activity in his/her respective company, either in day-to-day operations or in policy and decision-making, or both.

IDI	Location	S/M/L	3rd Pty	Predom USPS user	Prod usage	Industry type
1	SE GA	S		YES	comp parcels	retail re-seller
2	SE GA	S		NO	dom/comp parcels	online retailer
3	SE GA	S		YES	dom/comp parcels	online retailer
4	SE GA	NA	YES	NO	dom/comp parcels	consultant
5	W CA	S		YES	dom/comp parcels	software/hardware
6	SE GA	S		NO	comp parcels	online/trad retailer
7	E MD	M		NO	comp parcels	wholesaler
8	SE GA	M		YES	dom/comp parcels	printing
9	NE PA	M		YES	dom mail/media	publishing
10	SE GA	M		NO	comp parcels	IT/software
11	NE NJ	M		NO	dom/comp parcels	med equipment
12	SE Multi	L		NO	comp parcels	vision/optical
13	NW WA	M		YES	dom/comp parcels	healthcare
14	MW Multi	L		NO	comp parcels	online/trad retailer
15	MW Multi	L		NO	comp parcels	online/trad retailer
16	MW Multi	L		YES	dom mail	online/trad retail adv mail
17	SW Multi	L	YES	YES	dom/comp parcels	transport mgt

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Notes to the above table:

Location: by geographic section of the country NE, E, SE, MW, W, SW NW; and by State or multiple shipping locations.

Size: Small, medium, large as self-described by respondents in lieu of shipping data.

Predominant USPS user: self-described by respondents

Product usage: market dominant products or competitive products; self-described

Industry type: self-described

- (a) At least half of the respondents mentioned FCM parcels. These are likely regular or occasional users of FCM for parcels. However, we do NOT consider parcel shippers to be mutually exclusive of “loyal mailers”; I apologize for the syntax and grammar of the narrative that could lead to any unintended interpretation as such.
- (b) At least four respondents specifically mentioned the choice of low price over speed of delivery. Several more respondents alluded to price as the primary advantage of the USPS versus other parcel carriers, hence my choice of the word “may” as it reflects my opinion having interpreted generally the customer responses. I assume comments from customers to always have value “beyond speculation.”
Some respondents did comment on speed of delivery and reliability of delivery.
- (c) Respondents answered interview questions about diversion from the USPS. The results are as follows:

Five shippers rated their likelihood to shift volume as extremely or very high:

IDI 008 Question G6:	How likely to shift volume on scale of 1-10:	10
IDI 015 Question G6:	“ “	8
IDI 004 Question G6:	“ “	6
IDI 003 Question G6:	“ “	6
IDI 014 Question H5:	“ “	7

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Among the other respondents, four shippers rated their likelihood to shift volume at a rate of 3 or lower, therefore less likely to shift; four were predominantly non-users of the USPS for parcel services and therefore have little or no volume to shift; two are intermediary organizations managing shipments on behalf of actual shippers and chose not to project the likelihood of their customers to decide to shift; and two simply did not answer the question.

All but one of the respondents (who did not rate their likelihood to shift as extremely or very high) are potential long-term diverters also, because each has questioned the ultimate survival of the Postal Service, as captured in the various quotes below. Thus, most would be forced to consider shifting volume to other carriers in order to protect their own needs in the event of USPS failure.

This is what the respondents “specifically” said:

- IDI 001 Question J5: “I think they may be in a death spiral”
- IDI 002 Question J5: “They are at a dead-end if these changes keep getting worse.”
Question J8: “Like I said---it may be a dead-end.”
- IDI 006 Question J8: “Legacy costs, overhead, and system costs are too significant for them to survive...”
- IDI 007 Question J3: “I am not real hopeful they will succeed...”
- IDI 009 Question J3: “They will go over the edge when they eliminate Saturday service.”
- IDI 010 Question J8: “They will be out of business.”
- IDI 011 Question J9: “It doesn’t matter as they won’t be here.”
- IDI 012 Question J5: “They might not be here!”
- IDI 013 Question J8: “They will probably be out of business.”

In terms of a qualitative message from the market, from a random sample of customers, I consider this information an important reflection of customer

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concerns, that customers find the big changes proposed by the USPS to be frightening and the overall situation fraught with risk.

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USPS/APWU-RT2-24. Looking to the first paragraph on page 45 in your testimony, how should long term volume decline in First-Class Mail volume owing to electronic diversion be looked at “specifically ... in light of the proposed network rationalization?” Please explain your response, providing examples of how information obtained in the in-depth-interviews inform your response.

RESPONSE:

This is how the long-term decline in FCM volume should be looked at: first, there needs to be a thorough evaluation of the market opportunities at hand, and second, allow the needs of that opportunity to inform any changes to operations.

“Long term volume decline in FCM volume owing to electronic diversion” is generally accepted to cause much of the financial difficulty facing the USPS and drives the push for operational cost reduction resulting in the proposed Network Rationalization plan. As stated in the first paragraph of my testimony on page 45, also on page 6, and throughout my testimony, I believe there is great risk to the USPS in implementing the Network Rationalization plan. There is the risk of further negatively affecting customers, speeding the decline in revenue, and the great risk of dismantling the network before fully evaluating and capitalizing on the large opportunity in the parcels market and understanding the operating capabilities required to serve that growing market. Customers strongly wish for the Postal Service to succeed. They want the postal service to develop parcel products that match the competition. And they want to see continued improvement in performance.

For specific examples of information obtained in IDI’s, please see my response to USPS/APWU-RT2-23(c) and my response to USPS/APWU-RT2-5(e)1-5.