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C O N T E N T S

## WITNESSES APPEARING:

MARC A. SMITH  
 MARC McCRERY  
 REBECCA ELMORE-YALCH

<u>WITNESSES:</u>	<u>DIRECT</u>	<u>CROSS</u>	<u>REDIRECT</u>	<u>RECROSS</u>	<u>VOIR DIRE</u>
Marc A. Smith	4326	--	--	--	--
By Mr. Laver	--	4329	--	--	--
Marc McCrery	4336	--	--	--	--
By Mr. Anderson	--	4340	--	--	--
Rebecca Elmore-Yalch	4379	--	--	--	--
By Mr. DeChiara	--	4383	--	--	--
	--	4489	--	--	--
By Mr. Laver	--	4420	--	--	--
	--	4485	--	--	--
By Mr. Anderson	--	4445	--	--	--
	--	4490	--	--	--

E X H I B I T S

<u>EXHIBITS AND/OR TESTIMONY</u>	<u>IDENTIFIED</u>	<u>RECEIVED</u>
Corrected surrebuttal testimony of Frank Neri on behalf of the United States Postal Service, USPS-SRT-1	4324	4325
Corrected surrebuttal testimony of Marc A. Smith on behalf of the United States Postal Service, USPS-SRT-2	4326	4328
Corrected surrebuttal testimony of Marc McCrery on behalf of the United States Postal Service, USPS-SRT-3	4336	4339
Surrebuttal testimony of Rebecca Elmore-Yalch on behalf of the United States Postal Service, USPS-SRT-4	4382	4382
APWU Cross-Examination Exhibit No. 1, APWU-1	4490	--



1 that it is the responsibility of counsel to alert me  
2 if this circumstance changes. If it becomes  
3 necessary, a closed session will be convened at the  
4 end of the hearing day to consider material under  
5 seal.

6 I'd also like to remind those in the  
7 audience today that this hearing is being web  
8 broadcast. In an effort to reduce potential  
9 confusion, I ask that counsel wait to be recognized  
10 before speaking and to please identify yourself when  
11 commenting. After you are recognized, please speak  
12 clearly so that our microphones may pick up your  
13 remarks.

14 This is the last scheduled hearing in this  
15 docket, and the record is about to be closed.  
16 Presiding Officer's Ruling No. 69 outlines the  
17 procedures to be followed for incorporating any  
18 recently received discovery material into the record.  
19 The deadline for designating material is Monday,  
20 July 2. Please follow the procedures outlined in the  
21 ruling and refrain from designating material during  
22 today's hearing.

23 Does any participant have any other  
24 procedural matter to raise at this time?

25 MR. ANDERSON: Madam Chairman? Darryl

1 Anderson for the American Postal Workers Union.

2 The APWU, I believe we notified the  
3 Commission that we would expect to have oral  
4 cross-examination for Witness Smith. We will not,  
5 unless we need to follow up something that's asked by  
6 others. Likewise for Witness Elmore-Yalch. We'll  
7 have no questions today unless we need to follow up  
8 for others.

9 We do have questions for Witness McCrery,  
10 and it may be necessary for us to inquire about  
11 nonpublic Library Reference 14 of the Postal Service.  
12 Mr. Hollies did ask us previously, a day or so ago,  
13 about whether it would be necessary for us to have  
14 nonpublic testimony. We told him we didn't think so.

15 At this point it may be necessary, but that  
16 can be at the very end and for just a very short time  
17 with regard to that one exhibit. With that, we will  
18 defer now for the other proceedings until Witness  
19 McCrery is called.

20 CHAIRMAN GOLDWAY: I appreciate that  
21 information, and we'll take up the matter of a  
22 possible closed hearing at the end of today's  
23 proceedings. Please let us know if you need to do  
24 that.

25 There are no requests at all for oral

1 cross-examination for Witness Neri. He has been  
2 excused from appearing today. His testimony will be  
3 entered into the record by motion. After Witness  
4 Neri's testimony is entered, we will proceed with  
5 receiving the testimonies of the remaining witnesses.

6 We'll begin with Mr. Neri's testimony.  
7 Because Mr. Neri is not present in the hearing room  
8 today, his testimony and declaration of authenticity  
9 will be received by motion from the Postal Service  
10 counsel. Mr. Tidwell?

11 MR. TIDWELL: Good morning, Madam Chairman.  
12 Michael Tidwell on behalf of the U.S. Postal Service.  
13 I have before me two copies of the Surrebuttal  
14 Testimony of Frank Neri on Behalf of the Postal  
15 Service. It's been designated for purposes of this  
16 proceeding as USPS-SRT-1.

17 (The document referred to was  
18 marked for identification as  
19 Exhibit No. USPS-SRT-1.)

20 MR. TIDWELL: There are no corrections to be  
21 made to the document as it was filed. I have appended  
22 to each copy of the testimony a declaration signed by  
23 Mr. Neri attesting to its contents and affirming that  
24 if he were to provide those contents today orally they  
25 would be the same. The Postal Service thereby moves

1 that his testimony be entered into evidence.

2 CHAIRMAN GOLDWAY: Is there any correction  
3 that's necessary to the testimony?

4 MR. TIDWELL: No, Madam Chairman.

5 CHAIRMAN GOLDWAY: Is there any objection to  
6 entering the testimony?

7 (No response.)

8 CHAIRMAN GOLDWAY: Hearing none, I will  
9 direct counsel to provide the reporter with two copies  
10 of the corrected surrebuttal testimony of Witness Neri  
11 and the witness' declaration of authenticity. That  
12 testimony is received into evidence. However,  
13 consistent with Commission practice it will not be  
14 transcribed.

15 (The document referred to,  
16 previously identified as  
17 Exhibit No. USPS-SRT-1, was  
18 received in evidence.)

19 CHAIRMAN GOLDWAY: Were there any library  
20 references that need to be identified with Witness  
21 Neri's testimony?

22 MR. TIDWELL: (Nonverbal response.)

23 CHAIRMAN GOLDWAY: Counsel is shaking his  
24 head no, there are not. Then that completes entering  
25 Witness Neri's testimony. Please thank him on our

1       behalf for his contribution to our record.

2                   And next we will proceed with the testimony  
3       of Postal Service Witness Marc Smith. Counsel Cheema,  
4       are you prepared to identify your witness?

5                   MR. CHEEMA: We are. Nabeel Cheema on  
6       behalf of the Postal Service.

7                   Whereupon,

8                                   MARC A. SMITH

9                   having been previously duly sworn, was  
10       recalled as a surrebuttal witness herein and was  
11       examined and testified further in surrebuttal as  
12       follows:

13                                   DIRECT EXAMINATION

14                   BY MR. CHEEMA:

15                   Q     Mr. Smith, would you please state your full  
16       name and title for the record?

17                   A     Yes. I'm Marc A. Smith. I'm an economist  
18       in Finance at the Postal Service.

19                                   (The document referred to was  
20                                   marked for identification as  
21                                   Exhibit No. USPS-SRT-2.)

22                   BY MR. CHEEMA:

23                   Q     On the table before you, Mr. Smith, are two  
24       copies of a document entitled Surrebuttal Testimony of  
25       Marc A. Smith on Behalf of the United States Postal

1 Service, which has been designated as USPS-SRT-2. Are  
2 you familiar with the document?

3 A I am.

4 Q Was it prepared by you or under your  
5 supervision?

6 A Yes.

7 Q And do you have any corrections to make?

8 A No.

9 Q And if you were to testify orally today,  
10 would this be your testimony?

11 A Yes, it would.

12 MR. CHEEMA: Madam Chairman, we ask that the  
13 Surrebuttal Testimony of Marc A. Smith on Behalf of  
14 the United States Postal Service marked as USPS-SRT-2  
15 be entered as evidence.

16 CHAIRMAN GOLDWAY: I'll note that Mr. Smith  
17 has been sworn in previously and continues under oath,  
18 so the answers he's given to you just now are under  
19 oath. Is there any objection?

20 (No response.)

21 CHAIRMAN GOLDWAY: Hearing none, I will  
22 direct counsel to provide the reporter with two copies  
23 of the corrected surrebuttal testimony of Marc Smith.  
24 That testimony is received into evidence. However,  
25 consistent with Commission practice it will not be

1 transcribed.

2 (The document referred to,  
3 previously identified as  
4 Exhibit No. USPS-SRT-2, was  
5 received in evidence.)

6 CHAIRMAN GOLDWAY: Counsel, are there any  
7 library references that need to be identified to be  
8 filed with Witness Smith's testimony today?

9 MR. CHEEMA: Yes, there is one library  
10 reference.

11 CHAIRMAN GOLDWAY: Could you identify it,  
12 please, and indicate if he's relying on that material  
13 or not?

14 BY MR. CHEEMA:

15 Q Mr. Smith, are you familiar with Library  
16 Reference USPS-LR-N2012-1/100?

17 A Yes, I am.

18 Q And was it prepared by you?

19 A Yes.

20 Q And are you sponsoring that library  
21 reference?

22 A Yes, I am.

23 MR. CHEEMA: Madam Chairman, we ask that the  
24 aforementioned library reference be entered as  
25 evidence.

1           CHAIRMAN GOLDWAY: They will be. And this  
2 brings us to oral cross-examination. As I understand  
3 it, the American Postal Workers Union has declined its  
4 opportunity of cross-examination of this witness, but  
5 the Public Representative is still interested in  
6 proceeding with cross-examination. Is there any other  
7 participant who wishes to cross-examine Witness Smith?

8           (No response.)

9           CHAIRMAN GOLDWAY: If not, then we'll begin  
10 with the Public Representative.

11          MR. LAVER: Thank you, Madam Chairman.  
12 Chris Laver on behalf of the Public Representative.

13          I have a cross-examination exhibit I've  
14 shared with Postal Service counsel that with your  
15 permission I'll share with the witness and the bench.

16          CHAIRMAN GOLDWAY: Yes. Please do.

17                   CROSS-EXAMINATION

18          BY MR. LAVER:

19           Q     Mr. Smith, we'll be very brief here. One of  
20 my analysts wants a little bit of clarification on the  
21 types of facilities and the number of facilities you  
22 used in performing your calculations.

23           A     Okay.

24           Q     So at the beginning of your surrebuttal  
25 testimony you talk about Witness Kobe and how Witness

1 Kobe included processing facilities that were closed  
2 between 2009 and 2011, as well as customer service  
3 facilities that were closed between 2009 and 2011.

4 A Right. I was referring to Witness Kobe's  
5 statement that between FY 2009 and 2011 there was -- I  
6 guess I'll read it here. That the Postal Service  
7 reduced the processing facilities by 23 percent. So I  
8 was addressing that question or addressing that part  
9 of her testimony.

10 Q Now, looking at the list here it's from  
11 Library Reference 84, but since it's in the record  
12 I've given you the cross-examination exhibit. It's  
13 page 3722 of the transcript.

14 Would it be a correct understanding that  
15 your savings calculations were based on the data for  
16 the list of facilities from 2009, the 268 facilities,  
17 including those 17 processing and distribution centers  
18 that closed between 2009 and 2011, but not including  
19 the customer service and other facilities?

20 A Okay. If you're talking about our savings,  
21 I mean, generally my use of the -- well, our cost data  
22 for FY '10 was our base for calculating savings. My  
23 original testimony made limited use of that, and Dr.  
24 Bradley's testimony of course made more use of FY '10  
25 costs. So I think are you talking generally about our

1 use of FY --

2 Q Number of facility data from each year. So  
3 when you looked for a baseline, were you looking at  
4 2009, the 268 facilities?

5 A No. We were looking at facilities and  
6 service during FY '10.

7 Q FY '10. So it would be 260 facilities  
8 according to this list here?

9 A I think the specific list would be contained  
10 I believe in Dr. Bradley's Library Reference 20, but I  
11 think the 260 note is roughly the right number.

12 There might be other Function I facilities  
13 that are included as well, but I wouldn't want to -- I  
14 think the best thing is just to reference Dr.  
15 Bradley's Library Reference 20.

16 Q Okay. So for each type of facility Dr.  
17 Bradley's Library Reference 20 would be the  
18 definitive?

19 A Okay. Let's see. Library Reference 20,  
20 yes. I mean, that would tell you the list of  
21 facilities that his analysis covered, and I believe  
22 it's the same list that I used as well. So, yes,  
23 Library Reference 20 would be the source.

24 Q Okay. Now, on page 3 of your surrebuttal  
25 testimony, and if you can bear with me I'll paraphrase

1 here. You state that it's apparent that there are  
2 only minor, immaterial amounts of extra cost in the  
3 Postal Service's baseline.

4 A Okay. Let me see. That's right. Yes.

5 Q Could you please clarify what extra costs,  
6 even if they're minor, are included in the Postal  
7 Service's baseline, an example?

8 A I guess my reference here is to the costs  
9 for -- Witness Kobe correctly points out that there  
10 were AMP actions that had been pending or were enacted  
11 prior to the network rationalization and so those  
12 savings stemming from those AMP actions I think you  
13 could argue shouldn't be part of the base.

14 And in what I say here in my testimony,  
15 using the list in Witness Kobe's testimony on Table 3  
16 I said given that list, given that that list includes  
17 about 2.4 percent of the work hours -- in other words,  
18 there were facilities closed that Witness Kobe  
19 identifies either during or after FY '10 as a result  
20 of other initiatives aside from network  
21 rationalization, and Witness Kobe identified the  
22 processing work hours in Table 3 of her testimony.

23 I calculated that those hours accounted for  
24 about 2.4 percent of all the work hours say included  
25 in Dr. Bradley's work and basically saying that of

1 that what we can say is that of these work hours for  
2 these facilities which these AMPs saved, they  
3 shouldn't be part of the base.

4 And so I just for the sake of illustration  
5 said suppose half of the work hours at these  
6 facilities were saved. Then that would suggest that  
7 the amount of work hours that shouldn't be in the base  
8 and the amount of costs would be about 1.2 percent.

9 Q So to clarify that, about 1.2 percent is  
10 what you would characterize as minor, incidental cost?

11 A That's right.

12 Q Okay. And I think you've already answered  
13 this question, but just so we're clear. So to correct  
14 for these minor excess costs, the correction you would  
15 do would be to remove those costs from the ones that  
16 have already closed from the baseline?

17 A I think you could do that. In other words,  
18 if you were able to identify savings from the AMPs, if  
19 you're able to identify them then you could remove  
20 them from the baseline.

21 MR. LAVER: Okay. I believe that is all I  
22 have. Thank you very much for your testimony and your  
23 time.

24 CHAIRMAN GOLDWAY: Thank you. Is there any  
25 follow-up cross-examination for this witness?

1 (No response.)

2 CHAIRMAN GOLDWAY: Are there any questions  
3 from the bench for Witness Smith?

4 (No response.)

5 CHAIRMAN GOLDWAY: Counsel, would you like  
6 some time with your witness?

7 MR. CHEEMA: No, Madam Chairman.

8 CHAIRMAN GOLDWAY: Okay. Thank you, Mr.  
9 Smith. It's an interesting issue, this concept of  
10 what's the appropriate baseline to measure savings  
11 from. We've struggled with this in other cases as  
12 well, and we recognize that as the Postal Service  
13 makes operational changes over time that reduce costs  
14 estimating what future savings will be is often  
15 reduced because of those.

16 We have some issues that I raised about  
17 projected savings for the labor costs of postmasters  
18 when the actual people in post offices were temporary  
19 employees and the Postal Service was estimating  
20 full-time labor costs, so getting the correct numbers  
21 is always useful for us, and having some clarification  
22 of this information was appreciated.

23 I believe that with the conclusion of that  
24 cross-examination from the Public Representative your  
25 participation in the hearing is completed. We

1 appreciate your contribution to the record, and I'm  
2 pleased to let you know that you're excused.

3 THE WITNESS: Thank you. Thank you, Madam  
4 Chairman.

5 (Witness excused.)

6 CHAIRMAN GOLDWAY: Our next witness will be  
7 Witness McCrery. Postal Service counsel, Mr. Hollies,  
8 are you ready to identify your next witness?

9 MR. HOLLIES: The Postal Service calls Marc  
10 McCrery, but, Madam Chairman, it's going to take a  
11 minute or so to get material positioned for this.

12 CHAIRMAN GOLDWAY: Okay. Fine.

13 (Pause.)

14 MR. HOLLIES: Madam Chairman, we're ready to  
15 proceed. Mr. McCrery has not previously appeared as a  
16 witness in this proceeding.

17 CHAIRMAN GOLDWAY: So you are introducing  
18 Mr. McCrery. Mr. McCrery, will you please stand?

19 Whereupon,

20 MARC McCRERY

21 having been duly sworn, was called as a  
22 surrebuttal witness and was examined and testified in  
23 surrebuttal as follows:

24 CHAIRMAN GOLDWAY: You may be seated.

25 Counsel, you may proceed with offering this witness'

1 testimony.

2 (The document referred to was  
3 marked for identification as  
4 Exhibit No. USPS-SRT-3.)

5 DIRECT EXAMINATION

6 BY MR. HOLLIES:

7 Q Mr. McCrery, you have in front of you two  
8 copies of a document identified as USPS-SRT-3,  
9 Surrebuttal Testimony of Marc McCrery on Behalf of the  
10 United States Postal Service. Are you familiar with  
11 that document?

12 A Yes.

13 Q Was it prepared by you or under your  
14 direction?

15 A Yes, it was.

16 MR. HOLLIES: Madam Chairman, we have a  
17 series of errata that have been made and have been  
18 indicated on the two hard copies of the testimony that  
19 we are prepared to offer into evidence, and for  
20 purposes of simplicity I think I'm going to run  
21 through those, rather than asking the witness to do  
22 so, in brief.

23 CHAIRMAN GOLDWAY: I think that will be  
24 satisfactory. Go ahead.

25 MR. HOLLIES: Page 11, line 7, we delete the

1 letter "S" from the end of the word "shows" so that it  
2 ends up as "show". Page 4, line 7, we've changed the  
3 word order, moving "day range" back to "precede  
4 service standard".

5 Page 9, line 2, we have inserted the word  
6 "and" as the second to last word on the line before  
7 the second occurrence of the word "by". Page 13, line  
8 9, we have changed the word "then" to "than". Page  
9 16, line 8, we have changed the word "comprise" to  
10 "encompass".

11 Page 17, line 2, we've inserted a comma  
12 after "performance". Page 17, in footnote 14, we have  
13 deleted the dash between "zip" and "code" and replaced  
14 it with a space, and we've done the same thing twice  
15 on page 21, line 1. Page 17, line 7, we've deleted  
16 "S" from the word "contributes" to get "contribute".

17 Page 19, line 17, we've deleted the "E-D"  
18 from the end of "needed", leaving "need". Page 19,  
19 also on line 17, we've replaced the second occurrence  
20 of the words "they would" with the word "to", T-O.  
21 Page 20, line 10, we've replaced the words "if the  
22 proposed" with "as".

23 Page 20, line 20, we've changed the word  
24 "then" to "than". Page 21, line 2, we have deleted  
25 the words "the proposed" and inserted in its place the

1 word "to", T-O. Similarly, on page 21, line 3, we've  
2 deleted the word "proposed". Then on page 22, line  
3 19, we've changed the word "would" to "will".

4 Page 3, line 16, we've deleted the words  
5 "the proposed". Also on page 5, line 22, we delete  
6 the word "proposed". Finally, page 15, line 11, we've  
7 deleted the words "the proposed".

8 BY MR. HOLLIES:

9 Q With that, Mr. McCrery, are there additional  
10 errata to this testimony?

11 A No.

12 Q So if you were to testify orally today,  
13 would it be the same as exists on those two copies of  
14 the testimony corrected in front of you?

15 A Yes.

16 MR. HOLLIES: With that, Madam Chairman, the  
17 Postal Service moves the admission of USPS-SRT-3 into  
18 evidence in this proceeding.

19 CHAIRMAN GOLDWAY: Are there any objections?

20 (No response.)

21 CHAIRMAN GOLDWAY: Hearing none, I will  
22 direct counsel to provide the reporter with two copies  
23 of the Corrected Surrebuttal Testimony of Marc  
24 McCrery. That testimony is received into evidence.  
25 However, consistent with Commission practice it will

1 not be transcribed.

2 (The document referred to,  
3 previously identified as  
4 Exhibit No. USPS-SRT-3, was  
5 received in evidence.)

6 CHAIRMAN GOLDWAY: Counsel, can you identify  
7 any library references that have been filed by Witness  
8 McCrery associated with the testimony he's filing  
9 today and indicate if he's relying on any of that  
10 material?

11 MR. HOLLIES: Thank you, Madam Chairman.  
12 There are no library references associated with Mr.  
13 McCrery's testimony.

14 CHAIRMAN GOLDWAY: Thank you. This brings  
15 us to oral cross-examination. One participant has  
16 requested oral cross-examination, and that's the  
17 American Postal Workers Union. Is that correct, Mr  
18 Anderson?

19 MR. ANDERSON: Yes. Thank you, Madam  
20 Chairman.

21 CHAIRMAN GOLDWAY: You're still interested  
22 in proceeding?

23 MR. ANDERSON: Darryl Anderson for the APWU.

24 CHAIRMAN GOLDWAY: Is there anyone else who  
25 wishes to cross-examine Witness McCrery today?

1 (No response.)

2 CHAIRMAN GOLDWAY: If not, Mr. Anderson,  
3 please begin.

4 MR. ANDERSON: Thank you, Madam Chairman.

5 CROSS-EXAMINATION

6 BY MR. ANDERSON:

7 Q Good morning, Mr. McCreery.

8 A Good morning.

9 Q I thought it was possible to infer from your  
10 statement -- but I'm not sure this is what you meant  
11 -- that no three digit zip code pairs will receive  
12 slower service post implementation. Was that the  
13 intention of your statement?

14 A No, it was not. It was there will certainly  
15 be impacts up and down on the edges for certain three  
16 digit zip code pairs as we work through the network  
17 realignment.

18 That statement was referring to the overall  
19 service performance, and one, two, three day  
20 essentially as a matter of volume would pretty much  
21 stay the same, not every single, particular zip code  
22 pairing.

23 Q Has the Postal Service determined the  
24 percentage of first class package volume in three  
25 digit pairs that will be slowing down? I'm going to

1 ask you in a couple different timeframes.

2 A Yes.

3 Q Focusing on the proposed changes for July 1,  
4 have you determined what percentage of the first class  
5 package volume will be slowing down as a result of the  
6 July 1 plan changes?

7 A As of July 1 the service standard would  
8 change, but I think what you're getting to is in first  
9 class packages anyway there's opportunities since the  
10 constraints of the network realignment driven by first  
11 class letters and flats and processing windows to open  
12 up larger opportunities to sequence doesn't really  
13 apply to first class.

14 So as we always do we always look to upgrade  
15 when we can and when conceivable certain types of  
16 mail, and so there is a process right now going on to  
17 understand to what extent packages in first class mail  
18 could be upgraded beyond to a service standard.

19 So to answer your question, no, there hasn't  
20 been a full analysis of exactly what percentage of  
21 first class mail we could overachieve the two day  
22 standard for packages and still remain overnight  
23 neither for the summer or long-term, but there is an  
24 opportunity to and we've stated in the past  
25 opportunities to overachieve the service standards,

1 and packages presents that opportunity.

2 Q Yes. I think you answered sort of the  
3 flip-side of the coin I was asking you about. I had  
4 asked you whether you determined the percentage of  
5 first class mail that would, but for the remediation  
6 that you're attempting, experience a slowing down  
7 July 1.

8 A Oh, beyond that? Yes. I know that there  
9 has been some analysis done as of the volume that's  
10 currently receiving an overnight commitment, as well  
11 as what is actually achieving an overnight, and then  
12 which will no longer have an overnight. Certainly  
13 that has been done.

14 Q But for remediation, yes. So do you know  
15 what that number is by any chance?

16 A Well, the overnight overall first class I  
17 don't know, but I know it's usually in the 15 percent  
18 range or 15, 20 percent range that may be getting  
19 overnight today.

20 Traditionally that's the volume today that  
21 will not have that overnight service expectation, but  
22 we do know that with those remediations that we  
23 discussed for packages, as well as volume that's in  
24 the three digit and five digit presort that enters in  
25 before the 8 a.m. and 12 p.m. critical entry times.

1           That volume will help offset at least a  
2           portion of what is though not necessarily receiving  
3           the expectation of overnight delivery, will actually  
4           receive overnight delivery.

5           Q     Is there a different subject of first class  
6           packages that will receive slower delivery as a result  
7           of the 2014 plan changes, or is it all happening  
8           July 1?

9           A     Well, the service expectation happens this  
10          summer, but as we move and as we realign the network  
11          we'll have to reevaluate what particular parcels in  
12          first class can receive that advanced expectation that  
13          we can overachieve on.

14          Obviously the plants that are not being  
15          impacted this summer until out to '12 or out to '14,  
16          it's certainly going to be much easier. There  
17          wouldn't be really any reason why we couldn't continue  
18          in those cases to receive overnight and overachieve  
19          the standard on packages because there's not really  
20          anything changing or preventing that ability to do  
21          that.

22          Volume is received usually traditionally by  
23          6:00 with parcels distributed for turnaround within  
24          that two or three window by midnight, perhaps in the  
25          2 a.m., 3 a.m., and then delivered that day. So as we

1 make changes in the network we'll have to continue to  
2 reevaluate exactly what percentage of the parcels  
3 today can continue to receive that expectation of  
4 overnight.

5 Q But it's my understanding that you're  
6 changing the operating windows effective July 1 and  
7 the service standards nationwide.

8 A Well, that's largely in the area of  
9 packages. I mean in letters and flats.

10 Q First class.

11 A Yes. First class letters and flats. I  
12 mean, the windows of package distribution will not  
13 significantly change as of this summer.

14 Q But you are estimating that 15 percent of  
15 first class packages would be affected?

16 A At least from a service standard  
17 perspective.

18 Q Unless remedial steps are taken?

19 A That's correct. And again, I'm trying to  
20 remember off the top of my head what that number is,  
21 but it's usually in that ballpark.

22 Q I think that's correct.

23 A Yes.

24 Q That's consistent with what I had heard  
25 before. Thank you.

1 I'd like to ask you whether the Postal  
2 Service has done anything to assign a cost to the  
3 remediation. You say that steps are being taken to  
4 figure out what remediation can be done to avoid that  
5 delay. You assigned a cost to those steps, or are you  
6 in the process of assigning that cost?

7 A Yes. As they do the bottom up analysis that  
8 you've heard about on the individual AMPs, as we move  
9 through this network realignment those costs will be  
10 determined.

11 I would say though that if you think about  
12 retaining that window that exists today to process on  
13 automated parcel equipment there isn't extreme  
14 measures that would need to be done. And I'm sure you  
15 do understand the network realignment is an attempt to  
16 open up a DPS, a sequencing window for letters and  
17 flats, over a much larger period that would allow us  
18 to have fewer facilities.

19 We don't have DPS and delivery sequencing  
20 for packages, so there isn't a need to -- there isn't  
21 necessarily a cost driver there. Would there be cost  
22 advantages by removing that window and allowing our  
23 plants perhaps a full day to process that so they  
24 could do it in a less costly manner? Maybe a little.

25 But the fact today is the packages are

1 received in a plant by usually 6 p.m. and they have  
2 usually at least 10 hours to process those for  
3 delivery the next day. The choice is to continue to  
4 provide that service, and there really isn't an  
5 additional cost necessarily to do that in any  
6 significant way.

7 Q I'm resisting the temptation. I mean, this  
8 is fascinating, but it's way down in the weeds here I  
9 think.

10 A Okay.

11 Q I'm going to resist the temptation to go too  
12 much deeper, but I do want to pursue one more  
13 question.

14 A Sure.

15 Q And that is if the transportation window  
16 changes though as a result of the processing window  
17 changing for first class DPS then the only way you  
18 could continue to make the same service standards  
19 would be to provide additional transportation. Isn't  
20 that the case?

21 A I think you're getting to if the  
22 transportation changes as a result to allow us to  
23 perhaps push trucks back or send them out earlier.  
24 Yes, that may constrain a bit the window around which  
25 packages are transported today.

1           That doesn't necessarily mean that  
2 additional trips would have to be installed to be able  
3 to handle the packages. It would be required to make  
4 sure that the package distribution was within that  
5 maybe perhaps narrow window.

6           Now, if that couldn't perhaps happen and  
7 volume is such that you couldn't work within that  
8 constrained window, yes, you may in that case have to  
9 look at additional transportation, but it's not a  
10 certainty that that would necessarily be needed.

11          Q     So in summary, this is a work in progress to  
12 try to avoid service impacts. There may be some costs  
13 incurred in doing that or there may be some service  
14 degradations where the costs are not justified. Fair  
15 enough?

16          A     That's a fair statement.

17          Q     Now, with regard to prompt delivery of  
18 Priority Mail, it's my understanding that the  
19 quantitative research done by the Postal Service by  
20 its contractor in this case did not deal with  
21 quantitative effects on parcels at all. Isn't that  
22 correct?

23          A     Yes, that's my understanding. It didn't  
24 focus largely in that area.

25          Q     My understanding of the market research as

1 the Postal Service presents it is to the effect that  
2 first class mailers will try to mail earlier to take  
3 account of the problem caused, if any, by the delay in  
4 delivery standards.

5 Has there been any research done with regard  
6 to parcel mailers and their attitude toward that, to  
7 your knowledge?

8 A Specifically for the first class parcel  
9 mailers?

10 Q Or Priority mailers. Either one.

11 A With the objectives of Priority, as  
12 mentioned in the testimony, to retain those service  
13 levels that we have today, no, there has not been a  
14 specific, that I'm aware of, again qualitative or  
15 quantitative assessment to say if we did choose to  
16 degrade Priority or first class in significant ways  
17 what that impact would be.

18 Q And has any study been done or does the  
19 Postal Service have a number for the cost that will be  
20 incurred in maintaining service standards on Priority  
21 Mail?

22 A I know that the top down analysis did  
23 include some additional costs associated with some air  
24 transportation and surface to do those things.  
25 Exactly when you're talking about in the weeds, that

1 gets down to a level I'm not completely familiar with.

2 But the ultimate cost associated with what  
3 we would need to do will come through those bottom up  
4 analyses, and when they do the individual AMP studies  
5 retaining the service commitments in the same general  
6 percentages of overnight, two and three will have to  
7 then be factored in and then that ultimately will  
8 determine what the cost associated with additional  
9 transportation to maintain overnight at 15 percent  
10 roughly versus what may need to be additional air  
11 transportation.

12 So that ultimately will be the culmination  
13 of the individual bottoms up, AMP analysis that come  
14 together, so that's where that will ultimately be  
15 realized.

16 Q When you refer to the AMP analysis, the AMP  
17 analysis depends on service standards, correct?

18 A Yes. And so the objectives of the service  
19 standard that have been given to the various districts  
20 and the various areas as they do that is that we will  
21 look to maintain the percentages of the volume that  
22 receive the service standards that they do today in  
23 Priority and Express.

24 Q When you use the words service standards,  
25 Mr. McCreery, I hear no business plan but service

1 standards. Are you differentiating between the two?

2 A That's a good point. I mean, there's a  
3 service standard of one to three days or one and then  
4 there's the overall volume that receives that level of  
5 service, whether it be one, two or three.

6 And when I say the objective of the plants  
7 in the districts as they go through this is to retain  
8 volume at those levels. Now again, there may be some  
9 that have to go up and some that go down as a result  
10 of that, but overall volume of say Priority Mail  
11 would, for example, retain the 15 roughly percent of  
12 that that receives overnight service.

13 Q Could I ask you to take a look at Table 2 at  
14 page 17 of your testimony?

15 A Yes.

16 Q I think what you're indicating there is that  
17 there would be a roughly 15 percent target for one day  
18 performance for Priority Mail.

19 A Correct. After the change.

20 Q What do you consider material there? Would  
21 a 1 percent change from 15.3 to 14.3 be material?

22 A That's difficult to say. I'd have a hard  
23 time putting a qualitative mark on what would be  
24 considered to be significant in terms of a deviation  
25 from that, to be honest with you.

1           Certainly something that would be in the  
2           4 or 5 percent range I would certainly say. One  
3           percent, maybe moving it from 14, that's a little  
4           harder for me to say that would be significant. As we  
5           say, as is described in the testimony, reliability,  
6           meaning you say you're going to get it there overnight  
7           or you say you're going to get it there two day,  
8           having it actually achieve that service is  
9           significantly more important to our customers.

10           So I'm not going to underestimate or  
11           understate what it would mean by degrading service  
12           significantly. That doesn't help either. But to say  
13           that with the idea and the knowledge that we have that  
14           reliability over speed is a significantly more  
15           important factor, it's hard for me to really say for  
16           sure that just a 1 percent change would be considered  
17           significant.

18           Q     By the way, when was Table 2 prepared?

19           A     It was prepared in advance of this testimony  
20           completion with the concurrence with Operations and  
21           their directions that we've had internally.

22           Q     So you prepared it --

23           A     For this.

24           Q     -- in order to present it in this testimony?

25           A     Yes.

1 Q And is there an operating plan for Priority  
2 Mail now?

3 A Yes.

4 Q And when was that prepared?

5 A I would have to -- I'm not sure since I'm on  
6 the product side and the marketing side. The  
7 Operations team would be the best to answer exactly  
8 specifically how Priority Mail operating plans.

9 Q Do you know approximately when it was  
10 prepared?

11 A I guess I'd have to ask. You say a revised?  
12 We've always had operating plans.

13 Q The revised plan.

14 A As a result of perhaps the summer or 214 or  
15 what? What specifically?

16 Q I can accept I don't know. That's okay.

17 A Yes. I don't know.

18 Q All right. Thank you. Going back to the  
19 AMPs, with regard to the AMPs that have been finished  
20 have there been instructions sent out to redo those  
21 again in light of the need to maintain the service  
22 standards or the operating plan rather on Priority  
23 Mail?

24 A No, not that I'm aware of. But, for  
25 example, since I have direct management over the

1 entire Express Mail product we work with the  
2 individual districts very closely to make sure that  
3 they retain the service that they have today.

4 So I am not aware of any meaningful change  
5 in the service as a result of recent AMPs that are  
6 happening. There tended to be relatively smaller  
7 facilities that are close, in close proximity to  
8 larger facilities with automated equipment, so any  
9 significant degradations in service I'm not aware of  
10 as a result of those.

11 You know, as we go forward there's going to  
12 have to be a larger emphasis on that because we're  
13 getting into a phase of more significant AMPs, in some  
14 cases even larger facilities, but looking backward I'm  
15 not aware of a need to do that because I'm not aware  
16 of any significant degradations in service that we've  
17 experienced in the most recent AMPs.

18 Q But if there were some and you had to  
19 correct them, those costs would not be captured in  
20 those AMPs because you're not going to redo them, just  
21 to put a fine point on that.

22 A Correct. Yes.

23 Q I wanted to focus also on your statement  
24 that the Postal Service is a major player in the  
25 package market. You discuss this on pages 8 and 9 of

1 your testimony if you want to refresh what you said.

2 A Sure.

3 Q Refresh your recollection there. I think  
4 you're probably talking about the business to consumer  
5 package market and not the overall package market. Is  
6 that a fair statement?

7 A Well, yes. If you look at the B to C,  
8 business to consumer, market our share of the market  
9 is significantly higher than our B to B.

10 But I would also argue, and I guess as  
11 somebody that has a little bit of a passion for the  
12 Postal Service's shipping business as I'm working in  
13 this lately, I'd be a little defensive when I hear  
14 that we're only a bit player. As we've shown in this  
15 testimony that our market share by volume is pretty  
16 significant. It's certainly by far the third largest  
17 provider by volume.

18 Honestly, we don't always include all of the  
19 volume in the competitive landscape. If you looked at  
20 first class mail parcels and you looked at Parcel  
21 Select Lightweight and you looked at some of our other  
22 market dominant classes of mail where we're trying to  
23 increase prices, our volume market share is closer to  
24 30 percent. So I would not say that is not a  
25 significant player in the market.

1           Q     Well, would you agree with me that volume  
2     can be as much of a problem as it is an asset though?  
3     I mean, if you lose a little bit on every piece and  
4     make it up on volume that's bad, right?

5           A     You know, I would say to that, and this is  
6     sometimes an opinion that people don't always share.  
7     I'd much rather have that volume and that customer  
8     relationship and then look to fix those issues whether  
9     it be through cost reductions or price changes than to  
10    have to then try to acquire that volume from somewhere  
11    else.

12                   As you see and you look at what we've been  
13    able to do with first class parcels, and we talk quite  
14    a bit and Witness Schiller does as well about the  
15    dominance in the under one pound. First class  
16    packages were hovering just below cost coverage. Now  
17    we've gone a long way towards fixing that and we're  
18    profitable.

19                   Parcel Select Lightweight, formerly  
20    standard, has always been notoriously underwater, but  
21    over the last year we moved it up significantly in  
22    cost coverage while we are still growing volume  
23    significantly. I would perhaps venture to guess that  
24    in the FY '12 CRA we're going to get very close to 100  
25    percent cost coverage on this product that's been

1 notoriously underwater, and we still have significant  
2 volume.

3 I'd much rather have that volume and  
4 continue to move that than to say that I'd much rather  
5 not have that volume altogether and then relegating  
6 that volume to sort of not be part of the market and  
7 factoring it out of the equation when you say how  
8 significant we are.

9 Q I certainly don't want to dampen your  
10 enthusiasm on any of those points.

11 A Okay.

12 Q We agree with you. It's terrific. But I do  
13 think that Mr. Schiller's point would be that there's  
14 a need to focus on the share of revenue generated by  
15 packages as well.

16 I think you'd probably agree with me that  
17 that's a useful place to focus attention and to  
18 consider what share of the parcel revenue the Postal  
19 Service has. Wouldn't you agree?

20 A I would agree with that as a useful thing to  
21 focus on, and we do.

22 CHAIRMAN GOLDWAY: Moving the market  
23 dominant parcels into competitive and sharing them  
24 makes the entire product cover its cost, but the  
25 individual subproducts may still be underwater. I

1 just want to advise you that the Commission notices  
2 that.

3 THE WITNESS: Certainly. When I was  
4 mentioning the standard mail and I think maybe the  
5 movement of Parcel Select Lightweight over, we do know  
6 that Parcel Select as a whole now with Lightweight in  
7 it covers those costs. I still understand that  
8 Lightweight doesn't, and we're making the moves to do  
9 that.

10 CHAIRMAN GOLDWAY: Okay. Okay.

11 THE WITNESS: Just because I got the chance  
12 to move it over that doesn't necessarily mean  
13 everything in that pile that's moved over or now part  
14 of a broader product all covers its cost.

15 CHAIRMAN GOLDWAY: Right. I'm glad to hear  
16 you're going to continue to see about operationally  
17 attempting to cover costs, not simply moving it into a  
18 category so that by formula the whole category covers  
19 cost.

20 THE WITNESS: Yes.

21 BY MR. ANDERSON:

22 Q With regard to the volume percentages that  
23 you're showing, do you know how much of that volume  
24 that Calography reports for the Postal Service is last  
25 mile volume that originates with UPS or FedEx?

1           A     Is that as a matter of percent?

2           Q     Yes.  What portion?

3           A     Well, I guess if I were to look at it I know  
4 we have about the last time I remember 300 to 400  
5 million pieces, and you look at our overall volume  
6 across all the classes, whether it be competitive,  
7 it's 1.3 or 1.4 billion.  If you add in the under one  
8 pound stuff it can be up to three billion pieces.

9                     So you can look at it either 10 to 20  
10 percent, just in that general -- I'm just doing math  
11 off the top of my head, but that gives you kind of a  
12 sense.  I mean, it's a significant part of our  
13 business, but it's not necessarily the most  
14 significant part of our business.

15          Q     Mr. Schiller made the point that with regard  
16 to that portion of your business that originates with  
17 UPS and FedEx you don't have that customer  
18 relationship that you spoke of a moment ago.  Was that  
19 a fair observation?

20          A     True.

21          Q     And I just also want to sharpen the focus  
22 here on the fact that I think you'll agree with me  
23 that the business to consumer parcel market is growing  
24 faster than GDP.  Is that fair?

25          A     Yes.  I mean, from what we see it could be

1 growing the 3 percent. It could be growing at 5, 6  
2 percent. It is growing, so I guess I would certainly  
3 concur that it is growing faster than GDP.

4 Q So do you know whether the Postal Service  
5 has a business plan that will grow its parcel business  
6 faster than GDP?

7 A If you look at our forecast and what we have  
8 or an internal IFP, as well as what we get sometimes  
9 from Calography, I guess from somebody that's in  
10 marketing from the product side, as well as my  
11 relationship with the folks in our sales force, our  
12 objectives are to grow our B to C e-commerce segment  
13 significantly.

14 And we're not constrained by anything that  
15 would deem to be an IFP forecast or a Calography  
16 forecast. To suggest, and I know you're not, that  
17 once we achieve our GDP market share we're ready to  
18 stop, we're going to do whatever we can to leverage  
19 our assets and leverage our advantages in the B to C  
20 to try to get as much of that volume as we can  
21 regardless of what the forecast suggests.

22 So we do have plans internally to try to  
23 overachieve as much as we can, and we don't limit  
24 ourselves by what perhaps is a forecast if in fact the  
25 forecast is understated.

1           Q     Those plans do not, though, include plans to  
2     add features to your parcel products that would add  
3     cost and therefore increase price and perhaps even  
4     amount to new products in the parcel market.  Is that  
5     correct?

6           A     Those forecasts, no.  The most significant  
7     feature that we are in fact enhancing right now, as  
8     you probably know, is our visibility and our tracking,  
9     and some of those costs are there baked in.

10                  That is a significant opportunity for us to  
11     leverage our improved tracking, but I would also say  
12     that we are looking at other features, value add  
13     features, that we could possibly leverage for  
14     additional revenue, things like package intercept and  
15     redirect where, as you know, those are going out now  
16     where we can stop a package or move it to an office  
17     location or something if they're not going to be home.

18                  So to say that we're not looking to try to  
19     leverage opportunities for features that we can then  
20     leverage for additional revenue, that's not true.  We  
21     obviously are continuing to look at new feature  
22     opportunities to enhance our products and grow  
23     revenue.

24                  MR. ANDERSON:  Those are the only questions  
25     I have.  Thank you very much, Mr. McCrery.

1 THE WITNESS: You're welcome.

2 CHAIRMAN GOLDWAY: Are there any follow-up  
3 cross-examination --

4 MR. ANDERSON: Madam Chairman, may I have a  
5 moment to confer with regard to the need to have a  
6 session that is nonpublic? I just need one moment.

7 CHAIRMAN GOLDWAY: Yes. Certainly.

8 (Pause.)

9 MR. ANDERSON: Thank you, Madam Chairman.  
10 It will not be necessary to have a nonpublic hearing.

11 And thank you, Mr. McCrery, for your  
12 testimony.

13 THE WITNESS: You're welcome.

14 CHAIRMAN GOLDWAY: Thank you. Is there any  
15 follow-up cross-examination from other participants?

16 (No response.)

17 CHAIRMAN GOLDWAY: Do we have questions from  
18 the bench? I think we have a few questions that our  
19 staff wanted us to pursue.

20 COMMISSIONER ACTON: Do you want me to do  
21 one?

22 CHAIRMAN GOLDWAY: Why don't you start, Mr.  
23 Acton.

24 COMMISSIONER ACTON: Thank you, Madam  
25 Chairman. Good morning, Mr. McCrery. Welcome back.

1 THE WITNESS: Good morning. It's good to be  
2 back. As strange as that sounds, it actually is good  
3 to be back. It really is.

4 COMMISSIONER ACTON: We believe you. Here  
5 are some questions from the staff that they've asked  
6 us to develop per you.

7 Can you tell us how you believe that  
8 Priority Mail and first class mail, how are they  
9 typically similar today in terms of service, as well  
10 as how are they different?

11 THE WITNESS: How are they? Okay. Good.  
12 The overnight reach between first class and Priority  
13 Mail, Priority goes out a little bit further, but you  
14 have a decent amount of overlap on what is now first  
15 class parcels in the overnight area in the 15 percent  
16 range as we discussed.

17 The biggest, significant difference between  
18 first class and Priority is that the Priority Mail has  
19 a much more significant two day range. As is shown  
20 here, we have a two day range that goes out much more  
21 significantly in Priority Mail than you do in first  
22 class where first class has a higher percentage of  
23 three day.

24 So we take additional steps through our Day  
25 Turn network with FedEx to get more of the Priority

1 Mail at least two day, and then what ends up at three  
2 day on Priority perhaps is rural to rural, in some of  
3 those areas, as well as say offshores, but in first  
4 class there's a much more significant portion of it  
5 that ends up being three day.

6 COMMISSIONER ACTON: And that's a summary of  
7 the distinctions under the present network  
8 arrangement?

9 THE WITNESS: Yes. That's correct. And  
10 that will hold true in the future as well except for  
11 the first class commitment for overnight will no  
12 longer be there. That was the description of the way  
13 it is today.

14 COMMISSIONER ACTON: So with the one  
15 exception that you just identified, following mail  
16 processing network rationalization we shouldn't expect  
17 any other significant differences between those two  
18 types of mail?

19 THE WITNESS: Other than the one I mentioned  
20 about first class would no longer have the expectation  
21 of overnight.

22 CHAIRMAN GOLDWAY: So would first class be  
23 more like Priority Mail?

24 THE WITNESS: Well, again first class  
25 wouldn't have the expectation of overnight. And

1       though Priority Mail is a two and three day product,  
2       Priority Mail will continue to have an overnight  
3       service area.

4               So to the extent to which we can overachieve  
5       from the two and three day service standard of first  
6       class mail, to be honest there wouldn't be a  
7       significant difference than today where you again have  
8       some overnight in first class, a share of two day and  
9       a significantly larger share of three, and then in  
10      Priority you would continue to have the overnight, a  
11      very large two and a little bit of three. There may  
12      be some shift in two and three.

13              So I wouldn't expect that you would have a  
14      significant difference between those two products  
15      after network rationalization.

16              CHAIRMAN GOLDWAY: What's your sense about  
17      the amount of first class mail that's three day versus  
18      Priority Mail that's three day?

19              THE WITNESS: Yes.

20              CHAIRMAN GOLDWAY: That's my question.

21              THE WITNESS: The first class again has a  
22      larger percentage of three day.

23              CHAIRMAN GOLDWAY: But what percentage?

24              THE WITNESS: By percent? I think I  
25      wouldn't want to venture to guess on first class mail.

1 Since it's so largely dominated by mail I'm not as  
2 familiar with that since I'm on the package side, but  
3 it does have --

4 As we've shown in the testimony from the  
5 Priority side it's in the 15 percent range or, I mean,  
6 the 9 percent range, but on three day on first class  
7 it's definitely in the 20 to 40 percent range for  
8 three day.

9 CHAIRMAN GOLDWAY: I have a question. Are  
10 you --

11 COMMISSIONER ACTON: Sure. Go ahead.

12 CHAIRMAN GOLDWAY: On page 3 of your  
13 surrebuttal you say that you expect MPNR to improve  
14 consistency and on-time performance delivery.

15 Last year service performance for single  
16 piece first class mail with a three day service  
17 standard fell short of its goal, which is 93 percent,  
18 by about 1.5 percent. So one can figure that about  
19 8 percent of first class mail even under the old  
20 standards was beyond the three day service standard.

21 Now we're pushing mail back into the system,  
22 no longer overnight, more second. Do you know how  
23 much more mail will be in the three day category under  
24 the new service than was a two day category before?  
25 Will there be a greater proportion of first class mail

1 in the three day category?

2 THE WITNESS: I'm not exactly sure on the  
3 first class side exactly what the two and three day  
4 relationship will be after network realignment.

5 CHAIRMAN GOLDWAY: And there will be impacts  
6 on the three digit zip codes you say as you develop  
7 the implementation?

8 THE WITNESS: Yes.

9 CHAIRMAN GOLDWAY: Would the change in three  
10 digit zip code pairs give us that information so we  
11 would know what percent of volume is three day versus  
12 two day?

13 THE WITNESS: I'm not sure exactly what  
14 you're referring to, but I do know that there have  
15 been some allowances for additional air volume within  
16 network realignment to try to preserve some service.

17 So how it all shakes out between two and  
18 three day, a lot of that will have to then ultimately  
19 come to light when we end up doing all of the AMP  
20 analysis. So I can't say I know for sure how that  
21 will all shake out between the two and three day and  
22 first class mail.

23 CHAIRMAN GOLDWAY: Yes. Well, staff was  
24 interested in discussing the steps that the Postal  
25 Service will take to recover the time lost from

1 operational changes at the origin in order to maintain  
2 and improve on-time service performance, especially  
3 for mail that's already being transported by air.

4 You're saying there will be some more mail  
5 that's transported by air? Do you have any more  
6 information on the steps that will be taken?

7 THE WITNESS: Well, what that was trying to  
8 say is that when you're looking at a network of a  
9 fewer number of facilities, and Witness Neri touched  
10 on this in his testimony.

11 Today we have ADC networks and then AADC  
12 networks and then SCF, and it has a number of  
13 different transfer point opportunities. When you have  
14 that level of operational structure there's more  
15 opportunities, more touches, more movements, more  
16 trips, individual surface trips and then air -- in  
17 this case it would be surface trips -- that provide  
18 more opportunities for inconsistency.

19 And so moving to a network where you trade  
20 between what is now just ADCs or AADCs, SCFs to other  
21 SCFs and you have an outgoing operation and a single  
22 destination operation provides an opportunity to limit  
23 the number of handoffs, surface trips, loads, unloads  
24 where you think under that scenario we expect to have  
25 a larger and a higher percentage of service

1 consistency. That's what that was attempting to do.  
2 And then the same thing for packages as well.

3 CHAIRMAN GOLDWAY: So you may get  
4 consistency, but we're not sure about time?

5 THE WITNESS: Well, yes. I know that there  
6 has been some additional allowances for air  
7 transportation to preserve some service in the two day  
8 area and then ultimately obviously three day area,  
9 some two that has to be preserved or some three now  
10 that's on air.

11 There could be some relationships between  
12 air and surface to maintain those. Again, the bottom  
13 down analysis did factor in some additional air  
14 transportation to achieve that.

15 CHAIRMAN GOLDWAY: And are those costs  
16 enumerated in the proposal, the final transportation  
17 costs?

18 THE WITNESS: Well, yes. I'm sure that they  
19 have been enumerated.

20 CHAIRMAN GOLDWAY: Does anyone else want to  
21 jump in?

22 On page 5 and 6 of your revised testimony  
23 you state, "Adjustments in the proposed service  
24 standards for a particular origin/destination pair  
25 will not affect the Postal Service's ability to

1 provide reliant and consistent on-time delivery."

2 How many Priority Mail origin/destination  
3 pairs do you expect will be adjusted as a result of  
4 the Postal Service's network rationalization plan? Do  
5 you know how many pairs?

6 THE WITNESS: I do not know the actual  
7 number. Obviously zip code pairs, there's tremendous  
8 amounts of those. Exactly how many will have a  
9 change, I know that Witness Neri estimated that -- no.  
10 It was Witness Martin that estimated about 22 percent  
11 of Priority Mail volume is in facilities that have an  
12 adjustment.

13 So there's the opportunity right there that  
14 some could go up or down as a result of that, so that  
15 gives you some sort of a sense of what number of areas  
16 of impact potential are, but how that quantifies  
17 exactly into the number of three digit pairs I'm not  
18 sure.

19 CHAIRMAN GOLDWAY: And would you know what  
20 the difference is in terms of impact on Priority Mail  
21 service in Phase 1 versus Phase 2 of the plan?

22 THE WITNESS: There has not been any request  
23 or any need to change any service standards this  
24 summer as a result of Phase 1, so there should be no  
25 adjustments to service as it exists today for Priority

1 Mail in Phase 1 this summer.

2 Beyond that, for Phase 2 again the testimony  
3 shows the objectives are right now and the challenge  
4 in the field as they go through this is to retain the  
5 level of Priority Mail service as it exists today with  
6 the 15 percent overnight and only the 8 or 9 percent  
7 three days.

8 CHAIRMAN GOLDWAY: I know you discussed some  
9 of this with Mr. Anderson, but on page 13 of your  
10 testimony you do state that there's a correlation  
11 between gross domestic product, GDP, and package  
12 growth rates.

13 THE WITNESS: Correct.

14 CHAIRMAN GOLDWAY: And you go on to state  
15 that growth opportunity exists for the Postal Service  
16 in the two to three day and ground parcel markets.

17 Referring to Table 1 of your testimony, do  
18 you believe that the changes in growth rates of  
19 shipments lead or follow changes in the GDP? In other  
20 words, is the package business a leading or a lagging  
21 economic indicator?

22 THE WITNESS: Yes. We tend to be a leading  
23 indicator on mail and advertisement, but perhaps  
24 following much more closely with packages as they go  
25 up and down.

1           To the extent to which I could say it lags a  
2 bit I'm not sure, but I do know that it's a much more  
3 close correlation to the effects of the economy and  
4 how that quickly affects package. So it's very  
5 closely tied. Whether it slightly leads or lags it  
6 would be hard for me to say.

7           CHAIRMAN GOLDWAY: Do you think there's any  
8 closer correlation between Express Mail or Priority  
9 Mail or Parcel Select, any one of those, better than  
10 another?

11           THE WITNESS: Well, Express is affected by  
12 electronic diversion beyond the GDP, so that doesn't  
13 as closely tie because it has other factors that are  
14 affecting the volume on that.

15           As far as Parcel Select, those things are  
16 impacted by the decisions of our providers like UPS  
17 and FedEx, so that gets a little skewed. So two and  
18 three day and the Priority tends to be the best one  
19 that has a correlation and first class parcels as  
20 well. Those two are the ones that have the best  
21 correlation.

22           Things like bound printed matter, largely  
23 books, those are other things that have other factors  
24 that kind of skew what's going on obviously as books  
25 are diverted and catalogs and bound printed matter are

1 diverted, but first class and Priority tend to have  
2 the best correlations towards GDP.

3 CHAIRMAN GOLDWAY: And can you discuss for  
4 us what you think the growth opportunities are for the  
5 Postal Service in the two to three day ground parcel  
6 business? What's your hopes?

7 THE WITNESS: My hope, as we agree with  
8 Witness Schiller, is that the opportunities in B to C  
9 as e-commerce sales growth. You know, right now we're  
10 still at Witness Schiller points out 7 percent. I've  
11 heard numbers in the 5 to 6 percent range, but it's  
12 all around that same.

13 I think we're all somewhat -- I'm somewhat  
14 -- taken aback by the fact that we're only at that  
15 number. You think you hear about the prevalence of  
16 e-commerce, but that's every bit as exciting to know  
17 that the opportunities for e-commerce growth are still  
18 out there.

19 With the advent of tablet technology now,  
20 the ceiling that Forester and others predict is even  
21 higher. You think that the convenience features of  
22 ordering online, while we continue to enhance it, we  
23 may be able to get to 20 percent of sales, of retail  
24 sales, be through e-commerce.

25 The Postal Service is wonderfully equipped

1 to handle that volume because it tends to be under  
2 five pounds, it tends to be B to C, and we have a  
3 tremendous advantage in that area. They've mentioned  
4 the push to consistent short deliveries and narrow  
5 windows from time in transit, and so it's pushed more  
6 towards a regional fulfillment opportunity.

7 That's good for us too because that helps us  
8 take advantage of the fact that our biggest  
9 competitive advantage is in the delivery area. We're  
10 not so efficient right now in the middle ground, and  
11 so as people move more regionally for fulfillment most  
12 of our costs on that product will be maybe one sort  
13 and delivery. We're well equipped when it's under  
14 five pounds and going to a residence to compete with  
15 that.

16 So that's a really long answer to your  
17 question about where I see. My goals are to not only  
18 ride our share of 20 to 22 percent B to C. I want to  
19 continue to grow that share and want to continue to  
20 take market share as B to C and e-commerce grows.

21 We have shown some market share growth,  
22 which I think is very, very exciting, over the last  
23 two years, and we're on track to actually grab at  
24 least another percent of market share this year in the  
25 parcel business. That's pretty significant. We

1 haven't had anything like that in the history of the  
2 Postal Service outside of these three years, so I'm  
3 continuing to strive to grow and grab a larger,  
4 disproportionate share of that growth at  
5 e-commerce.

6 CHAIRMAN GOLDWAY: Thank you. It's nice to  
7 have a positive perspective. My staff seems to want  
8 me to ask one more question --

9 THE WITNESS: Sure.

10 CHAIRMAN GOLDWAY: -- about the last  
11 question. You assured us that there would be no  
12 service changes in Priority Mail under Phase 1, but  
13 will there be changes in origin/destination pairs?

14 THE WITNESS: Yes. If you look at the list,  
15 and I know that there's Fort Lauderdale and there's --  
16 there will be some realignment and reassignment of say  
17 Priority Mail into other facilities, but the actual  
18 service standards are not changing as a result of  
19 that. They'll still have to achieve the same service  
20 that they are today with those reassignments of three  
21 digit zip code pairs.

22 CHAIRMAN GOLDWAY: I see. Okay. I think  
23 that clarifies the issue.

24 THE WITNESS: Okay.

25 CHAIRMAN GOLDWAY: That completes the

1 questions that I was given. Commissioner Taub, do you  
2 have a question?

3 COMMISSIONER TAUB: Yes. Thank you. Good  
4 morning.

5 THE WITNESS: Good morning.

6 COMMISSIONER TAUB: I had a follow-up from  
7 the discussion we had two weeks ago with Witness  
8 Schiller.

9 One of the questions that I had asked him  
10 about was his thoughts on the advantages and  
11 disadvantages of that last mile delivery, the  
12 agreements with UPS and FedEx. And while he  
13 acknowledged advantages, from his perspective he  
14 thought there may be a disadvantage for the future of  
15 the Postal Service.

16 To summarize his perspective, it seemed to  
17 be along the lines of the Postal Service may no longer  
18 have that relationship with its customer. We touched  
19 upon this a little bit today, but I was hoping you  
20 could amplify a little bit from your perspective what  
21 you see as not only the advantages, but if you could  
22 give your thoughts on those perceived disadvantages of  
23 the relationships on that last mile delivery  
24 connections with UPS and FedEx?

25 THE WITNESS: I largely agree with Witness

1 Schiller in this area. You know, would I like to own  
2 the customer? Would I like to have that advantage of  
3 having a full end and service opportunity with these  
4 customers?

5 People pay you for work. The more work you  
6 do, the more opportunity you can extract revenue from  
7 that chain. So if we can provide a competitive end  
8 and service across the board where we could extract  
9 more value out of that plus gain the relationship with  
10 the customer that's certainly better.

11 What we find right now is that in many cases  
12 -- in the ground area, in the competitive nature of  
13 ground services and the advancements that UPS and  
14 FedEx have made in the mail processing areas with  
15 efficiencies -- that sometimes we're not able to  
16 compete on that.

17 So until we do and achieve some of the  
18 advantages in the network rationalization where we can  
19 then be more efficient in the mail processing areas,  
20 we can push more onto automation, we can shoulder a  
21 smaller share of those costs onto packages, fill  
22 trucks going between fewer facilities, until such time  
23 that we can then compete on the middle ground we're  
24 willing to at this point at least have the opportunity  
25 to extract some value out of that last mile and

1 recognize the fact that customers, as well as our  
2 competitors I guess you would call them, do find that  
3 we can in many cases be the most efficient way to  
4 deliver. We can't extract as much value. There's no  
5 doubt about it. Our origins are constrained in this  
6 world.

7 So we want to look. We support last mile,  
8 but we want to move in a direction where we can then  
9 provide better full and end services because that  
10 provides more opportunity for us. As we know, what  
11 the future holds in packages are going to be a much  
12 more significant share of the Postal Service's  
13 business going forward. So we don't want to relegate  
14 ourselves to that last mile going forward. That's not  
15 our strategy.

16 COMMISSIONER TAUB: Thank you very much.

17 CHAIRMAN GOLDWAY: Anything else for Witness  
18 McCrery from us?

19 (No response.)

20 CHAIRMAN GOLDWAY: Mr. Hollies, would you  
21 like any time with your witness for redirect?

22 MR. HOLLIES: Let me do a quick check.

23 CHAIRMAN GOLDWAY: We'll wait here.

24 (Pause.)

25 CHAIRMAN GOLDWAY: Mr. Hollies?

1 MR. HOLLIES: We have no need of redirect.  
2 Thank you.

3 CHAIRMAN GOLDWAY: Okay. Well then, Mr.  
4 McCrery, that completes your testimony here today. We  
5 appreciate your appearance.

6 We're most interested to have had a  
7 discussion about the future of the package business in  
8 the Postal Service with you and appreciate your  
9 answering the questions that were asked of you --

10 THE WITNESS: Absolutely.

11 CHAIRMAN GOLDWAY: -- by APWU and by the  
12 bench, and I'm pleased to tell you that you're  
13 excused.

14 THE WITNESS: Well, thank you. Thanks.

15 (Witness excused.)

16 CHAIRMAN GOLDWAY: What I would like to do  
17 now is take a 20 minute break. All of us need to read  
18 the reports on the Supreme Court decision that was  
19 just issued.

20 I think our next witness is going to be a  
21 bit more of a longer evaluation, so having a 20 minute  
22 break will make sure we're all rested and ready to  
23 proceed. See you back here at 11:15. Okay. Is that  
24 right? 11:15. Pretty close.

25 (Whereupon, a short recess was taken.)

1           CHAIRMAN GOLDWAY: We are back on the record  
2 now, and we will begin with our final witness. We'll  
3 proceed with the testimony of Postal Service Witness  
4 Elmore-Yalch. Counsel Hollies?

5           MR. HOLLIES: This is Kenneth Hollies for  
6 the Postal Service, and the Postal Service calls  
7 Rebecca Elmore-Yalch to the stand, who has previously  
8 appeared in this proceeding.

9           CHAIRMAN GOLDWAY: Yes, Ms. Yalch. So it's  
10 nice to see you again, and I'll remind you that you've  
11 already been sworn in, so any statements you make are  
12 under oath.

13           THE WITNESS: Okay.

14           Whereupon,

15                           REBECCA ELMORE-YALCH

16           having been previously duly sworn, was  
17 recalled as a witness herein and was examined and  
18 testified further as follows:

19           THE COURT: You want to proceed, counsel.

20                           DIRECT EXAMINATION

21           BY MR. HOLLIES:

22           Q     Before you, Ms. Elmore-Yalch, are two copies  
23 of a document that is identified as USPS-SRT-4,  
24 Surrebuttal Testimony of Rebecca Elmore-Yalch on  
25 Behalf of the United States Postal Service. Are you

1 familiar with that document?

2 A Yes, I am.

3 Q Was it prepared by you or under your  
4 direction?

5 A Yes, it was.

6 Q We have a set of errata, is that correct?

7 A That's correct.

8 MR. HOLLIES: And, Madam Chairman, as  
9 previously with Mr. McCrery, for purposes of  
10 simplifying this, I'm simply going to recite the  
11 changes.

12 CHAIRMAN GOLDWAY: That's fine. Go ahead.

13 MR. HOLLIES: They consist of on page 3,  
14 line 2, delete the word "an", A-N; page 7, line 12,  
15 change the word "themselves" to "itself"; page 10,  
16 line 8, delete the last four words; page 12, line 2,  
17 delete "it", I-T; page 12, footnote 11, delete the  
18 second period; page 14, line 5, the word "federal"  
19 should be "Food and", it's the Food and Drug  
20 Administration; page 23, line 15, insert a comma after  
21 two words, the first of those is "occur" and the  
22 second of those is "done"; page 25, line 6, delete the  
23 word "question" immediately after P-O-I-R. Also on  
24 the next line there is a closed parenthesis that  
25 should not be there. It didn't have a counterpart

1 opening parenthesis. On page 25, line 15, insert a  
2 period after "13", that is, one-three, and before the  
3 right parenthesis; page 32, line 22, insert the word  
4 "of" after "review"; finally, page 34, line 7, change  
5 "has" to "have".

6 BY MR. HOLLIES:

7 Q And with those changes, Ms. Elmore-Yalch, is  
8 that testimony what you would say orally if you were  
9 to testify orally today?

10 A Yes.

11 MR. HOLLIES: Accordingly, Madam Chairman,  
12 the Postal Service moves the admission of the  
13 surrebuttal testimony of Rebecca Elmore-Yalch on  
14 behalf of the United States Postal Service into  
15 evidence.

16 CHAIRMAN GOLDWAY: Are there any objections?

17 (No response.)

18 CHAIRMAN GOLDWAY: Hearing none, I will  
19 direct counsel to provide the reporter with two copies  
20 of the corrected surrebuttal testimony of Rebecca  
21 Elmore-Yalch. That testimony is received into  
22 evidence. However, consistent with Commission  
23 practice, it will not be transcribed.

24 //

25 //

1 (The document referred to was  
2 marked for identification as  
3 USPS-SRT-4 and was received  
4 in evidence.)

5 CHAIRMAN GOLDWAY: Counsel, are there any  
6 library references filed by Witness Elmore-Yalch that  
7 are associated with this testimony?

8 MR. HOLLIES: There are no library  
9 references associated specifically with the  
10 surrebuttal testimony.

11 CHAIRMAN GOLDWAY: Thank you. That brings  
12 us to cross-examination, oral cross-examination, and I  
13 have here two participants who requested oral cross-  
14 examination: The National Association of Letter  
15 Carriers, AFL-CIO, Mr. DeChiara, and the Public  
16 Representative, Mr. Laver.

17 Is there any other participant who wishes to  
18 cross-examine Witness Elmore-Yalch? If not, we'll  
19 begin with Mr. DeChiara. You may begin.

20 MR. DeCHIARA: Thank you. Good morning,  
21 Madam Chairman. Peter DeChiara from the law firm of  
22 Cohen, Weiss & Simon, LLP, for the National  
23 Association of Letter Carriers, AFL-CIO.

24 //

25 //

1 CROSS-EXAMINATION

2 BY MR. DeCHIARA:

3 Q Good morning, Ms. Elmore-Yalch.

4 A Good morning.

5 Q You're not an economist, are you?

6 A I am not.

7 Q Do you dispute the economic proposition that  
8 the reduction in the quality of a product or service,  
9 everything else being equal, will cause demand for  
10 that product or service to fall?

11 A I really don't have the knowledge. As I  
12 said, I'm not an economist, so I don't have the  
13 knowledge or the background to state that  
14 unequivocally. I can speak as a marketer to that.

15 Q Okay. Why don't you speak to it in any  
16 capacity you can. Do you dispute that proposition?

17 A I do not think it's as certain as that, and  
18 I think we have data to show that it's not.

19 Q Well, I'm speaking in general.

20 A In general.

21 Q Not just in this case, just as a general  
22 proposition, a general economic proposition. Do you  
23 dispute that proposition?

24 A Could you repeat it one more time again?

25 Q The proposition being that when you lower

1 the quality of a product or service, everything else  
2 being equal, demand for the product or service will  
3 fall.

4 A I would say that in most cases that would be  
5 true.

6 Q Okay. Do you dispute that a reduction in  
7 the speed of delivery of mail constitutes a reduction  
8 in the quality of mail?

9 A At its face value, I would say that that  
10 would be true, but I would also add that if the  
11 consumer perception is that it's not a decrease, that  
12 it's either the same as their existing expectations  
13 for service, then it may not be a decrease.

14 Q Are you making a distinction between  
15 objective reality as to the quality and the perception  
16 of the quality?

17 A Yes.

18 Q Okay. So let's talk about the objective  
19 reality of the quality. Would you agree with me that  
20 as an objective matter reducing the speed of delivery  
21 of the mail is a reduction in quality?

22 A As an objective matter, yes. It would be a  
23 reduction in service.

24 Q Okay. And the Postal Service in this case  
25 estimates that as a result of the service standard

1 changes that would slow the delivery of the mail that  
2 there would be a loss in total mail volume in the  
3 amount of 2.9 billion pieces of mail. Are you  
4 familiar with that testimony?

5 A I am familiar with that.

6 Q Okay. And the reason there would be that,  
7 the reason that postal customers would use \$2.9  
8 billion -- I'm sorry -- 2.9 billion pieces of mail  
9 less, if that's the correct number, as a result of  
10 this change in service standards is because the speed  
11 of the mail matters to them, correct?

12 A The speed to those consumers and businesses  
13 that said that they would reduce their volume, one  
14 would assume that the speed of the service, if that's  
15 the only thing they're considering, is important to  
16 them.

17 Q And in your quantitative market research  
18 that was what you asked them to consider, the change  
19 in the service standards, correct?

20 A Correct.

21 Q Okay. And so when they say that as a result  
22 of the change in the service standards there -- if you  
23 find as a result of the change in the service  
24 standards that there's going to be a loss of 2.9  
25 billion pieces of mail, one could conclude from that

1 estimate that postal customers care about the speed of  
2 delivery, correct?

3 A I would say that some of the postal  
4 customers care about the speed of the delivery. We  
5 also had a significant number that said "I would make  
6 no change," which would say that to that much larger  
7 segment of consumers and businesses the speed of  
8 service was not important to them.

9 Q Okay. And Dr. Crew says in his testimony,  
10 and I'm quoting from page 4, note 1 of Dr. Crew's  
11 testimony, "Speed of delivery is an important  
12 attribute of product quality." And in your  
13 surrebuttal testimony on page 2, line 11, you say,  
14 "Witness Crew provides no support for his opinion in  
15 the form of other research, peer-reviewed journal  
16 articles or anything of technical merit."

17 Do you see that testimony?

18 A Yes, I do.

19 Q Okay. Did you review Dr. Crew's responses  
20 to the Postal Service's interrogatories in this case?

21 A I did.

22 Q Let me refer you, and I'm going to refer you  
23 to some of those responses by Dr. Crew, and let me  
24 give you a copy. I'm going to hand you a copy of  
25 Volume 11 of the hearing in this case, which includes

1 Dr. Crew's responses to interrogatories that were put  
2 into the record. If you could turn to page 3578 of  
3 the transcript I just handed you.

4 A Okay.

5 Q And do you see it sets forth Dr. Crew's  
6 response to USPS Interrogatory USPS/NALC-T1-1?

7 A Uh-huh.

8 Q Okay. And in that response, Dr. Crew says  
9 in support of his opinion that speed of delivery is an  
10 important attribute of product quality, he says there  
11 is "a significant literature and regulatory economics"  
12 on that point. Did you review any of the literature  
13 and regulatory economics that Dr. Crew refers to?

14 A I did look at the two articles that he  
15 cited, which were his own articles.

16 Q Which articles are you referring to?

17 A In response to (a) there he had referenced  
18 two articles, one in the "Economic Journal" and then I  
19 tried to find the "Economics of the Postal Service".  
20 I was unable to find that particular one, but I did  
21 look at the "Economic Journal" article.

22 Q Okay. And was it your position that that  
23 article was lacking "in technical merit"?

24 A Well, it's typically uncommon to cite simply  
25 yourself as a support for something that you do

1 typically. If you want to provide support for an  
2 opinion, you look for maybe not only what you've done  
3 yourself but what other of your peers have published.

4 Q And so, well, my question was did you  
5 believe that the -- there are two sources cited. You  
6 said you read one and not the other.

7 A I was able to get access to the "Economic  
8 Journal".

9 Q Okay. And the one you read, was it your  
10 view that that lacked in technical merit?

11 A I can't say to that. I didn't spend a great  
12 deal of time with that particular article.

13 Q You didn't spend enough time to determine  
14 whether or not --

15 A To determine that, yes.

16 Q Let me just finish the question. You didn't  
17 spend enough time to determine whether or not it had  
18 technical merit?

19 A Well, as I say, I reviewed it. I didn't  
20 spend a lot of time with it because I don't believe  
21 that it's particularly valid or worthwhile to cite  
22 your own work as support of a finding.

23 Q Okay. In Dr. Crew's response to the  
24 interrogatory that I was just referring to, Dr. Crew  
25 also references the Royal Mail, and he says, "Royal

1 Mail has operated a two-tier pricing policy where  
2 First Class gets essentially next day delivery and  
3 Second Class is a day or two later. The price paid  
4 for First Class at 60 pence and 50 pence for Second  
5 Class reflects the fact that mailers value speed of  
6 delivery." Did you determine whether Dr. Crew's  
7 statement that there is this two-tier pricing policy  
8 in Royal Mail is accurate?

9 A I did not look into that, no.

10 Q Would you dispute that there is such a two-  
11 tier policy in the Royal Mail?

12 A I'm aware that there is a two-tier pricing  
13 policy there.

14 Q Okay. And do you agree that customers of  
15 Royal Mail who pay extra for First Class Mail do so  
16 because they value the speed of delivery?

17 A I don't have a foundation for saying that.  
18 I could certain say that people here, and I believe I  
19 found an article -- in fact, I don't believe, I know I  
20 found an article about that. I didn't cite it in here  
21 and I can't reference it off the top of my head, but I  
22 found one article that clearly showed that people are  
23 willing in the United States to pay for speed of  
24 service, which is why we have services such as FedEx,  
25 and they are willing to pay for Express Mail, they're

1 willing to pay for speed of service. But that doesn't  
2 seem applicable to First Class Mail here.

3 Q To send a hard copy letter by FedEx costs  
4 multiple times what it costs to send a hard copy  
5 letter by First Class Mail, correct?

6 A Correct.

7 Q Maybe 20 times more?

8 A I couldn't cite it. It depends on the  
9 volume discounting that you pay.

10 Q Okay, but it's multiple times?

11 A It's multiple times, yes.

12 Q Okay.

13 A That said, people pay more for Express Mail  
14 as well, which is not as much as Federal Express.

15 Q Well, would you agree with me that could be  
16 a situation where a person wants to send a hard copy  
17 letter and values the speed of the mail, but the value  
18 that the customer puts on the speed of the mail is not  
19 so much as to justify paying multiple times the price  
20 of first class postage to use FedEx? Do you agree  
21 with me that that situation could exist?

22 A I would agree with that, but there are also  
23 other products out there that can fulfill that need:  
24 Priority Mail, Express Mail. So by saying I'm going  
25 to use and not pay for those services, they're saying

1 that I don't want to pay for speed of service, and  
2 that's a perfectly logical argument.

3 Q That they don't want to pay as much as it  
4 costs for those alternative --

5 A Right, so in that situation --

6 Q Wait a minute, let me finish.

7 A -- they're saying that cost --

8 Q If I could just finish my question.

9 A -- is more important than speed.

10 Q We're talking over each other.

11 A I'm sorry.

12 Q It's going to be an unclear record, so I  
13 would just ask you to let me finish my question before  
14 you answer.

15 A Okay.

16 Q Thank you. You would agree with me that  
17 there are situations where a customer can value speed  
18 of delivery but not so much as to pay the much higher  
19 price of some alternative means of delivery.

20 A Well, every decision that people make is a  
21 tradeoff, and they make these tradeoffs. And I'm  
22 saying that in the sense of making the decision to  
23 send something by First Class Mail versus sending  
24 something by Priority Mail they're saying that with  
25 First Class Mail cost is more important than speed

1       whereas in the situation of Priority or Express Mail  
2       or Federal Express they're saying that speed is more  
3       important than price.

4               Q       I'd like to refer to something in the  
5       testimony of Witness Whiteman, and I'll hand you a  
6       copy of his testimony.

7               CHAIRMAN GOLDWAY:   Does the bench need to  
8       see this?

9               MR. DeCHIARA:   Madam Chairman, I do not have  
10       additional copies, but I will read out loud what I'm  
11       going to be referring to.

12              CHAIRMAN GOLDWAY:   Okay.

13              MR. HOLLIES:   Excuse me, Mr. DeChiara.  Is  
14       this the corrected version, the last version, or is  
15       this a particular version?

16              MR. DeCHIARA:   This is the version that was  
17       filed by the Postal Service on the docket.

18              MR. HOLLIES:   Okay.  So this has a docket  
19       stamp in the upper right-hand corner showing  
20       December 5.  So this is the version as it was filed  
21       with our case-in-chief.

22              MR. DeCHIARA:   Right.

23              MR. HOLLIES:   And not as it went into  
24       evidence.  There were multiple errata.

25              MR. DeCHIARA:   Uh-huh.

1 MR. HOLLIES: I'm just trying to clarify for  
2 the record that you're working with the original.

3 MR. DeCHIARA: Right. No, it doesn't. I  
4 don't believe it has the errata.

5 MR. HOLLIES: Thank you.

6 MR. DeCHIARA: But I don't believe the  
7 errata will make any difference. If you think  
8 otherwise, please let me know.

9 BY MR. DeCHIARA:

10 Q If I can turn your attention to page 15 of  
11 Witness Whiteman's testimony, which is USPS-T-12, and  
12 let me read, I'll quote line 7, it says, "Overall, key  
13 reactions to the proposed changes among large mailers  
14 include", and then there are a series of bullet  
15 points. I'm going to read the last sentence under the  
16 third bullet point. It says, "However, it would  
17 increase pressure to divert First Class Mail billings  
18 and payments to the internet." Do you see that?

19 A Which line were you reading? I'm sorry.

20 Q I was reading the second sentence of the  
21 third bullet.

22 A Okay, here we go. Okay. I see that, yes.

23 Q And the change in service standards here,  
24 that are being contemplated here would, according to  
25 Witness Whiteman, increase pressure on large mailers

1 to divert billings and payments to the internet  
2 because those large mailers care about the speed of  
3 delivery of mail, correct?

4 A Well, I will say that it is correct that  
5 some, as I stated before, that some consumers and  
6 businesses feel that speed is important, and I also  
7 said in my own surrebuttal testimony that if speed is  
8 what they want, they will go to the internet or some  
9 other source, not necessarily to First Class Mail, and  
10 I also stated in my surrebuttal testimony that people  
11 that are using First Class Mail are doing it because  
12 they're more interested in the paper, whether it be a  
13 thank you note to your grandmother or I'd like to make  
14 sure that I have a paper copy of what's moving than it  
15 is for speed.

16 And I think the whole notion of where the  
17 First Class Mail service and the Postal Mail service  
18 has gone has been a large function of the internet, so  
19 the statement here by Witness Whiteman and also what I  
20 made is very consistent, that if you want speed there  
21 are certainly other alternatives than First Class Mail  
22 and that people aren't using First Class Mail for  
23 speed.

24 Q Dr. Crew testified, "I'm not convinced that  
25 the concept of probability is well understood by most

1 survey respondents." And at page 10, line 4 of your  
2 surrebuttal testimony you said that statement by Dr.  
3 Crew was unsubstantiated.

4 A Yes.

5 Q Let me now refer you to another one of Dr.  
6 Crew's responses to Postal Service interrogatories.  
7 This is to Interrogatory USPS/NALC-T1-7. It appears  
8 on page 3585 of Volume 11 of the record.

9 A I'm there.

10 Q If you look in subsection (a) of Dr. Crew's  
11 response to that interrogatory, he states, "I do know  
12 that the risk associated with various hazards is  
13 imperfectly perceived by individuals." And he cites a  
14 book. Did you review that book?

15 A The book is 387 pages long. If he'd pointed  
16 me to a page or a page or two or even a chapter, I  
17 would have read the chapter, but I did pull up the  
18 book. It's available online, and I looked at it, and  
19 I said it would be like finding a needle in a  
20 haystack. It's typically common practice to cite with  
21 a page number.

22 Q And in your surrebuttal testimony you cite  
23 to a National Science Foundation study or series of  
24 studies. This is on page 11 of your surrebuttal.  
25 It's actually page 10 and 11.

1           A     Correct.

2           Q     Do you recall that in your surrebuttal  
3 testimony?

4           A     Uh-huh.

5           Q     Okay. And at the top of page 11, line 3,  
6 you say, "Over the years two out of three respondents  
7 answered both questions correctly, illustrating that  
8 the majority of survey respondents do indeed  
9 understand the concept of probability."

10                    So, if two out of three respondents  
11 understand the concept of probability, one out of  
12 three does not, correct?

13           A     I wouldn't go that far. According to this  
14 definition of understanding of probability, which I  
15 think is a very difficult set of questions, I'm not  
16 sure if we asked the people in the room on the fly to  
17 answer those two questions correctly what we would  
18 get, but they are very difficult questions. And so it  
19 would say that if two out of three understand those  
20 two complex questions and put them together, then a  
21 much higher percentage of people would understand a  
22 more simple scale such as the scale that we used to  
23 measure likelihood of change. I also cited other  
24 articles that clearly show that people do understand  
25 probability and risk.

1           Q     Well, your statement that I quoted is that  
2     two out of three respondents understand the concept of  
3     probability, correct?

4           A     In this particular example that is correct,  
5     but as I said a little bit further on under lines 9  
6     through -- excuse me -- 13 is that I also said that  
7     who we surveyed that this study also shows that the  
8     better educated consumers, people that the National  
9     Science Foundation interviewed, actually scored  
10    significantly higher than the average and that the  
11    people that we surveyed for the Postal Service being  
12    largely businesses, we can assume that they're better  
13    educated, more knowledgeable, and they certainly know  
14    their business. So we would assume that they would  
15    understand probability in a better way.

16          Q     I'd like to now discuss the probability of  
17    change factor that was applied to respondents'  
18    estimates in your quantitative market research.

19          A     Uh-huh.

20          Q     On page 16 of your surrebuttal testimony,  
21    line 8, you say, "First, we would like to clarify that  
22    multiplying respondents' stated likelihood of making a  
23    change by the estimated change in volume is not an  
24    'adjustment'." And "adjustment" is in quotes. Can  
25    you explain why it's wrong to call that an adjustment?

1           A     Because it's really a weight, so we're  
2     providing -- an adjustment implies, one, that it's  
3     done at the aggregate level and that at the end of the  
4     day we say, oh, we're just going to put a multiplier  
5     instead, which is oftentimes done in forecasting.

6                     So if I went out and I had a new product and  
7     I asked people, you know, what's your volume going to  
8     be, okay, and I didn't ask a probability scale such as  
9     we did, people would go out and they'd say, well, you  
10    know, I'm going to buy 10 new computers. And so a  
11    company would say -- the person making the computers  
12    would multiply 10 times the number of companies out  
13    there that exists that were in the target market and  
14    they would come up with a number. Let's just say it's  
15    100,000.

16                    No business ever says I'm going to sell  
17    100,000 computers off that. What they typically do,  
18    as I stated, they either apply a multiplier, an  
19    adjustment against it that is based upon their  
20    historical data, or in some cases they just use their  
21    best guess. That's an adjustment. It's done after  
22    the fact in an aggregate level.

23                    This isn't an adjustment. It's a weight and  
24    it's applied at the individual level, and it's their  
25    self-reported likelihood of changing, so it's not like

1 some number we picked and just applied at the  
2 aggregate level after the fact. It was done at the  
3 individual respondent level.

4 Q If it's not an adjustment, how come in your  
5 initial testimony in this case you refer to it as an  
6 adjustment?

7 A Well, I actually searched back through to  
8 see if I actually used that word, and if I used that  
9 word, it was used too loosely, and part of this was to  
10 clarify that indeed this is a weight applied at the  
11 individual respondent level.

12 Q Well, let me refer you, for example, to your  
13 initial testimony page 49, Figure 41. Do you have  
14 that there?

15 A I'm looking. Which page was that? Forty-  
16 nine?

17 Q Forty-nine.

18 A That is correct.

19 Q And you see that in that figure there is the  
20 column that has the probability of change scale, the  
21 fourth column.

22 A Uh-huh.

23 Q And then in the last column it says  
24 "adjusted volume". Do you see that?

25 A Correct.

1           Q     Okay.  Also let me ask you to look at  
2     Witness Whiteman's testimony, which I handed you a bit  
3     earlier, and let me refer you to page 19, line 11  
4     where Witness Whiteman states, "Each respondent's  
5     reported volume change per product was adjusted by the  
6     likelihood of change measure zero to 10 scale."

7                     When did you decide to abandon the use of  
8     the term "adjustment"?

9           A     Well, in my testimony the probability of  
10    change is not referred to as an adjustment.  I'm  
11    saying that at the end of the day the volume was  
12    adjusted, and that's a term, I'll be honest, that got  
13    carried forward from the five-day delivery and which I  
14    did not in the five-day actually create this  
15    particular table as an example.

16          Q     Well, was it incorrect for Witness Whiteman  
17    to use the word "adjusted" in his testimony?

18          A     I would say it's technically incorrect, and  
19    I did say that in the surrebuttal I wanted to clarify  
20    that it is not an adjustment which implies something  
21    that occurs at the aggregate level, that instead it is  
22    a weight and it more is, you know, a clarification so  
23    that we can all be very, very clear on what the  
24    procedures were that we used.

25                     So, you know, unfortunately in the previous

1       writings we used the word "adjustment" and it was used  
2       a little loosely, and I'm simply stating at this  
3       point, you know, if we want to be technically  
4       accurate, let's call it what it is and it's really a  
5       weight that's applied at the individual level.

6             Q       Now, in a poll of voters, when a voter says  
7       that she is going to vote for candidate A, there is  
8       the chance she may not vote for candidate A, correct?

9             A       That is correct.

10            Q       And so you state that in that case it's  
11       appropriate to apply a weight to discount or to take  
12       into account the possibility that the voter might not  
13       in fact vote for candidate A, correct?

14            A       No. The weight that's applied is a weight  
15       that they might not vote at all.

16            Q       Right.

17            A       It's a weight on the likelihood of voting.

18            Q       Okay. Well, not voting at all includes not  
19       voting for candidate A, correct?

20            A       No. You're implying by not voting for  
21       candidate A, you're suggesting that they might vote  
22       for candidate B, which is not what I'm saying. Your  
23       initial question said, well, they might not vote for  
24       candidate A, which implies there's two options that  
25       could occur. They may vote for candidate B or they

1 may not vote at all. So I'm stating that what we're  
2 doing in a voting study is to say we aren't saying --  
3 because there is error around whether she's going to  
4 vote for candidate A or not. We're just simply saying  
5 that we're adjusting the percentage of people, the  
6 estimate of the percentage of people that have said  
7 that they're going to vote for candidate A by their  
8 probability of voting. Am I clear on the difference  
9 there?

10 Q In response to interrogatories that were  
11 propounded by the NALC in this case you provided  
12 certain confidence intervals for certain customer  
13 segments. Do you recall that?

14 A Yes.

15 Q And those confidence intervals were based on  
16 a normal distribution, correct?

17 A That is correct.

18 Q And now you acknowledge that it was  
19 incorrect to use a normal distribution. Am I right?

20 A I'm going to say it's technically incorrect.  
21 I'll also say in the field of market research using  
22 the classic confidence interval even in a non-normally  
23 distributed scale is done all of the time.

24 Q Well, let me refer you to page 30 of your  
25 surrebuttal testimony, line 5. Actually I'll read the

1 entire sentence which begins on line 4. It says,  
2 "This approach assumes that the distribution of error  
3 around the estimate is normally distributed, which we  
4 acknowledge is not correct."

5 So my question is simply do you now  
6 acknowledge that the confidence intervals you provided  
7 in response to the NALC interrogatories, which were  
8 based on a normal distribution, were incorrect?

9 A Well, first, let's go -- I would like to go  
10 back to the five-day because in the five --

11 Q I'd just like you to answer my question.

12 A Well, I'm trying to.

13 Q Were they correct or not correct?

14 A They were according to industry standards in  
15 common practice correct.

16 Q So why do you say here that you acknowledge  
17 that they were not correct?

18 A I'm saying technically there are other ways,  
19 more complicated ways to deal with the fact that it's  
20 a non-normal distribution, and I also stated that we  
21 actually did do additional analysis with the  
22 understanding that yes, and the non-normal  
23 distribution occurs because so many people, the  
24 greatest percentage of respondents said zero, so that  
25 creates the non-normal distribution. It's not like

1 it's skewed. It's just that it's all sitting there  
2 over a single point.

3 Q Ms. Elmore-Yalch, I'm a little confused.  
4 Your testimony says in regard to the normal  
5 distribution "we acknowledge as not correct." Are you  
6 changing your testimony?

7 A We are saying --

8 Q Are you changing your testimony?

9 A No. I am saying, as I said in the five-day,  
10 we acknowledge that the distribution was not normally  
11 distributed, I'm saying here it is not normal  
12 distributed. In both the five-day and in here with  
13 the request to provide confidence intervals we used  
14 the standard classical confidence interval  
15 calculation, which is used all of the time in the  
16 industry whether the data is normal distributed or  
17 not. Now, as I said, there's other ways to do it that  
18 go above and beyond using the standard classic  
19 interval calculation, but it's not typically done.  
20 Instead we used the classic.

21 Q The classic being normal?

22 A Well, the classic does assume a normal  
23 distribution, correct.

24 Q Have you since recalculated the confidence  
25 intervals in a way other than the way you did it the

1 first time? In other words, in a way other than with  
2 the normal distribution.

3 A No, we did not recalculate the confidence  
4 intervals. Instead we did a series of tests to  
5 determine whether or not since so much is around zero  
6 and at the request of the Chair, we went through this  
7 additional analysis using regression analysis to  
8 determine whether or not the differences are  
9 statistically significant from zero.

10 Q Okay, but I just want to make sure I  
11 understand the state of the record. Your testimony  
12 states that the confidence intervals with the normal  
13 distribution is not correct and that you have not  
14 since provided confidence intervals in any other way  
15 than you did.

16 A No, I'm saying that using --

17 Q Is that correct?

18 A No. By using the additional analysis that  
19 we provided using the regression and wall test we have  
20 in essence provided a confidence interval that states  
21 whether or not these numbers are statistically  
22 different from zero. I also point out in my  
23 surrebuttal testimony that if we wanted to recompute  
24 the confidence intervals that are recognized that it  
25 is not normal distributed we have citations that show

1 that all we would simply do is truncate that upper  
2 confidence level at zero.

3 Q Now the testimony by Witness Whiteman at  
4 page 7 estimates that there would be a change of  
5 negative 1.7 in total mail volume as a result of the  
6 service standard changes in this case. Are you  
7 familiar with that negative 1.7 number?

8 A I am.

9 Q Okay. And that number is derived from the  
10 responses that you obtained from respondents in your  
11 quantitative market research, correct?

12 A Correct. We provided him with a series of  
13 estimates of volume change that he -- percentage  
14 volume change that he then applied through a fairly  
15 complex process to come up with a single point  
16 estimate overall.

17 Q Now some of the respondents said that as a  
18 result of the proposed service standard changes their  
19 mail use would actually go up, correct?

20 A Some did, yes.

21 Q Okay. If we took the responses of the  
22 people who said or the people or businesses who said  
23 their mail use would go up, if we eliminated those  
24 responses, would the negative 1.7 percent become an  
25 even bigger negative number?

1           A     I would have no way of computing that and I  
2 would strongly argue that there is no legitimate  
3 reason to do that, and in fact I would find it in  
4 violation of just about everything I've ever read in  
5 terms of doing market research to just arbitrarily  
6 censor data at that level.

7           Q     Well, I'm just asking you as a matter of  
8 mathematics, putting aside whether it would be an  
9 appropriate thing to do or not, if you just took out  
10 those responses, do you know how that would change the  
11 estimate of change in mail volume?

12          A     Well, I can mathematically assume that the  
13 percentage change would be somewhat higher than that  
14 single point estimate, but not knowing at the  
15 individual level who we're in essence eliminating,  
16 arbitrarily eliminating, I don't know whether that  
17 number would be 1.72 or 1.76 or any number. I have no  
18 way of knowing that.

19          Q     And I'm not asking you to try to --

20          A     Okay.

21          Q     -- attempt to make a calculation, but just  
22 directionally --

23          A     It would directionally go more negative.

24          Q     It would go more negative.

25          A     But I would just say there is just no

1 justification in my mind for eliminating, just  
2 arbitrarily saying we shouldn't include these people  
3 based upon some preconceived notion.

4 Q Okay. Well, let's talk about that. So can  
5 you explain to us why if the sole change is a change  
6 in service standards that makes the mail go slower,  
7 why that would increase -- that would make a postal  
8 customer increase their use of mail?

9 A Well, I think we have some comments from  
10 respondents in the focus group interviews that we did  
11 for this particular research that clearly shows that  
12 many people didn't know that the service standards  
13 were in essence as good as they are and so they said,  
14 oh, well, if they are going to hit those service  
15 standards, I will use the Postal Service more.

16 I think there's also potentially some people  
17 saying, well, if they do this right and reliability  
18 improves, I'll be more likely to use it, and, you  
19 know, potentially some people wanted to increase their  
20 volume simply to save the Postal Service. You know,  
21 those are just my sense of having done all these  
22 qualitative interviews as well as doing that, there is  
23 some people that indicated, not a lot, but indicated  
24 they would change their volume in the other direction,  
25 which is why we didn't see any justification, as I

1 rarely would, to in essence censor, arbitrarily censor  
2 data at this level.

3 Q Let me refer to your testimony because I  
4 want to talk about this reliability issue. You state  
5 on page 9, line 8 of your surrebuttal testimony, and  
6 I'm quoting part of the sentence. Feel free to read  
7 the entire sentence, but I just want to focus on the  
8 words "a more efficient network usually generates  
9 greater reliability." Do you see that?

10 A Uh-huh.

11 Q And I don't see any citation to anything in  
12 support of that statement. Is that your personal  
13 opinion, that "a more efficient network usually  
14 generates greater reliability"?

15 A I did not cite anything, but I could  
16 certainly find if I were to go out and look and based  
17 upon experience know that improvements to throughput  
18 or a better network will increase reliability.

19 Q And are you an expert in postal operations?

20 A I am not.

21 Q Are you testifying here today as an expert  
22 in postal operations?

23 A I am not.

24 Q And you haven't researched this. You  
25 haven't done any research to support this statement,

1 correct?

2 A I believe my statement was more general in  
3 the sense in general an increase -- an improvement to  
4 a network would result in greater reliability.

5 Q Well, is it your belief that in this case  
6 that the changes that are being proposed by the Postal  
7 Service will create greater reliability?

8 A I'm not saying that. I would hope it would,  
9 and I've been told, you know, that it should. I have  
10 no expertise to say whether I know that or not. I do  
11 know though that other industries, other businesses  
12 that have improved their system have greater  
13 reliability, and I'll refer to Dr. Boatwright's  
14 testimony in five-day relative to UPS changing its  
15 network and how it actually literally drives its  
16 trucks increases their reliability. So generally an  
17 improvement to how you operate and run your business  
18 should improve service.

19 Q Do you have a basis based on your expertise  
20 of testifying here today that the changes that the  
21 Postal Service is proposing in this case would  
22 increase the reliability of the mail?

23 A I do not have the expertise to state that.

24 Q Okay. What do you mean by "reliability"?

25 A I'm sorry?

1 Q What do you mean by the term "reliability"?

2 A On-time performance and that I can count on  
3 it to get there when they say it's going to get there.

4 Q Do you know how reliable First Class Mail is  
5 now?

6 A I understand that they track it. I've  
7 looked at the standards. I can't put exactly the  
8 number. I think I heard in this morning's testimony  
9 it's somewhere around 93 percent, but it's somewhere,  
10 you know.

11 Q Do you have any idea if the changes proposed  
12 by the Postal Service in this case were implemented  
13 how much reliability might increase for First Class  
14 Mail?

15 MR. HOLLIES: Objection. Asked and  
16 answered. This has been covered several times. She  
17 said she's not an expert in the mail processing  
18 system, and getting her to say that a third time is  
19 not going to add anything to the record.

20 MR. DeCHIARA: My question now is whether or  
21 not she knows -- there's testimony in this surrebuttal  
22 by Ms. Elmore-Yalch that a more efficient network  
23 usually generates greater reliability, and then lower  
24 down on the same page, page 9, line 21, "MP&R heralds  
25 a service quality improvement," and then on page 26

1 Ms. Elmore-Yalch states that -- refers to "an  
2 understanding that the changes proposed would improve  
3 the reliability of mail delivery." On page 27, line  
4 7, she talks about the "perception that a more  
5 efficient network could increase service reliability."  
6 All through this surrebuttal testimony shot through  
7 with this notion that we're going to have more  
8 reliable mail, and I'd like to have the leeway to  
9 explore with this witness the basis for those  
10 statements.

11 CHAIRMAN GOLDWAY: I think they are  
12 legitimate questions. Go ahead.

13 THE WITNESS: So you'll have to repeat the  
14 previous question since I've lost it at this point.

15 MR. DeCHIARA: Sure.

16 BY MR. DeCHIARA:

17 Q Do you have any understanding or view as to  
18 how much the proposed changes in this case would, if  
19 at all, improve reliability of First Class Mail?

20 A All I can say is that I have been told, I  
21 don't have numbers, that one of the goals of network  
22 rationalization is to improve the level and quality of  
23 service that's performed, and one would hope, you  
24 know, as just anyone that cares that the Postal  
25 Service is committed to customer service that anything

1 that they would do would ideally improve the  
2 reliability of service. I would hope they wouldn't be  
3 going the other direction in this.

4 Q Okay. I would just ask you to answer my  
5 question. I understand someone told you that the goal  
6 was to increase reliability. My question is do you  
7 know now --

8 A I do not know what the percentage increase  
9 would be or if any.

10 Q The increase in reliability?

11 A Correct.

12 Q Okay. Do you have any view about how much  
13 of an increase it would take for customers -- well,  
14 let me step back. Do you agree with Witness Whiteman  
15 that postal customers are very satisfied with the  
16 level, the current level of reliability of First Class  
17 Mail?

18 A Well, I would say that they are generally  
19 satisfied with it. I've not seen all of the Postal  
20 Service research in terms of their customer service  
21 research, but I know that they consistently do it and  
22 monitor. I know that, and I cited the American  
23 Consumer Satisfaction Index indicates that customer  
24 satisfaction has improved, so one would assume that  
25 they are making service improvements to lead to

1 increase in customer satisfaction.

2 Q Let me refer to -- I just want to focus my  
3 question. Let me refer to Witness Whiteman's  
4 testimony at the bottom of page 4, line 22 to 23. He  
5 says, "They also expect" -- I'm sorry, let me start  
6 with the next sentence, "Overall, First Class Mail as  
7 the basic service and current performance is highly  
8 satisfactory." So my question is, assuming that  
9 postal customers are currently very satisfied with the  
10 level of reliability of the mail, do you have a view  
11 as to how much of an improvement it would take for the  
12 customers to even notice?

13 A I don't, but if they're already highly  
14 satisfied, an improvement might not make that much  
15 difference in reliability. I mean, improvement in  
16 reliability might not make that much difference in  
17 levels of satisfaction.

18 Q Right.

19 A No.

20 Q Exactly.

21 A Okay.

22 Q And do you have a view as to how much of an  
23 increase in reliability it would take to make  
24 customers use the mail more?

25 A I do not. I mean, that's not the purpose of

1 the research that has been done.

2 Q Okay. Now we've explored I believe your  
3 knowledge and your expertise regarding whether there  
4 might be an objective improvement in reliability of  
5 First Class Mail as a result of the changes proposed  
6 by the Postal Service here. I'd like to now talk  
7 about the perceptions of reliability by customers.

8 Is it your view that the respondents in your  
9 survey thought that the change in service standards  
10 would improve reliability?

11 A That I think more, and I would have to  
12 search the quotes and so I'm doing this somewhat from  
13 memory, is that more people said, well, if they make  
14 these changes and it becomes more reliable, I will be  
15 happier, more satisfied.

16 Q Did you or ORC tell respondents that when  
17 you were doing this survey that the mail would become  
18 more reliable?

19 A We did not to the best of my memory.

20 Q Then on page 27 --

21 A Of?

22 Q Of your surrebuttal testimony.

23 A Thank you.

24 Q You have a sentence which frankly I'm not  
25 sure I'm following it. It begins on line 3. It says,

1 "Comments from the qualitative research suggests that  
2 the proposed service level -- the proposed service  
3 levels proposed via network rationalization for some  
4 participants constituted improvement over current  
5 expectations for transit time, which would connote a  
6 performance improvement, with a potentially  
7 synergistic perception that a more efficient network  
8 could increase service reliability," and it goes on.

9 I won't read more of the sentence, but I  
10 want to focus on the "current expectations of  
11 transit," the notion that the service levels proposed  
12 would constitute an improvement over current  
13 expectations for transit time. What does that mean?

14 A Well, in the qualitative research we asked  
15 the participants what were their current perceptions  
16 of how long the transit time was in their local area  
17 to several different areas, and in general their  
18 transit times, their expected transit times were  
19 longer than the current service standards. They  
20 typically gave a range of days, but in just about all  
21 across the board in every group a large number of them  
22 thought that the standards were significantly longer  
23 than the actual standards. So that's what is behind  
24 the statement that their perceptions of service are  
25 outside of the current standards. So, if the

1 standards were actually met or their perceptions of  
2 what's good service, and they said, you know, this is  
3 fine with me, that this would actually be an  
4 improvement in service. I mean, they were talking  
5 about seven to 10 days was their expectation for  
6 transit time versus three to five or one to three.  
7 Excuse me.

8 CHAIRMAN GOLDWAY: But if they didn't know  
9 what it was before, why would they know what it is as  
10 it's changed to make --

11 THE WITNESS: Well, as I point out in my  
12 surrebuttal testimony -- I'm sorry.

13 CHAIRMAN GOLDWAY: -- a change themselves?

14 THE WITNESS: Well, as I pointed out, I  
15 would assume that the Postal Service would communicate  
16 to customers, businesses and consumers if they were to  
17 do this that, you know, these are the standards. And  
18 since people already have in their mind a different  
19 set of standards which are actually longer than the  
20 proposed new standards they would --

21 CHAIRMAN GOLDWAY: Why would you assume that  
22 the communication to customers would be better than  
23 what the Postal Service is doing now if they don't  
24 know what the current standards are?

25 THE WITNESS: I believe because the Postal

1 Service has not, and the focus group participants  
2 indicated, they said, well, they should communicate  
3 what the service standards are. I mean, they  
4 literally said we didn't know these were the  
5 standards, they should communicate what the standards  
6 are if these are the standards.

7 BY MR. DeCHIARA:

8 Q Do you have any knowledge of whether the  
9 Postal Service is going to do that, better communicate  
10 its service standards than it has in the past decades?

11 A I don't have any knowledge of what they're  
12 going to do, but I would assume. They're a business.  
13 It's been recommended. I've suggested, you know, that  
14 they would communicate. Any business would  
15 communicate that I would assume.

16 Q But they haven't to date done a good job of  
17 communicating that. Is that your understanding?

18 A From the perceptions of the focus group  
19 participants, that's the perception is that they have  
20 not communicated what their existing service standards  
21 are.

22 Q But you think that going forward somehow  
23 that's going to change?

24 A You know, based upon this research, if they  
25 use this research for anything else, one would hope

1 the marketing department would take notice.

2 MR. DeCHIARA: I have nothing further.

3 CHAIRMAN GOLDWAY: Thank you, Mr. DeChiara.

4 I'm trying to estimate when we might want to  
5 break for lunch. We have questions from the Public  
6 Representative?

7 MR. LAVER: Yes, Madam Chairman.

8 CHAIRMAN GOLDWAY: And how long do you think  
9 your questions are going to be?

10 MR. LAVER: Between 20 and 25 minutes.

11 CHAIRMAN GOLDWAY: And then I know we have  
12 questions from the bench as well. Let's break for  
13 lunch now, and then we'll come back and conclude in  
14 the afternoon. We'll have an hour's lunch and come  
15 back at 1:15. Thank you all for your patience and  
16 hanging in there.

17 (Whereupon, at 12:16 p.m., the hearing in  
18 the above-entitled matter was recessed, to reconvene  
19 at 1:15 p.m. this same day, Thursday, June 28, 2012.)

20 //

21 //

22 //

23 //

24 //

25 //



1 the Service change?

2 A Well, generally when you're forecasting  
3 forward either for a new product for which there's no  
4 historical data or for an existing product where the  
5 historical data is not relevant or is not readily  
6 available, asking a respondent to do anything more  
7 than a single year's time, the validity and  
8 reliability of the data is going to be -- because  
9 there's other factors that they start to consider, so  
10 by having them focus on a single point in time,  
11 anchoring it with numbers that they've already given  
12 us makes for a solid comparison.

13 So it would be pretty unreliable to go ask a  
14 survey respondent and say well, what are you going to  
15 do in five years. Most of them will say I have no  
16 clue.

17 Q Okay. And I would assume then that there's  
18 studies, there's literature out there that supports  
19 that notion that it's less accurate to do longer  
20 periods of time and such?

21 A Yes. Yes. I mean, one would assume, you  
22 know, that the volume change would continue, if not do  
23 something different going forward. This would not  
24 happen at a single point in time. I mean, I'm going  
25 to change my behavior one year and not some other

1 years, but it's most reliable to focus on a single  
2 point in time.

3 Q Now, on page 32 in line 9 to 11, you state  
4 that the Postal Service and ORC worked collaboratively  
5 through the design process to consider alternatives to  
6 the survey that ended up being the quantitative market  
7 research.

8 A Uh-huh.

9 Q Could you describe if there were any  
10 alternative approaches that were considered?

11 A No, we did not consider alternative -- well,  
12 I guess actually I'm going to back up here. What do  
13 you mean by "alternative approaches"?

14 Q Either other types of market research or  
15 other types of surveys.

16 A We did discuss and we always look at and I  
17 always look at when we design something are there  
18 alternative methodologies that could improve or be  
19 better than what's been proposed. In this case, we  
20 looked more at what can we do to improve the current  
21 methodology because we did feel it was a solid and  
22 best methodology for this given what the objective  
23 was, but we always look. That's part of our job in  
24 learning from what we've done before.

25 Q So I'm going to jump one page forward to

1 page 33 and lines 8 to 10, and that's where you state  
2 that "I provided a sample of research that clearly  
3 showed the benefits of market research to predict  
4 behavior in response to a decrease in the level of  
5 service provided." And the article you reference  
6 there concludes that a statement that a respondent  
7 intends to do something, and the example they gave is  
8 quit fishing, is not a perfect predictor of that  
9 respondents' behavior.

10 Now the solely attributable factor you used  
11 in the quantitative market research, was that used to  
12 try to remedy this imperfection?

13 A I'm sorry. You'll have to --

14 Q It might be better if I back up and --

15 A Right.

16 Q -- ask it a little more generally.

17 So the article that you cited concludes that  
18 basically stated behavior is not a perfect predictor  
19 for what the real behavior will be for a respondent.  
20 And now, applying that to what you did in the  
21 quantitative market research, would you say that the  
22 solely attributable factor, that second probability  
23 factor that you used at the end of the research, would  
24 you say that was in an attempt to remedy this  
25 discrepancy between stated behavior and actual action?

1           A     Yes. I would say that that's a good  
2     assessment of it, and I'll go back to something I  
3     previously said today and also had in my testimony,  
4     that if we, you know, go out there and we ask people,  
5     you know, how many apples -- I'll use apples this  
6     time -- are you going to buy in the next 12 months and  
7     they say 12 and we project that across -- I work for  
8     the apple commission now -- and we project that out to  
9     all the consumers of apples in the world or in the  
10    United States, depending on what your population is,  
11    we know if we look back in history, we know that their  
12    stated, a respondent's stated prediction of actually  
13    buying exactly 12 apples is not going to happen.  
14    They're going to buy maybe more, maybe less, and we  
15    have the error around the 12 apple sorts of things.

16                 But we also know and typically in  
17    forecasting, you know, there is a weight that is  
18    applied. Like I said, it could be a historical weight  
19    based upon what's happened before when you estimate  
20    how many apples people are going to buy or, in many  
21    cases, you know, it used to be people would say, well,  
22    what percent are really going to do it, and people  
23    would throw out numbers like 10 percent just because  
24    we know it's not going to be 100 percent.

25                 So we think that applying this weight based

1 upon people's stated probability of how likely they  
2 feel they are -- and we ask that first, by the way,  
3 not last -- what their stated probability is of  
4 changing one or more behaviors is a very effective way  
5 of weighting their volume estimates.

6 Q I would like to clarify one thing you said  
7 there. You said you asked the likelihood factor at  
8 the beginning of the survey?

9 A Well, no. We asked before we asked for what  
10 their volume would be, so we ask them what's your 2012  
11 volume going to be. We read the no-concept statement,  
12 then we asked them, based upon what we just told you,  
13 what is your likelihood of changing the volume of mail  
14 you would send. Subsequent question, what's the  
15 likelihood that you would change the way in which you  
16 sent your mail. So that was asked before we then got  
17 into the volume questions. I just want to make that  
18 real clear.

19 Q And to be completely clear, though, because  
20 actually that is one probability factor or weight as  
21 you call it, but there's also a second probability  
22 factor or weight which is the solely attributable  
23 factor.

24 A Correct. Okay. Yes.

25 Q And that was also before the volume

1 estimates?

2 A No. That was done -- because what we did  
3 then is we compared -- we actually did a computation  
4 on the fly at the respondent level for each of the  
5 applications. If they had a difference, whether it  
6 was an increase or a decrease in their volume, we said  
7 what percent of that increase or decrease is solely  
8 attributable to the change in first-class mail. So  
9 that was done latter, but the major factor was done up  
10 front.

11 Q You had a likelihood factor up front as one  
12 weight, and then you weighted it a second time with  
13 the solely attributable factor at the end of the  
14 survey or toward the end of the survey?

15 A Well, the questions were asked in that  
16 order, yes, right.

17 Q Okay. And we'll get --

18 A But we didn't apply the weight until we met.

19 Q I'll abandon this for a moment. We'll get  
20 back to the attributable factor in just a moment, but  
21 we'll dangerously wade back into the realm of  
22 economics again. You touched a little bit on this  
23 with Mr. DeChiara, and so I can briefly get through  
24 this. You testified earlier that you are generally  
25 aware of how the Postal Service reports its on-time

1 performance?

2 A Yes. I've gone to the website and looked at  
3 the reporting that they do.

4 Q So you're generally aware that they achieve  
5 something like 90 percent on-time for first-class  
6 overnight?

7 A Yes.

8 Q Okay. And you touched on this a little bit  
9 again with counsel, but within economic theory, you  
10 agree with Dr. Crew that as the quality-adjusted price  
11 of a good or service increases, that as a general  
12 principal, the demand will decrease?

13 A I would say that as a generally accepted  
14 principal, it will either stay the same assuming that  
15 the price was not too high to begin with or will  
16 decrease.

17 Q By not too high to begin with -- so if we're  
18 talking about an incremental change --

19 A Right.

20 Q -- in the quality-adjusted price, there  
21 would be an incremental decrease --

22 A Right.

23 Q -- so if there was a big change in quality-  
24 adjusted price, there might be a big change in  
25 quantity?

1 A Right.

2 Q If it's a small, it might be small.

3 A Or if the consumer perception that the price  
4 wasn't too high to begin with, it may not have an  
5 impact. So, I mean, let's just take a fare increase  
6 on a transit system say. So, you know, if your fare  
7 is \$1 and people think that's cheap and you raise it  
8 to \$1.25, it may have no impact on behavior.

9 Q Well, this may segue well into the next  
10 discussion here. In an economic sense, are you aware  
11 of the concept of substitutes?

12 A Yes.

13 Q Okay. So how would you define a substitute  
14 in an economic sense?

15 A Well, I may not define this exactly as an  
16 economist would do it because I'm not an economist and  
17 it's been a long time since I took a class in  
18 economics, but I would assume that, you know, if there  
19 is a substitute product out there and the price  
20 increased for what I was currently using and there was  
21 an alternative out there that was either a better  
22 product or a lower price or somewhat comparable, I  
23 have the option to substitute and change my behavior.  
24 That's kind of more of a marketing thing, but I  
25 believe it's comparable to what an economist would

1 believe.

2 Q I think that's pretty close. Now, based on  
3 your understanding of substitutes, do you believe that  
4 first-class mail has substitutes?

5 A Again, from a marketing perspective, I would  
6 say obviously. The internet is a substitute  
7 alternative. Mail servers are a substitute. Federal  
8 Express and UPS is a substitute, although not a very  
9 logical one given the price difference.

10 Q I'm treading in dangerous water. I believe  
11 that's called an imperfect substitute when it's  
12 something that's not too close but still in the realm.

13 A Okay, that, I'll take your word on that.

14 Q A perfect substitute would be something that  
15 would be completely substitutable without even  
16 noticing the difference. Does that jibe with your  
17 understanding, or is that pushing a little bit too  
18 far?

19 A I think you're pushing me. I'm going to  
20 speak as a marketer, not as an economist, so, sorry.

21 Q That's fine. Now, based on your  
22 understanding of substitutes, if the relative price of  
23 one good goes up, everything else being equal, what  
24 happens to the quantity demanded of the substitute?

25 A Well, I would say that the product where the

1 price went up, the volume would go down, and the  
2 product of the perfect substitute would go up.

3 Q That's the same as my understanding as well.  
4 So jumping back a little bit here to the surveys, did  
5 any of the survey -- and I'm talking about the  
6 quantitative market research here, not the focus  
7 groups. Did any of the questions or introduction to  
8 those questions deal with or give the respondents any  
9 sort of idea that service quality would be more  
10 reliable or would be better under the new system?

11 A No.

12 Q So is it fair to characterize your  
13 conclusion, and I'm talking about on page 9 of your  
14 testimony here, that customers taking -- the customers  
15 that completed these surveys inferred that a slowdown  
16 in speed of delivery would increase reliability and  
17 therefore they would increase their volume?

18 A I don't believe I said that. I think I said  
19 that based upon what we heard from the qualitative  
20 research, we could assume that at least some  
21 respondents, consumers and businesses in general,  
22 could perceive -- and I believe I'm reasonably  
23 consistent about using the word perceive -- could  
24 perceive that the Service could become more reliable,  
25 would be more reliable.

1           Q     Now I'm looking at page 9 of your testimony,  
2 starting with line 17.

3           A     Yes. Let me get there.

4           Q     And you state, "More critically since a more  
5 efficient network usually generates greater  
6 reliability, it is likely that customer satisfaction  
7 will actually increase because the greater reliability  
8 is perceived as a service improvement". Do you stand  
9 by that?

10          A     I was saying that that would be in general  
11 what we would see happen.

12          Q     So it's your understanding that customers  
13 that completed these surveys perceived the slowdown as  
14 creating greater reliability? Is that accurate?

15          A     I'm not saying that. I'm just saying based  
16 upon, you know, a belief that if you improve -- if you  
17 make a change to network quality or to any kind of  
18 service quality -- or if you make a change, service  
19 quality may be in decline in one area but makes for an  
20 improvement in another, then one would see a greater  
21 perception on the part of consumers and businesses  
22 that service has improved. And then based upon the  
23 qualitative research that we did, we did have  
24 discussions of people saying, well, this represents an  
25 improvement in service.

1           Q     Maybe we're talking past each other a little  
2     bit here, because the way I'm reading this section of  
3     your testimony is that it's attempting to refute Dr.  
4     Crew saying under no circumstances could I see it  
5     being logical -- and I'm greatly paraphrasing his  
6     testimony here -- under no circumstances could I see  
7     it being logical that volume would go up when service  
8     quality decreases. Is that an accurate reading of  
9     what you put in your testimony here that you were  
10    attempting to refute?

11           A     I would say, you know, if that's the only  
12    thing that is happening, if all you're doing is  
13    decreasing service and it sits there in isolation, he  
14    is correct. One would assume that the volume will  
15    either stay the same, people will continue to do the  
16    same thing depending on how salient it is.

17                    You know, if it's not very important to  
18    them, if what's changing isn't important even if it's  
19    decreasing, they'll say, well, whatever, you know, to  
20    coin the flippant phrase that's used so often today,  
21    or they may change. And I think our research really  
22    clearly shows that the majority of people here said,  
23    whatever, I'm not going to make a change.

24           Q     And I'm looking at that last line now on  
25    line 20 to 21, and that's where you specifically say,

1 you know, Dr. Crew's view is limited and never  
2 conceived that the service standard change and this  
3 whole rationalization effort heralds a service quality  
4 improvement. So are you saying that that's what the  
5 survey respondents, the quantitative survey  
6 respondents, saw was this herald of service quality  
7 improvement and that's what caused them to say that  
8 they would, some of them, to say that they would send  
9 more mail?

10 A I'm saying that based upon what we heard  
11 from the qualitative research, we can -- and  
12 oftentimes that's why we do qualitative and  
13 quantitative research, that we can interpret  
14 quantitative research results.

15 So when Dr. Crew is saying it's nonsensical  
16 that people's volume would go up, but we saw that  
17 people's volume did increase despite clearly anchoring  
18 them and saying this is what you said your volume was  
19 going to be and now what's it going to be, so we can  
20 go back to the qualitative research, listen to what  
21 people said in the qualitative research and say, well,  
22 if they said it in the qualitative research, then we  
23 can infer, yes, that some of the people, that's  
24 potentially what was in the minds.

25 I can't say with 100 percent certainty that

1 was what was in their minds. We didn't ask them that.  
2 But we can use the qualitative research to infer that,  
3 yes, that's what they were thinking because that's  
4 what we heard before.

5 Q So, if you're faced with basically two  
6 possibilities here and one possibility is that this  
7 indeed was what customers were thinking and they made  
8 this inference despite not hearing it in the  
9 instructions of the questions that service quality  
10 would increase, and the other option would be that the  
11 area of uncertainty, the bounds of uncertainty, on  
12 this market research is just too wide to be very  
13 accurate, you would say that it's more likely that  
14 customers inferred that there would be an increase in  
15 quality than that the market research bounds are too  
16 inaccurate?

17 A For those few people. I mean, it's a  
18 relatively small percentage. For those few people  
19 that said I'm going to increase my volume, I would be  
20 able to say I believe that based upon the qualitative  
21 research they're seeing that either service is  
22 improving or better than they expected, already  
23 expected --

24 CHAIRMAN GOLDWAY: That's the same market  
25 research we were talking about earlier where you were

1 assuming that the Postal Service was going to promote  
2 its higher standards and people would understand that  
3 they're getting --

4 THE WITNESS: No. I'm just using the  
5 results from, comments from the qualitative research  
6 when we --

7 CHAIRMAN GOLDWAY: Yes, but your assumption  
8 was that they would know that they were better quality  
9 because the Postal Service was explaining what the  
10 standards would be? That's that same market research,  
11 right?

12 THE WITNESS: Yes, because, you know, in the  
13 qualitative research, we made them aware of what the  
14 service standards were, so you're creating --

15 CHAIRMAN GOLDWAY: Now, and you are then  
16 assuming that the Postal Service was going to do  
17 something different, and I just want to clarify that's  
18 the same market research where you're making those  
19 assumptions. There wasn't any other market research?

20 THE WITNESS: No. You're asking is there  
21 any other research? No, there's not. No.

22 CHAIRMAN GOLDWAY: Okay. Thank you.

23 THE WITNESS: Right.

24 BY MR. LAVER:

25 Q On that same line though, just so we're

1 clear for the record, the qualitative research that  
2 you're using to say that you think this is what might  
3 have been in the minds of the quantitative market  
4 research people, completely different segment,  
5 completely different people, is that correct?

6 A Same segments. I mean, they were small  
7 businesses, consumers and mailers, but yes, the same.

8 Q But they were not the same --

9 A They were not the same.

10 Q -- small businesses, consumers and --

11 A Correct.

12 Q Okay. So from what you said was a small  
13 number of quantitative respondents on the surveys that  
14 would increase their volume, you were able to surmise  
15 what you think they may have been thinking by a  
16 smaller segment of individuals in the qualitative  
17 market research? Is that accurate?

18 A Well, again, I'll say that it is very  
19 common, which is why we do this, so that we can  
20 interpret the results of quantitative research,  
21 especially if maybe they're going to counter to  
22 expectations or hypotheses to be able to explain based  
23 upon consumers and respondents and what they're saying  
24 versus just making a blanket statement that this makes  
25 no sense.

1           Q     Okay. I'm going to move on here and move  
2 back to the probability factors again briefly. I  
3 promise.

4                     Now, from a market research standpoint,  
5 you're familiar with gathering data to form an  
6 estimate, in this case, say, you know, the number of  
7 pieces mailed. And then you use these likelihood  
8 factors or probability factors. We'll call them  
9 weights. And if you were to continue to add weights,  
10 so to take the six to five day case, there was one  
11 weight. There was one probability factor. To take  
12 this case, there were two probability factors.

13                    If you were continually adding probability  
14 factors, would you agree that you would be reducing  
15 the response towards zero from a mathematical  
16 perspective, the limit as to the number of probability  
17 factors in your equation increases would have a  
18 tendency to reduce the estimate towards zero? Would  
19 that be accurate?

20           A     Yes, that would be if the more you weight,  
21 the more -- yes, that would be correct. I'm doing the  
22 math in my head. Sorry.

23           Q     And I'm going to ask you to draw on your  
24 expertise as a market researcher and a survey design  
25 specialist here and ask you two different questions,

1 and I'm going to ask you to evaluate the difference  
2 between the two statements.

3 If in a market research context I were to  
4 ask you what's the likelihood of you buying five cars  
5 in your lifetime if you had reported that you would  
6 buy five cars and then in a different question I asked  
7 you what is the likelihood of you buying at least five  
8 cars in your lifetime, do you think you would elicit a  
9 different response between the two questions?

10 A Yes, because I would be less certain that I  
11 would buy exactly five cars. I would have a greater  
12 degree of certainty as to whether I would buy at least  
13 five cars.

14 Q So you would be moving towards a maximum in  
15 one of them and you would be bounded by two sides of  
16 uncertainty on the other? Is that an accurate way to  
17 look at it? So if I were to ask you what's the  
18 likelihood of you buying five cars, the uncertainty  
19 could be that you'd buy six cars or that you'd buy  
20 four cars.

21 A Right.

22 Q But if I ask you that you buy at least five  
23 cars, it would only be the uncertainty that you would  
24 be under five cars, is that --

25 A Right. Correct.

1           Q     Now I have one more question here and this  
2     takes off a little bit on what you were talking about  
3     with other industry practice, and you talked about the  
4     adjustments made. I think you used computers as an  
5     example to forecast demand and try to determine how  
6     much should be produced based on how much people would  
7     say they would buy. Do you recall that with Mr.  
8     DeChiara?

9           A     Uh-huh. Right.

10          Q     Okay. Now, in terms of the Postal Service  
11     doing market research here, would you agree that the  
12     purpose of the market research, aside from the actual  
13     quantitative purpose, which was to develop how much  
14     volume and therefore revenue they may forego as a part  
15     of this initiative, would you say that the purpose is  
16     to try to manage the risk and uncertainty with moving  
17     forward with this initiative?

18          A     Well, I would say that's the purpose of all  
19     market research. That's why we exist is that people,  
20     businesses, do market research to reduce the risk in  
21     making a decision, and typically, I know that Dr.  
22     Boatwright spoke extensively to this in the five-day.  
23     I've actually written about this in certain areas, is  
24     that, you know, it's the decision of do I go or do I  
25     not go, do I do this or do I not do this. That's the

1 whole purpose behind market research at its very basic  
2 level is can I reduce the uncertainty of making a  
3 decision.

4 Q No, I think that's an excellent answer.

5 Now, in terms specifically of this market  
6 research, in terms of the quantitative market research  
7 performed by ORC on behalf of the Postal Service, I  
8 can see two risks here, one that respondents would  
9 overstate their volume, response one, that they would  
10 understate. Do you think that's a fair assessment of  
11 the two main risks of interpreting the results?

12 A Sure, yes. I would say that they could be  
13 dead on, they could overstate, they could understate.

14 Q Now which do you think would have more of a  
15 detrimental effect on the Postal Service, which risk  
16 or which error, the fact that customers might  
17 overstate their response and then not have as much of  
18 a response or the fact that they would understate  
19 their response and then have a larger response than  
20 anticipated?

21 A I would say that if they understate their  
22 response and their response was greater, that would  
23 definitely have a more negative impact. I mean, if  
24 they overstate their response and they don't  
25 actually -- well, I'm trying to think here. I am

1 trying to do the math in my head. But okay, if they  
2 overstate --

3 CHAIRMAN GOLDWAY: And then they actually do  
4 a little more --

5 THE WITNESS: -- and then they actually do  
6 less, then the impact would be less, so yes. Sorry.

7 BY MR. LAVER:

8 Q And I'm going to jump back to your example  
9 of another industry here, and let's say we're in new  
10 product development with computers as you used before.  
11 Where do you think the risk lies in the market  
12 research when it's a purchase, not purchase decision  
13 and they say, you know, as the example you gave before  
14 is everyone says they're going to buy 10 new personal  
15 computers. Now is the risk to the company that the  
16 person will say they're going to buy 10 and they buy  
17 12, or is the risk to the company that they say  
18 they're going to buy 10 and buy one or buy none?

19 A It would go both ways. I mean, if they buy  
20 less than they say and the company has spent for  
21 inventory to build inventory that they won't buy, then  
22 that risk is quite high. If on the other side of the  
23 coin they can't -- they don't produce enough because  
24 people understated it, then the risk can be quite high  
25 in either losing customers to let's go an imperfect

1 substitute -- to use that word -- or that you have a  
2 high-level dissatisfaction with the company that  
3 affects the brand going forward. So I think in that  
4 situation it could go either way.

5 Q So, in your example, you said that they used  
6 an adjustment because companies just know that you're  
7 not going to buy 10 even though you said you would buy  
8 10. Would that adjustment increase the number of  
9 available to hedge against the risk of not having  
10 enough supply, or would it decrease the number that  
11 they produce to hedge against the risk of making them  
12 and having no support for the product?

13 A I think it would depend upon, you know, what  
14 they used as that adjustment factor, but typically,  
15 they're typically believing, and there is research to  
16 support, that people tend to overstate their  
17 responses, which is why -- an actual number, which is  
18 why it goes back to all of the literature I cited as  
19 using an intentions measure on a probability scale as  
20 to what they really are likely to do.

21 Q So they tend to overstate their propensity  
22 to buy? Is that what your testimony is?

23 A People tend to, you know, we could use --  
24 let's use the one that I used in my surrebuttal where  
25 I said, you know, if you ask people how much are you

1 going to give to charity next year, people will tend  
2 to overstate whether because they think they have more  
3 money than they have, they're responding on a socially  
4 desirable basis and they want to look like a  
5 charitable person, they'll tend to overstate what  
6 they'll actually give.

7           And so as a result, there's always a  
8 question. In just about every charitable study I've  
9 ever seen, there's always a question. And how likely  
10 are on the day it comes are you going to write that  
11 check, and there that individual's data is weighted,  
12 just as the voter study example, as to what really is  
13 most likely to happen. Otherwise, in the charitable  
14 thing, they would be making plans to give all this  
15 money away that they're never going to get. They  
16 might hire a bunch of staff that they have too much  
17 staff and they're spending too much.

18           Q     I think you saw into my head because my next  
19 question was, in the charitable organization context,  
20 do you think the risk is higher for the charitable  
21 organization when they're doing market research to  
22 overestimate the amount of charitable contributions  
23 coming in and thereby, doing as you just described,  
24 hiring staff, making plans, or underestimate the  
25 amount that they might give?

1           A     I think the risk of an overestimation is  
2 greater for a charitable organization for exactly that  
3 reason, that they would be planning for something  
4 that's unlikely to occur. I can't imagine very many  
5 charitable organizations would be unhappy if they  
6 didn't get more money than they anticipated.

7           Q     I appreciate your responses.

8           MR. LAVER: Madam Chairman, I have nothing  
9 further.

10           CHAIRMAN GOLDWAY: Great. Thank you. Are  
11 there any follow-up cross-examinations before I open  
12 it to the bench?

13                     (No response.)

14           CHAIRMAN GOLDWAY: Okay. I think the  
15 staff's given us several questions.

16           MR. ANDERSON: Madam Chairman?

17           CHAIRMAN GOLDWAY: Oh, Counsel Anderson.

18           MR. ANDERSON: Darryl Anderson for the APWU.

19           CHAIRMAN GOLDWAY: I didn't see you.

20           MR. ANDERSON: I don't know whether it's  
21 appropriate for me to wade in at this point. I don't  
22 want to impose on the Commission, but something the  
23 Public Representative --

24           CHAIRMAN GOLDWAY: You're welcome to do a  
25 follow-up cross.

1 MR. ANDERSON: -- something the Public  
2 Representative asked made me want to follow up.

3 CROSS-EXAMINATION

4 BY MR. ANDERSON:

5 Q Well, Ms. Elmore-Yalch, while the Public  
6 Representative was questioning you, I was looking at  
7 the guides given to your subjective interviewers for  
8 your survey. These were a part of your appendix to  
9 your original testimony. Do you have that with you?

10 A I believe so, yes.

11 Q And I observe that, if you go back to page  
12 75 and 78 of your testimony, these are moderators'  
13 guides. Seventy-five I picked because it's I think a  
14 moderator's guide for focus groups for the business  
15 groups, and 78 would be for the consumer groups.

16 And I observe that in the middle of page 75  
17 where it said discuss questions one, four and five,  
18 and frankly I haven't gone back to look at those, but  
19 it says current standards. Do you see that first  
20 bullet point that says current standards?

21 A Uh-huh.

22 Q Do you feel they currently meet these  
23 standards? Do you see where it says that?

24 A Yes.

25 Q And then in outstanding standards, if the

1 Postal Service met those standards, would you use  
2 first-class mail more. And then under the third  
3 bullet which says long is --

4 A Would you use it less.

5 Q -- is the word meeting those standards in  
6 there? Let me just say -- if these standards were the  
7 Postal Service standards, would you use first-class  
8 mail the same or less.

9 There's a relatively parallel concept that's  
10 introduced to consumers as well, and it shows on page  
11 78. Actually it's page 79. I beg your pardon. And  
12 so I suggest to you that in that portion of your  
13 survey that the concept of meeting the service  
14 standards was interjected and that that is not true of  
15 the quantitative, that is, the concept of meeting the  
16 service standards was part of the qualitative survey,  
17 but it was not part of the quantitative survey as far  
18 as the materials you introduced to the people you  
19 surveyed, is that correct?

20 A Well, yes, I would like -- because initially  
21 you did confuse the quantitative survey, so I would  
22 like to say something about that.

23 Q Yes, I did. I wasn't able to conjure up the  
24 words quantitative and qualitative.

25 A Right. Okay.

1           Q     In the qualitative survey, pages 75 and 78,  
2     the people doing the qualitative survey introduced the  
3     concept of meeting the service standards to the people  
4     who were being surveyed.  And you discussed in  
5     response to the Public Representative's questions that  
6     in reporting -- in responding to Professor Crew that,  
7     well, people must have inferred that there would be a  
8     better opportunity to meet those service standards, it  
9     seemed to me that there's room for disagreement on  
10    that point because you introduced, in the qualitative  
11    survey, you introduced the concept of meeting service  
12    standards whereas that was not introduced in the  
13    quantitative survey.

14                 And so I'm asking you to confirm that if  
15    I've correctly identified that the concept of meeting  
16    the service standards was raised by your surveyors in  
17    the consciousness of those on the qualitative end of  
18    the survey but was not raised by your surveyors for  
19    those on the quantitative end, isn't that correct?

20           A     Well, that's a hard one to answer because I  
21    think you're mixing apples and oranges.  I mean, first  
22    we didn't -- well, one, your question's very  
23    confusing, so I'm trying to like assimilate it in my  
24    mind here.

25           Q     I can try to break it down for you again.  I

1 realize I had the benefit of sitting here looking at  
2 the documents --

3 A Right, taking some notes.

4 Q -- while you were trying to answer other  
5 questions.

6 A Right.

7 Q But I just looked at page 75 and 78.

8 A Sure.

9 Q And it seemed to me clear now that I've got  
10 my terms, you helped me with the terminology, that  
11 doing the qualitative survey that people were  
12 instructed, and I assume they followed those  
13 instructions, that before they introduce the first-  
14 class mail service standard changes, they said to the  
15 people they were interviewing in the qualitative  
16 survey, they asked them the questions that included  
17 the concept of meeting the service standards. You can  
18 take a look at it.

19 A Okay. Okay.

20 Q Have you had a chance to look at those?

21 A Yes, I have it.

22 Q Okay. I don't have to point them out to  
23 you. And page 79 is where it shows up for the  
24 individuals and page 75 for the businesses.

25 A Correct.

1           Q     So at least you're with me that far that in  
2     doing the qualitative survey, your surveyors were  
3     instructed to and did bring up the question of meeting  
4     service standards, whether they were current service  
5     standards or change service standards. They said, do  
6     you feel they currently meet these standards.

7           A     Okay.

8           Q     If the Postal Service met those standards,  
9     would you use first-class mail more if they were  
10    outstanding and if they met them. So that was the  
11    introduction of the concept of how important it is of  
12    meeting the service standards, correct?

13          A     Right. Well, I mean, first let's bear in  
14    mind that there's a big different between a  
15    qualitative moderator's guide when delivered by a  
16    trained moderator, not a surveyor. And we don't ask  
17    every single solitary question in a moderator's guide  
18    of every single solitary group in exactly the same way  
19    because it's a group discussion. It's not a one-on-  
20    one usually. Most of these were groups. We did do  
21    some one-on-one's, but most of these are groups.

22                    So the guide is just that. It's meant to  
23    guide the discussion. So, you know, when we first had  
24    them write these responses down to what do you think  
25    are the service standards, so this was just, you know,

1 we did want to understand the context of how people --  
2 and it's always really important to understand what's  
3 the context of how people actually are responding  
4 later based upon what their current opinions and  
5 perceptions and feelings are.

6 So this was really done to give us a context  
7 to then lead into substance questions. And then as I  
8 said earlier, I mean, that's why we do qualitative  
9 research is to help us understand potentially what the  
10 results are of quantitative research. Sometimes it's  
11 done before. Sometimes it's done after. This case it  
12 was kind of a combination thereof.

13 Q Well, separating these out then, with regard  
14 to people calling the consumers, surveying the  
15 consumers, you would expect them to follow the  
16 guidance relatively closely I gather?

17 A On the quantitative surveys?

18 Q No, on the qualitative surveys.  
19 Qualitative. I'm talking now about the qualitative  
20 surveys that we're talking about here.

21 A No. I'm saying, that's what I said is on  
22 the qualitative -- let's not use surveys because it's  
23 not a survey, it's a qualitative guide -- is that we  
24 allow the flow of the discussion to go as a flow of an  
25 open, you know, it's a conversation. I mean, we lead

1       it like a conversation, so it doesn't always go in  
2       exactly the order that's there. When you're doing a  
3       quantitative survey, the surveyors are instructed that  
4       they read those questions absolutely verbatim. They  
5       don't provide any explanation or anything.

6           Q     I appreciate your help with the terminology  
7       and the concepts as far as the distinguishing between  
8       the moderator's guides.

9           A     Okay, so, I mean, I'm trying to help.

10          Q     But the moderators work for you, right?

11          A     Well, in this case, it was myself and one  
12       other person, so I guess I work for myself, but I work  
13       for ORC.

14          Q     So, in the moderator's guide, it says  
15       introductions and instructions. I mean, those are  
16       instructions to the moderators I assume.

17          A     Right, but we are also trained as moderators  
18       how to handle and control and work with the flow of  
19       conversation, so, you know, we don't rigidly follow  
20       every single solitary question. If it's not relevant,  
21       we don't ask it, you know.

22          Q     But in terms of information you're giving  
23       the individuals, the instructions are that you convey  
24       certain information to them and certain -- and I  
25       assume that the concepts are important.

1           A     Well, in terms of the absolute concepts that  
2     we needed to pursue, for example, what's the change to  
3     first-class mail service standards that are being  
4     proposed or what was the concept statement, that was  
5     given to them in writing, you know, so it was not  
6     subject to a moderator doing anything except for  
7     showing them exactly what the proposed changes, and  
8     those were all inclusive changes at that time, were  
9     being considered.

10           So, in terms of the context of leading the  
11     discussion, the moderators are given a fair degree of  
12     discretion because every group is different and every  
13     interview is different to follow, you know, to use  
14     their experience and their training.

15           MR. ANDERSON: That's all I have.

16           CHAIRMAN GOLDWAY: Okay. Then I think we  
17     have several questions from the bench here, some  
18     prepared by staff and others not.

19           I understand Vice Chairman Langley would  
20     like to begin, so I'll give you the floor.

21           VICE CHAIRMAN LANGLEY: Yes, thank you. I  
22     appreciate your being with us here again, and as we  
23     discussed earlier this morning, you're here in very  
24     hot weather compared to where you've come from.

25           There has been a great deal of discussion so

1 far about reliability, whether it's reliability,  
2 likelihood factors, confidence intervals of the  
3 statements given in response to the survey questions  
4 or whether postal customers are more interested in  
5 reliability over speed of delivery.

6 And in your written testimony, you said that  
7 confidence in ultimate delivery over speed is  
8 something that customers, consumers, think about. And  
9 yet you've testified that those surveyed didn't know  
10 existing service standards, is that correct?

11 THE WITNESS: I said that the qualitative  
12 research respondents --

13 VICE CHAIRMAN LANGLEY: The qualitative --

14 THE WITNESS: -- did not, correct.

15 VICE CHAIRMAN LANGLEY: -- did not.

16 THE WITNESS: Right. Participants, no.

17 VICE CHAIRMAN LANGLEY: So does that mean  
18 for those surveyed for the qualitative surveys that  
19 they are satisfied with the service as it is now?  
20 Would that be a correct assumption?

21 THE WITNESS: Well, and I think I said this  
22 earlier, I would say that their current expectations  
23 are to a large degree being met or exceeded given what  
24 their expectations for service delivery actually are  
25 and that it's actually better. Now we could make the

1 assumption, and I'm going to say that the customer  
2 satisfaction scores seem to bear some of that out,  
3 that they are satisfied with the speed of service.  
4 Are they satisfied with reliability? The qualitative  
5 research would suggest no.

6 VICE CHAIRMAN LANGLEY: But it does appear  
7 that they're satisfied with the speed of delivery and  
8 that their current expectations are being met, so is  
9 there any way to tell what percentage of those  
10 surveyed would be dissatisfied with longer delivery  
11 times?

12 THE WITNESS: I said that their current  
13 expectations are being either met or exceeded.

14 VICE CHAIRMAN LANGLEY: They're being met or  
15 exceeded, but they will be looking at longer delivery  
16 times, and perhaps there is no way since you were  
17 talking with Mr. Laver about you really can't go  
18 beyond a year when doing some of these survey  
19 questions because obviously things change.

20 I think what I'm trying to get at is if they  
21 are satisfied with service as it is now and service,  
22 the length of service, the length of time it will take  
23 to deliver say a first-class single piece, a first-  
24 class letter, will potentially increase, are they  
25 going to be less satisfied with using the Postal

1 Service?

2 THE WITNESS: I think you need to separate  
3 out two things because there's two concepts in play  
4 here. It's what are their expectations for service  
5 and what is their satisfaction with service. It can  
6 be very different things.

7 You know, I'm trying to think of a good  
8 example. I can be satisfied, but you might not be  
9 meeting my expectations, okay, and that would make me  
10 a potentially risky customer for you to have because  
11 if somebody comes along and puts something into play  
12 that meets my expectations, now my satisfaction is  
13 going to come into play and I'm going to go over to  
14 this now perfect substitute that may now exist.

15 In this case, you know, what we're saying is  
16 that from the qualitative research -- and I don't have  
17 any quantitative research. I'm not privy to other  
18 research that the Postal Service has, although I know  
19 there's one that they keep if it's nonpublic -- that,  
20 you know, they measure -- there's nothing I'm aware of  
21 that actually measures what do people expect in terms  
22 of speed of transit in terms of first-class mail.

23 But we can infer from the qualitative  
24 research that they have lower expectations than the  
25 current standards would suggest, so we could say,

1 well, then they should probably be pretty happy with  
2 it.

3 VICE CHAIRMAN LANGLEY: So based on lower  
4 expectations --

5 THE WITNESS: Right. They're pretty low  
6 expectations, so if you basically bring the service in  
7 to in essence meet their expectations because that's  
8 almost what the qualitative research seems to imply,  
9 then one would expect that their satisfaction will  
10 stay, their current levels of satisfaction will stay  
11 the same because you're now meeting their  
12 expectations. Before, you know, you were exceeding  
13 their expectations. So it's a little -- there are two  
14 very separate constructs.

15 VICE CHAIRMAN LANGLEY: I'm beginning to  
16 understand, and part of the reason I ask these  
17 questions is the just-released New York Times/CBS  
18 survey indicated that 45 percent of those who  
19 participated in the survey said they used the mail  
20 sometimes mainly for bills, and I know that your  
21 qualitative survey and I think the quantitative as  
22 well perhaps --

23 THE WITNESS: Sure. We asked that, yes.

24 VICE CHAIRMAN LANGLEY: -- asked about  
25 bills, so is there any evidence from just the work

1 you've done that those who receive or pay bills by the  
2 U.S. Mail believe reliability rather than speed is a  
3 more important factor?

4 THE WITNESS: I think, and I said it in my  
5 testimony today is that I think and I believe that --  
6 and we have qualitative research quotes that suggest  
7 that when people are using first-class mail for bill  
8 payment or to send bills to their customers, they're  
9 doing so for a reason other than speed. They're doing  
10 it, and they said, they're doing it because, one, they  
11 want the paper trail. You know, some people don't  
12 trust the internet. They don't like to have things on  
13 the internet. They don't like to hear, oh, it got  
14 lost in the email system as opposed to being lost in  
15 the mail. So, you know, they like that tangible  
16 feeling of paper, and that's really important to them,  
17 more important than speed. And those people plan for  
18 the transit time.

19 Most of the people in the focus group said,  
20 well, you know, I get the bill, I open it, I read it,  
21 I deal with it, and then I put it in the mail. They  
22 don't wait. They're not waiting until the last  
23 minute. So speed --

24 VICE CHAIRMAN LANGLEY: So they're not  
25 concerned with finance charges?

1           THE WITNESS: Right. Well, or they're  
2           planning ahead to make sure that it gets there on  
3           time. I mean, people did talk about -- in the  
4           qualitative research, I remember people talking about,  
5           well, we really count on the postmark to show that I  
6           postmarked it on time. They don't care how long it  
7           takes to get there after it's been postmarked.

8           VICE CHAIRMAN LANGLEY: So they're looking  
9           at the postmark.

10          THE WITNESS: They're looking at the  
11          postmark assuming that that's also -- you know, I  
12          don't know if that's a correct assumption on their  
13          part, but they are assuming that the bank is also  
14          looking at the postmark, and I know I've always  
15          oftentimes argued, well, I have a postmark showing it  
16          went out.

17          VICE CHAIRMAN LANGLEY: I don't think that's  
18          a valid argument with a bank.

19          THE WITNESS: I don't think it is either,  
20          but it's not our duty to argue with the Postal  
21          Service.

22          VICE CHAIRMAN LANGLEY: The IRS takes it,  
23          but I don't think a bank does. Thank you very much.

24          CHAIRMAN GOLDWAY: I'd like to follow up a  
25          little bit on that line of questioning before we go on

1 to others. As I understand this whole line of  
2 questioning, it's developed because you were trying to  
3 explain why there were some people who were saying  
4 they'd actually increase volume in their responses and  
5 that seemed to most people who are familiar with the  
6 tradeoff between declining service on a product and  
7 customer response that that's sort of counter-  
8 intuitive. People wouldn't say I'm going to do more  
9 with less product.

10 So you're pointing to all of these issues  
11 with regard to, oh, people think it might be more  
12 reliable, their expectations for service are actually  
13 lower than what the Postal Service provides, so it's  
14 going to be okay. But there were also people in those  
15 surveys who said they were going to cut their volume.  
16 So what kind of comments did you get in your  
17 qualitative survey that might have supported the  
18 people who said they were going to reduce their  
19 volumes of mail?

20 THE WITNESS: That's a good question, one  
21 that hasn't actually been asked yet. So, you know, we  
22 have support in the qualitative research that  
23 particularly -- one example that I made a point of is  
24 that for small businesses -- in my report, for small  
25 businesses whose service areas were their local areas,

1 they did count on putting something in the mail on day  
2 one, you know, on one day and having it delivered in  
3 their local area the next day. And there is a number  
4 of comments, and they're quoted in the report.  
5 They're in the transcripts, the small business owners  
6 saying, well, I don't really like that.

7 And so it is possible that, you know, in the  
8 quantitative research asks an explanation for why in  
9 the small businesses the decrease was significant,  
10 because they didn't like losing that one-day transit  
11 time. So for them, that particular segment, transit  
12 time is more important.

13 CHAIRMAN GOLDWAY: It seems to me, I'm  
14 trying not to be biased, that that kind of response is  
15 far more intuitively immediately acceptable as  
16 rational for a reason to do something than your  
17 looking at a response that says I'm satisfied with the  
18 current service standards and you're assuming that  
19 when they learn that the product is going to be more  
20 reliable later on that they're going to then use it  
21 more often.

22 It seems to me you're making many more  
23 inferences with regard to what action might take place  
24 to justify an increase in volume than needs to be done  
25 when you hear the comments of why people are going to

1 reduce volume. Am I being unfair in that? It seems  
2 to me fairly obvious.

3 THE WITNESS: No, I mean, that's a fair  
4 question. I mean, if you go into -- when you do  
5 market research, you know, good market researchers  
6 come up with a hypothesis and that's the purpose of  
7 doing it. You have a hypothesis that there's going to  
8 be a change or there's not going to be a change, and  
9 in general, one would -- you know, because economic  
10 theory is out there and it is valid. I'm not saying  
11 that economic theory is invalid. That would be, you  
12 know, flying in the face of reality.

13 Economic theory says that if you change  
14 lower price -- I mean raise price, sorry, or lower  
15 service quality, one would hypothesize that service,  
16 you know, demand will either -- well, Witness Crew has  
17 said will go down. That was his initial thinking  
18 moderated, and I said, well, it might not change at  
19 all. So, you know, when we ran the analysis, we saw a  
20 lot of people saying it's not going to change. That's  
21 intuitive. It makes sense according to economic  
22 theory and what's typical out in the world.

23 Seeing it go down, that's typical. We saw  
24 these people go up, and being a good analyst, we have  
25 to look at, well, why did it go up? Did it go up

1 because I've got something else going on in the data  
2 like I've got some great big huge, you know, mistake  
3 that we made? You know, we looked at that. We didn't  
4 find a mistake that, you know, somebody suddenly  
5 started putting zeros on the end of numbers, which,  
6 you know, so we looked at all that, and then we said,  
7 okay, well, then what would be the reason for this.  
8 And again, we're talking --

9 CHAIRMAN GOLDWAY: So you made these various  
10 layers of assumption to try and do that.

11 THE WITNESS: Right, so we always look --

12 CHAIRMAN GOLDWAY: But then you took your --

13 THE WITNESS: -- at data if it comes counter  
14 to what we expect.

15 CHAIRMAN GOLDWAY: -- yes, but then you took  
16 your weighting and adjustment factors, and in both  
17 cases you moved the anticipated reduction in volume  
18 down. So for those people who you had to make three  
19 or four levels of assumption that they might go up,  
20 you didn't change that.

21 THE WITNESS: Yes, we did.

22 CHAIRMAN GOLDWAY: But for those people who  
23 said they would use less volume, you actually reduced  
24 the amount of volume they said they'd -- and their  
25 responses seem to me to be more naturally justified.

1 THE WITNESS: We reduced -- if someone said  
2 they were going to increase --

3 CHAIRMAN GOLDWAY: Their volume.

4 THE WITNESS: -- they had the same weight  
5 applied to theirs, so they said I'm going to increase  
6 my volume by this much, but they said I only have a 50  
7 percent likelihood of doing that. Their increase in  
8 volume got decreased, so we didn't say, oh, we like  
9 the increase, but we don't like the decrease. It was  
10 across the board.

11 CHAIRMAN GOLDWAY: So for everyone who said  
12 they were going to increase volume, you actually  
13 decreased --

14 THE WITNESS: Correct.

15 CHAIRMAN GOLDWAY: -- the volume that they  
16 said --

17 THE WITNESS: If they said they were --

18 CHAIRMAN GOLDWAY: -- of the amount --

19 THE WITNESS: -- less than 100 percent  
20 likely to make that change.

21 CHAIRMAN GOLDWAY: -- that they were going  
22 to increase?

23 THE WITNESS: Right.

24 CHAIRMAN GOLDWAY: You did decrease that  
25 amount?

1 THE WITNESS: Exactly.

2 CHAIRMAN GOLDWAY: And for everyone who said  
3 they were going to decrease volume, you decreased the  
4 amount that they said they were going to, they would  
5 decrease?

6 THE WITNESS: Correct, but it was the --  
7 that's the same --

8 CHAIRMAN GOLDWAY: But the justifications --

9 THE WITNESS: -- it was across the board  
10 application of that weight.

11 CHAIRMAN GOLDWAY: -- yes, okay.

12 THE WITNESS: We didn't do it on --

13 CHAIRMAN GOLDWAY: The justifications for --

14 THE WITNESS: -- one side and not the other.  
15 That would be bad.

16 CHAIRMAN GOLDWAY: And then the other  
17 question I have with regard to these questions because  
18 you're presuming that there's going to be more  
19 reliability, did the Postal Service tell you that as a  
20 result of this change in processing plants that there  
21 would be more reliable mail, that they would meet  
22 their service targets a greater percentage of the  
23 time? Was that information you were given?

24 THE WITNESS: Well, I'm sorry. I missed the  
25 first part of your statement.

1                   CHAIRMAN GOLDWAY: Did the Postal Service  
2 tell you when you were evaluating these responses or  
3 when you were creating the questions that as a result  
4 of the processing changes that they were putting in  
5 place that, while they might increase the number of  
6 days of delivery, that they were actually going to  
7 increase their reliability and meet their service  
8 standards, their new service standards, a greater  
9 percentage of the time? Did they tell you that they  
10 were going to meet their service standards a greater  
11 percentage of the time?

12                   THE WITNESS: Well, in the process of doing  
13 all of this -- I'm thinking I'm supposed to sit  
14 closer. Sorry. I'm trying to think as I'm doing  
15 this. In the process of, you know, the work with the  
16 Postal Service, I did ask what impact will this have  
17 on reliability, and they said it will make the system  
18 more efficient. I may have made the --

19                   CHAIRMAN GOLDWAY: Now we haven't seen  
20 anything here to say that the Postal Service's new  
21 plans are going to increase its reliability.  
22 Efficiency and reliability could or could not be the  
23 same thing, but reliability in this question is are  
24 they going to meet their service standard goals a  
25 greater percentage of the time than they have in the

1 past.

2 THE WITNESS: I mean, I can't definitively  
3 say exactly.

4 CHAIRMAN GOLDWAY: I mean, you didn't get  
5 that information --

6 THE WITNESS: You know, in discussions I  
7 said --

8 CHAIRMAN GOLDWAY: So again, there's no --

9 THE WITNESS: -- is this going to make the  
10 system better and the answer was yes.

11 CHAIRMAN GOLDWAY: So again your  
12 interpretation of these responses was based on your  
13 interpretation of the term efficiency?

14 THE WITNESS: Of the term efficient.

15 CHAIRMAN GOLDWAY: Okay. All right. Now  
16 I'll let other -- anyone else want to jump in because  
17 we have some other questions to ask as well.

18 COMMISSIONER ACTON: These are some  
19 questions with respect to some of your quantitative  
20 analysis and some of the timeframe differentials.

21 THE WITNESS: Right.

22 COMMISSIONER ACTON: You estimated effects  
23 based on the year 2012 in your Phase II quantitative  
24 analysis, is that right?

25 THE WITNESS: Correct.

1                   COMMISSIONER ACTON: And the Postal  
2 Service's modified plan provides for the elimination  
3 of overnight service to be implemented in 2014. So  
4 the Commission is interested in knowing how it is you  
5 think we should work to rectify those timeframe  
6 differences when we look at your quantitative work.

7                   THE WITNESS: That's an excellent question.  
8 The only thing I could say is, you know, it's  
9 impossible as I said when the Public Representative  
10 asked, it's impossible for us to ask, you know, even  
11 the most knowledgeable respondent can't project their  
12 behavior out two, three years because there's too many  
13 extraneous events that can come into play. So we have  
14 to give them, you know, a timeframe that they can  
15 actually relate to.

16                   So, you know, I would say that if you went  
17 out and did the survey again in 2014, you're probably  
18 going to come up with some different number, but  
19 that's going to reflect the extraneous events that  
20 come into play between 2012 and 2014. And when I say  
21 extraneous, you know, it means that things that are  
22 outside of the Postal Service's control like, you  
23 know, let's just say on the off chance that everybody  
24 decides the internet is not safe and is going to  
25 revert now to paying by mail. That's an extraneous

1 event that could make the numbers we gave here today  
2 obviously totally wrong.

3 So those are the things -- between 2012 and  
4 2014 we have no idea what's going to happen out there  
5 in the environment. We could have, God help us,  
6 another economic recession or we could have an  
7 economic boom, in which case these numbers are going  
8 to change. So, you know, we can only do the best we  
9 can in our recommendation, not that we like to sell  
10 more research, although we do, is that when the time  
11 comes, if you need to be more certain what the number  
12 is -- and it goes back to the question that was asked  
13 earlier, you know, why do we do research? Well, to  
14 reduce uncertainty.

15 If you need to know, okay, what's the number  
16 really going to be and do, then you do some additional  
17 research. It doesn't have to be as big a scale. It's  
18 just kind of a gut-check type of thing as, well, how  
19 close is it because then you may have to adjust. It's  
20 not uncommon for firms to do a forecast decision and  
21 then two years later go back and do followup research  
22 and say, oh wait, I'm not going to introduce that  
23 product.

24 Let's take pharm as a great example because  
25 of the lag time. There is many drugs that don't go to

1 market because the forecast from one period to the  
2 next period changes so dramatically. Say, well, we're  
3 not going to do that drug or we're not going to do  
4 that drug at the level we were going to do it.

5 COMMISSIONER ACTON: This discussion is  
6 helpful for the staff in terms of forming some of our  
7 analysis and how we're dealing with the moving parts  
8 on this proposal. Are you familiar with the Postal  
9 Service's modified plan to implement network changes  
10 in two stages, two phases?

11 THE WITNESS: I've read some about it, yes.

12 COMMISSIONER ACTON: We're wrestling with  
13 how to interpret some of your quantitative findings in  
14 light of the differences between Phase I  
15 implementation, which would eliminate roughly 20  
16 percent of overnight first class mail, and the  
17 proposed Phase II implementation. Do you have any  
18 thoughts about that?

19 THE WITNESS: So I couldn't because I don't  
20 know. I mean, I read it, but since it was not real  
21 pertinent and relevant to my work I didn't like delve  
22 into it. But one would hypothesize, and I would  
23 hypothesize that if I recall, I don't know the exact  
24 number, but if I recall that if you did all of it at  
25 once it was 50 percent of mail was affected. If only

1 20 percent of mail was affected, one would say wow,  
2 then maybe the impact will be in the first year or  
3 whenever it gets implemented less than if the whole  
4 thing was done at once. But it would be again that  
5 question, is it valuable to have more information to  
6 understand what the impact of a two-phase rollout  
7 would be? That's a question. Is there value to  
8 having that additional information?

9 CHAIRMAN GOLDWAY: One of the things about  
10 the phases is that the Postal Service is proposing to  
11 do an initial portion of the first phase this summer,  
12 then have a three-month moratorium before it  
13 implements even the second portion of the first phase.  
14 Do you think a moratorium period is a good time to  
15 have another survey? Is that a better time than while  
16 the process is going on? Or would it be better to  
17 wait until they've begun the second part of the first  
18 phase in order to be able to reevaluate what the  
19 impact of the second phase might be?

20 THE WITNESS: Well, at that point in time, I  
21 mean, that's actually a point in time where you have,  
22 you should, and it's almost like a mini test market,  
23 you'll have some historical data, you can see what the  
24 impact is. And, you know, if it's the same as or less  
25 or more, whatever it ends up being, you can then use

1 that as now oh, well, it's more like this number than  
2 it is like this number.

3 CHAIRMAN GOLDWAY: So actually measuring the  
4 volume impact at that time.

5 THE WITNESS: You could measure the volume  
6 impact and that in and of itself is a very simple way  
7 to see what's happening there.

8 CHAIRMAN GOLDWAY: Okay. Other questions?  
9 There are a couple others here. Do you want to take  
10 on some? Commissioner Taub.

11 COMMISSIONER TAUB: Good afternoon. A  
12 couple of questions.

13 On this whole issue, in the survey we've had  
14 discussion about the respondents from your perspective  
15 not fully appreciating or understanding the existing  
16 service standards that are in effect. For this  
17 question, I'm really looking both from your experience  
18 and work that you've done in this particular matter as  
19 well as your background as a market researcher,  
20 strategic planning degrees, advertising, mass  
21 communications. Did it surprise you that they didn't  
22 know the existing service standards?

23 THE WITNESS: I don't know if it so much  
24 surprised me. What surprised me, and even this was a  
25 surprise that just really got driven home, was how low

1 their expectations were. So it really wasn't a matter  
2 that they didn't know the standards. It was more of a  
3 surprise to me just how low, that they said well, it  
4 will be five to seven days to get across the country.  
5 That's okay. And obviously they all had, not all, but  
6 every group there was a horror story. Well, it took  
7 them 30 days to get across the country, so that's  
8 really their service standard.

9 So it didn't surprise me that they didn't  
10 know because I almost kind of would expect maybe  
11 people don't know because they're basing it upon  
12 really kind of what they perceive. And I think that's  
13 partly, it's not like somebody puts something in the  
14 mail, although some people did have examples of this,  
15 but most people don't put it in the mail and then turn  
16 around two days later and say did you get it? Unless  
17 it's the bank.

18 But most people kind of put it in the mail  
19 with an expectation it's going to get there in three  
20 to five days. If it doesn't get there in five, then  
21 they start to call. So that was kind of just more the  
22 general sense of it that I found interesting as a  
23 researcher. Geez, they have very low expectations.

24 COMMISSIONER TAUB: And in terms of that  
25 lack of knowledge, again from your perspective,

1       advising corporations and businesses and your  
2       background as advertising and strategic  
3       communications, is that in some way a lack of the  
4       Postal Service educating the public as to those  
5       standards? And to what extent, if at all, based on  
6       the survey that you did here is it important or not  
7       important for the Postal Service to be regularly  
8       educating the public as to what the actual standard  
9       is?

10               THE WITNESS: I think as a marketing person  
11       and frequently talking to people about how to more  
12       effectively market and communicate their services, if  
13       you do better than people think you're doing, you're  
14       missing an opportunity in terms of marketing to say  
15       hey, we actually deliver. If you indeed do. I mean,  
16       you would have to prove to them. You would have to be  
17       assured that being 93 percent on time is good enough  
18       for the consumer. I don't know that. But it's  
19       possible that they're missing a marketing opportunity  
20       here to grow their service by basically telling people  
21       that they're better than people actually think they  
22       are.

23               COMMISSIONER TAUB: And the last question on  
24       this particular line, I have one other area I want to  
25       talk to you about, you know, if we take, for example,

1 that it's been four to five years since at least the  
2 existing standards were enacted as part of the new law  
3 consulted here, put in the *Federal Register*, and  
4 certainly from the general standard itself really  
5 hasn't even changed longer than that, it would seem  
6 the Postal Service now with its, in the next few days  
7 possibly going into Phase I and some of these  
8 standards changing, now is an opportunity to educate  
9 the public, whereas before since the standards were  
10 out there maybe they haven't really taken up that  
11 opportunity.

12           Again, given your background and experience,  
13 would it be helpful and also looking at the survey  
14 here that that be undertaken?

15           THE WITNESS: Well, I think it's important,  
16 you know, when you take that 1.7 percent, you know,  
17 we're always thinking that it's going to be worse than  
18 that. You know, from a marketing perspective you want  
19 to make it better than that and in fact you actually  
20 from a marketing perspective would like to get it as  
21 close to zero, or if we're really lucky we get it to  
22 go up. So, if they're going to make the changes, as a  
23 marketer I would say it's now time to minimize, tell  
24 them what can you say? And I'm not an advertising  
25 creative person. I just know where to go. What can

1 you say to either make it be zero or less than,  
2 somewhere between -1.7 and zero? Because that would  
3 be the main objective is to make it be as little as  
4 possible. And then if I'm a really creative marketer  
5 and I can do it, what can I do to actually turn this  
6 to our benefit and take advantage of an opportunity?

7 COMMISSIONER TAUB: No, that's helpful.

8 CHAIRMAN GOLDWAY: Can I just interrupt on  
9 that line of questioning, just one specific before you  
10 go into your next group?

11 COMMISSIONER TAUB: Well, let me just finish  
12 up this if I could because I don't want to lose this  
13 thread that the witness just indicated which actually  
14 was the last area I wanted to touch on. This is that  
15 1.7 percent number.

16 Again, in the surrebuttal testimony at page  
17 36 you state, "We do not argue that the volume change  
18 will be exactly 1.7 percent overall." And that goes  
19 to that issue that has come up, the lack or perceived  
20 lack of a confidence interval associated with that  
21 number. When you make that statement that we do not  
22 argue the volume change will be exactly 1.7 percent  
23 overall, are you referring to the fact that Witness  
24 Whiteman's bottom line forecast for a decrease in  
25 volume of 1.7 percent is an estimated statistic which

1 is bounded in theory by a confidence interval?

2 THE WITNESS: I think he calls it an  
3 estimate all along. So yes, it is an estimate of the  
4 decrease in volume, and it's bounded by the confidence  
5 intervals surrounding, I can't actually tell you how  
6 many there are out there, but for every segment  
7 there's three to eight different potential shifts. So  
8 it's bounded by the confidence around every single  
9 solitary one of those estimates. So yes, there's  
10 error -- since there's error around these individual  
11 estimates, there's going to be error around the single  
12 point estimate.

13 What I've indicated in my -- it was a  
14 question that came up. We can't take and say okay,  
15 there's error around all of these 27, let's just say  
16 it's 27 or 30 estimates and just add them together and  
17 say that's the total error. You can't do that because  
18 error can go both directions, and so we can't just sit  
19 there and say it's always going to be the worst case  
20 or it's always going to be the best case or we'll just  
21 flip a coin and say half the time it's this case and  
22 half the time it's this case because that would just  
23 bring us right back to zero.

24 So that's why we can't give an absolute  
25 confidence interval around Witness Whiteman's number,

1 but we can certainly, and that's why nobody is saying  
2 it's going to be exactly that number, because there's  
3 some error there.

4 COMMISSIONER TAUB: Yes. And that's  
5 helpful. I appreciate that explanation.

6 Just to amplify on that, that being said,  
7 I'm sure you can understand why there's been questions  
8 and certainly from the Commission they're interested  
9 in determining, we're interested in determining the  
10 standard error associated with that 1.7 percent  
11 forecast. If the methodology employed both by ORC and  
12 the Postal Service is unable to provide that precise  
13 statistic, do you have any thoughts on other ways that  
14 the Postal Service might have approached this problem  
15 in order to produce a volume forecast with standard  
16 errors that can be calculated?

17 THE WITNESS: We already talked about that.

18 The only way to have done it would be to  
19 obtain a single estimate from the respondents. But by  
20 doing that, we actually lose a tremendous amount of  
21 data and I think it actually would introduce more  
22 error because by decomposing the questions that we did  
23 and actually having focused on smaller volumes and  
24 very specific to what they're doing, we actually  
25 reduced the bias and the noises in the questions

1 themselves. So it's always a tradeoff. You can do  
2 one thing to get to a tighter estimate, but then you  
3 might introduce a bias, a measurement bias that you  
4 didn't know. So there's always, sample error is only  
5 one portion of the problem. So, you know, we have to  
6 do everything we can in terms of minimizing all the  
7 rest of the type of error that can be so easily  
8 introduced you don't pay attention to it and then say  
9 okay, given that we paid attention to all that, then  
10 we can say that this is the best estimate.

11 And everybody always assumes that it's the  
12 worst-case scenario. It's always the things out here  
13 that, that means it's 95 percent when it's out here.  
14 It's 90 percent here and it's 67 percent of the stuff  
15 will be at a fairly tight boundary at the time. So  
16 it's very rare that it's the worst-case scenario. I  
17 mean, 95 percent of the time it will be less than the  
18 worst-case scenario. Sixty-seven percent of the time  
19 it's within one standard deviation of one standard  
20 error.

21 So, you know, there's definitely error,  
22 nobody's arguing that. It's just that I think  
23 everybody has been thinking it's going to be this --  
24 and that's natural. Everybody is risk averse, so they  
25 don't want to be surprised if it ends up being much

1 bigger than it is. But I'm saying yes, it's not going  
2 to be that number, but I would be careful about  
3 thinking it's as huge as some seem to be thinking.

4 And I think the additional test, and that  
5 was actually a very interesting additional test that  
6 we did using the wall test because it's not something  
7 that is typically done and I had to go get my  
8 statistician on board. He had to do some research and  
9 we really had to look into what are we doing here and  
10 what's being suggested.

11 And I think what's really interesting there  
12 is that literally it showed in 50 percent of the cases  
13 of the measures we had, they're not statistically  
14 different than zero. Now that doesn't mean they're  
15 going to be zero, but it means they're closer to zero  
16 than they are to the extreme going on the negative  
17 side of the estimate.

18 COMMISSIONER TAUB: I appreciate you  
19 amplifying that.

20 I appreciate your indulgence, Chairman.

21 CHAIRMAN GOLDWAY: Sure.

22 The one question I had that related to your  
23 first series of questions was did you see a difference  
24 between the way small businesspeople answered  
25 questions and the way individual users did in terms of

1 their current satisfaction with the mail or their  
2 understanding of what service standards were?

3 THE WITNESS: I'd have to look back in more  
4 detail at the qualitative research to see how much  
5 difference there were between them. I couldn't answer  
6 that off the top of my head.

7 CHAIRMAN GOLDWAY: Maybe we'll have to do  
8 that.

9 And then with regard to the second line of  
10 questioning, since we're now talking about a program  
11 that may be implemented two or three years beyond the  
12 initial survey, would that make it more important to  
13 know what the confidence intervals were?

14 THE WITNESS: No. I mean, like I said,  
15 since it's that far out I think more of concern is  
16 what's going to happen, what happens between now and  
17 then and what the current state is when that occurs.  
18 So I think those are the factors that are going to  
19 affect it as opposed to what the error is around the  
20 current data.

21 CHAIRMAN GOLDWAY: Okay. And I have one  
22 last somewhat detailed question from our staff that  
23 I've been asked to ask of you.

24 Our staff's been trying to replicate some of  
25 your calculations using the survey response data

1 provided in this case, but despite several rounds of  
2 questions, we've been unable to get a clear  
3 understanding of exactly what you did.

4 Back in December with POIR No. 1, Question  
5 18, you were asked to explain how missing responses  
6 were handled. In response, you said that you included  
7 only those cases where data were provided for both the  
8 before and after measures. Our staff tried to apply  
9 that rule but encountered some instances that seemed  
10 to be inconsistent with that original response.

11 So POIR No. 4, Question 10 pointed out a  
12 couple of examples of these inconsistencies and asked  
13 you to explain them. In response to that question,  
14 you identified a somewhat different rule, which was  
15 that respondents needed to provide data for an  
16 application for all three time periods as opposed to  
17 the two periods in your first response. You also  
18 stated that incomplete data for other applications  
19 would not exclude a response from the analysis of the  
20 application for which the complete data were provided.

21 Again our staff applied this seemingly  
22 straightforward rule to the response data and  
23 generated a volume forecast for consumers, but the  
24 results were quite different from those you presented  
25 in your testimony. So we provided you with our

1 results and the program file that was used to generate  
2 them and asked you in POIR No. 9, Question 1, which  
3 was given to you on May 31, to explain what was  
4 causing us to reach a different result than you. And  
5 as of last night we still don't have a response to  
6 that question. Do you have any comments? Will there  
7 be a response?

8 THE WITNESS: Well, yes, I have comments on  
9 that and then we'll get to the second question.

10 We have been working on it and we have had  
11 several communications back and forth between Ken and  
12 your staff. We did go through and have gone through,  
13 they're using a program called Stata, which is quite  
14 different from most statistical packages that are  
15 used, very different from SPSS and very different even  
16 from SAS. So I had again my statistician who writes  
17 code like this go through to understand what is being  
18 done from what we can tell from that code that was  
19 provided, and it's fairly complex. It's not like  
20 reading a simple book and it's very mathematically  
21 formulaic written versus what we did. And we could  
22 see some differences.

23 We had asked for a list of ID numbers on the  
24 consumer side as to who was included in the data. The  
25 easiest way, like that one question that you referred

1 to where you said well, here was these things, how  
2 come it's different? It's very simple for us to look  
3 back into the data, which is when I said yes, I had  
4 misstated before, it is, they had to have data in 2011  
5 for that application. 2011, 2012, after, which is  
6 what I stated in my original testimony as well.

7 So, you know, then you're doing this sort of  
8 thing it really is a question of trying to understand,  
9 it's easier, less time-consuming and actually more  
10 accurate for us to see where the difference is they're  
11 finding so we can say oh, this is what you're doing  
12 here that's different from what we're doing.

13 What we can tell from reading their code is  
14 that it is something that is being done differently  
15 with the way Stata actually uses and applies missing  
16 data from what happens in SPSS and SAS, and I believe,  
17 and I can't prove this without literally sitting down  
18 with somebody and saying what are you doing, which has  
19 been offered, I believe that what they've done is  
20 they've gone way back to the original data, because I  
21 remember them asking us for that, and I'm believing  
22 that they're using some numbers in there that in our  
23 subsequent coding we said that's missing data. I  
24 think there's like 999s and 998s in there that we  
25 turned around and said those are missing, put them to

1 minus one to make it simple and then declared those  
2 missing. They're really I don't know, I refuse to  
3 answer or they don't match across those three cases.

4 So it's something that's happening in there,  
5 and without literally sitting down with somebody who's  
6 doing this --

7 CHAIRMAN GOLDWAY: Would it be possible for  
8 you simply to have a program file of your own that  
9 generates your results that you could share with our  
10 staff so that we could see exactly what you did?

11 THE WITNESS: We actually have that. We  
12 keep a program file and a log of everything that we  
13 did.

14 CHAIRMAN GOLDWAY: Well, could we get that  
15 as a response to the POIR?

16 THE WITNESS: Yes.

17 CHAIRMAN GOLDWAY: All right. Then we will  
18 get that and if we get that, perhaps we won't need to  
19 sit down and cross the different programs, but if we  
20 do still need to sit down with you to check our  
21 program versus yours --

22 THE WITNESS: They're fairly consistent, but  
23 since --

24 CHAIRMAN GOLDWAY: A program file that  
25 generates your results.

1 THE WITNESS: So you just want the consumer  
2 one since that seems to be the one they're looking at?

3 CHAIRMAN GOLDWAY: I'll get my staff to  
4 write out exactly what it is that they want. I don't  
5 want to rely on my notes here from what they gave me,  
6 but I will appreciate your cooperation in that regard.

7 THE WITNESS: But we have been working on  
8 it.

9 CHAIRMAN GOLDWAY: Okay. Are there any  
10 other questions from the bench?

11 MR. LAVER: Madam Chairman, Chris Laver for  
12 the Public Representative. If I could beg your  
13 indulgence, I have two follow-up questions based on  
14 bench questions.

15 CHAIRMAN GOLDWAY: Yes.

16 MR. LAVER: I'll be very brief.

17 FURTHER CROSS-EXAMINATION

18 BY MR. LAVER:

19 Q You talked a little bit with Commissioner  
20 Acton about how extraneous events such as a recession  
21 could impact the validity of your market research data  
22 between now and 2014, and you said that those would be  
23 outside of the Postal Service's control. Is it also  
24 true that events within the Postal Service's control  
25 could drastically change people's perspectives or

1 answers such as if they managed to get through  
2 Congress the five-day delivery or if they closed your  
3 local post office, that those events within the Postal  
4 Service's control may also change --

5 A Sure, those would also change. Or maybe  
6 they came up with new products and services. That  
7 could also change, yes.

8 Q So it's both within and outside of their  
9 control.

10 A Correct.

11 Q Okay. Second was again on the likelihood  
12 factor. The research that you discussed, there was a  
13 great deal of literature supporting the use of the  
14 likelihood factor weight for a purchase intention, for  
15 likelihood of buying or not buying and how much. Now  
16 are you aware of any literature or journals that are  
17 out there that support the use of both a likelihood  
18 factor and then your second probability factor in  
19 assessing a purchase intention or even a reaction to a  
20 service decrease?

21 A Well, not absolutely directly to that, and  
22 I've stated that before, that there's nothing to  
23 specifically say this makes it more accurate or not,  
24 but I also stated that the application of that  
25 particular weight was so minimal that I think that's

1 not what is really being applied. It's really just  
2 that first one.

3 Q So to summarize, would you say that there is  
4 not support for using a second weight but that it  
5 doesn't matter because it didn't impact things too  
6 much?

7 A Well, I'm saying there's not like a written  
8 article saying do this exactly this way. There's  
9 nothing to do that. I don't think it's necessarily  
10 the wrong thing to have done. If it was the wrong  
11 thing to have done, I wouldn't have done it. But with  
12 all this discussion, I did also say the impact is so  
13 minimal it's kind of like why are we worrying about  
14 it? Not to be flippant about it. I'm just saying  
15 it's so small that, you know, we're taking a lot of  
16 time worrying about something that's not having much  
17 of an impact.

18 Q Would adding a third or fourth, would that  
19 have been consistent, do you think, with best  
20 practices?

21 A It would depend on what the weight was.

22 Q So it would depend on the outcome of what  
23 people reported to determine whether or not it was  
24 impacting --

25 A Right, what the question was and whether

1 it's a legitimate thing to do. You know, we would  
2 always question -- going into data, you would always  
3 question, you never want to weight if you don't need  
4 to weight. I mean, that's just a general rule. Don't  
5 weight if you don't need to weight. We do that when  
6 we weight samples to make sure that they represent the  
7 population. If you don't need to weight, don't  
8 weight. But when there's logical solid support and  
9 it's justified, we're not making these up. If we can  
10 say there's research standards, research practice or  
11 literature to support applying this weight because it  
12 makes the data more valid.

13 And remember, there's a difference between  
14 reliability and validity, and I'm talking about  
15 increasing the validity of the data ,that by making  
16 this more valid it make sense to apply this weight.

17 It's the same with sampling. If I go out  
18 and I just interview on a poll tonight and I've got to  
19 report the results tomorrow, we always apply standard  
20 weights because I know I'm going to get 65-plus-year-  
21 old women who are sitting at home and so I need to  
22 weight down in essence their responses and weight up  
23 the people that are harder to get. So, you know,  
24 that's just common practice and you just need to look  
25 at is it legitimate to do this.

1           We believe strongly that in this case the  
2 weights that were applied are legitimate and if they  
3 weren't we would not weight. We would discourage  
4 weighting if it's not legitimate.

5           Q     So to tie it together, by legitimate, you  
6 mean helps you manage risk or uncertainty more.

7           A     No, it makes the results more valid and  
8 reliable. We weight to make the results more  
9 representative of the population of interest.

10          Q     And that has nothing to do with trying to  
11 manage risk or uncertainty?

12          A     No.

13               MR. LAVER: Thank you very much.

14               CHAIRMAN GOLDWAY: Any other follow-up  
15 questions from the bench?

16               MR. DeCHIARA: Just one, Madam Chairman.

17               CHAIRMAN GOLDWAY: Mr. DeChiara.

18                       FURTHER CROSS-EXAMINATION

19               BY MR. DeCHIARA:

20           Q     Ms. Elmore-Yalch, are you aware of any prior  
21 market research where a solely attributable factor was  
22 used?

23           A     I'm not. I've said that before.

24               MR. DeCHIARA: That's all.

25               CHAIRMAN GOLDWAY: Any other questions? Mr.

1 Anderson?

2 MR. ANDERSON: Thank you. Darryl Anderson  
3 for the APWU. I want to follow up something that  
4 Commissioner Acton asked and it was also I think  
5 touched on by Chairman Goldway if I may. And I'd like  
6 to distribute APWU Cross-Examination Exhibit 1.

7 (The document referred to was  
8 marked for identification as  
9 APWU Cross-Examination  
10 Exhibit No. 1.)

11 FURTHER CROSS-EXAMINATION

12 BY MR. ANDERSON:

13 Q Ms. Elmore-Yalch, this is a blog actually  
14 concerning --

15 THE WITNESS: Could I ask one question here?  
16 I actually have a meeting scheduled that's our big  
17 management meeting. Can I at least send them an email  
18 saying I'm still in this?

19 CHAIRMAN GOLDWAY: How much longer? Is this  
20 just one question you have?

21 MR. ANDERSON: This is one series of  
22 questions, probably five minutes.

23 CHAIRMAN GOLDWAY: Can you wait five  
24 minutes?

25 THE WITNESS: Okay. I can wait five

1 minutes. If it goes beyond that, I literally need --  
2 I'm sorry

3 CHAIRMAN GOLDWAY: Then we're going to break  
4 for you to check with your --

5 THE WITNESS: Okay. That works.

6 MR. ANDERSON: I certainly regret if I  
7 inconvenience you.

8 THE WITNESS: No, that's fine. I just  
9 didn't think it was going to go on quite this long.

10 MR. ANDERSON: It will be completely up to  
11 the Commission as to how this proceeding goes from  
12 here and whether we continue at another date.

13 BY MR. ANDERSON:

14 Q First I want to come back to the question of  
15 lack of knowledge. You testified repeatedly that you  
16 kept getting responses from people they really didn't  
17 know how fast mail gets delivered, but you also  
18 testified that small businesses told you that it might  
19 really affect them adversely. So, without further  
20 pressure on your recollection, wouldn't it be fair to  
21 say that it was probably individual consumers who were  
22 telling you that they didn't know and businesspeople  
23 were much more likely to be aware?

24 A No, I would say that across the board, both  
25 businesses and consumers, particularly the small and

1 the home-based businesses and consumers, were less  
2 aware or unaware of what the service standards were.  
3 I would not say that the large businesses were  
4 unaware, but there was a segment of small business  
5 consumers that were quite aware that if you put it in  
6 the mail on one day in their local area it would be  
7 there the next day.

8 Q So I guess this JP Morgan article indicates  
9 that slower collections could cost large corporations  
10 up to \$100 million in working capital annually, and  
11 you see the three bullets in the middle of the page  
12 there? In addition, other potential side effects  
13 would include an increase in customer late fees,  
14 increased call volume to customer service and  
15 decreased customer satisfaction levels.

16 MR. HOLLIES: Excuse me, Madam Chairman. I  
17 would like to object to this line of questioning. We  
18 have at the tail end of cross-examination as followup  
19 to somebody else's questions introduction of what  
20 appears to be a four-page article unrelated in  
21 substance to anything that the witness has done.  
22 She's been given no chance to read the article. She  
23 has no basis therefore to testify as to what the  
24 article says or does not say.

25 CHAIRMAN GOLDWAY: In the interest of

Heritage Reporting Corporation  
(202) 628-4888

1 time --

2 MR. HOLLIES: This is the kind of cross-  
3 examination exhibit that should be provided in  
4 advance.

5 CHAIRMAN GOLDWAY: Counsel Hollies, it's a  
6 one-page article and it does, at least my copy is just  
7 one page, and it does follow on my question about  
8 whether businesses are aware of service standards.  
9 So, if counsel from APWU can be brief in terms of  
10 asking his question, I can then determine whether that  
11 question relates to the subjects that we brought up.

12 MR. ANDERSON: Thank you, Madam Chairman.

13 BY MR. ANDERSON:

14 Q Then I want to lump all this together  
15 because it says that has to do with large corporations  
16 and the cost to them, but then the article continues  
17 that the impact on working capital and customer  
18 satisfaction is likely more significant in small and  
19 medium-sized enterprises.

20 And really I think this is a two-pronged  
21 inquiry because part of it goes to whether how  
22 consistent that is with your subjective impression  
23 obtained from your qualitative research. And so let  
24 me ask, is that the kind of feedback you were getting  
25 from these small businesses, or was that just oh well,

1 gosh, we don't really know how fast the mail is and it  
2 probably won't affect us? Which is it? You disagree  
3 with this I guess.

4 A I can't even remotely answer that because  
5 first I'm looking at this and the first part of this  
6 has a citation from REL Consulting. Sorry, not only  
7 is it, it's small type too. Consulting. So before I  
8 could say I agree or disagree or it's consistent or  
9 inconsistent, I would want to see that source and  
10 review that source.

11 And then the statement, the next statement  
12 that they have down there, there's no source cited  
13 whatsoever that says that it is likely more  
14 significant. I mean, I have no idea because I don't  
15 have a source for it.

16 Q Well, I'm not asking you whether this  
17 article is founded on fact and is correct. I'm using  
18 it to challenge your recollection that individuals and  
19 small businessmen alike didn't really know whether  
20 mail gets there fast or not fast and didn't seem to  
21 care whether it did or not. I mean, this article  
22 seems to me to suggest, and --

23 MR. HOLLIES: Objection to Mr. Anderson's  
24 testimony.

25 MR. ANDERSON: Let's assume I wrote the

Heritage Reporting Corporation  
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1 article, okay? I wrote it. I suggest to you that  
2 people care.

3 CHAIRMAN GOLDWAY: I think what Mr. Anderson  
4 just wants to do is double-check on a question that  
5 was asked, what is your recollection on the concerns  
6 that small or medium or large-sized businesses had  
7 with regard to service standards in your questions as  
8 opposed to individuals?

9 THE WITNESS: Well, I mean, all I can go  
10 from is that in the qualitative research the small and  
11 home-based businesses did express some concerns, but  
12 many of them also said no concerns.

13 You can also look at, and I'd have to find  
14 it because it's there in the forecasts themselves, is  
15 that if you look at the home-based volume forecasts  
16 and the small volume forecasts that we estimated where  
17 we asked people what's going to be your volume, and  
18 that's on page 52 of my testimony, the percentage  
19 change in their volume is much smaller than the  
20 percentage change say in the preferred accounts  
21 volume.

22 So one could say well, you know, without  
23 knowing anything more, the preferred accounts may be  
24 more impacted than the small and the home-based  
25 businesses. So yes, there are some variations in

1 their forecasts, but I don't know how you could say,  
2 you know, without knowing where this more likely comes  
3 from, I can't take this for that.

4 MR. ANDERSON: I appreciate your answer.  
5 That's okay. You've answered my question. I said it  
6 was a two-pronged question.

7 BY MR. ANDERSON:

8 Q The other part of it is, with regard to the  
9 usability of your research for 2014, there is a page 2  
10 to this article which --

11 CHAIRMAN GOLDWAY: Yes. I didn't have it in  
12 mine. It was blank.

13 MR. ANDERSON: I apologize.

14 COMMISSIONER TAUB: Madam Chair, I do have a  
15 question on procedure here.

16 CHAIRMAN GOLDWAY: Yes. Is this related to  
17 a follow-up?

18 COMMISSIONER TAUB: Are we accepting into  
19 evidence blog entries that folks are coming in here --

20 CHAIRMAN GOLDWAY: This is not in evidence.

21 COMMISSIONER TAUB: This is not in evidence,  
22 but we're having lines of questions based on it?

23 MR. ANDERSON: I haven't offered it into  
24 evidence. It's merely a cross-examination exhibit.

25 CHAIRMAN GOLDWAY: It's not offered in

1 evidence.

2 COMMISSIONER TAUB: And again, based on what  
3 questions?

4 COMMISSIONER HAMMOND: Well, Madam Chairman,  
5 could we at least allow the Postal Service counsel to  
6 finish his objection so it would at least be on the  
7 record?

8 CHAIRMAN GOLDWAY: The objection to this  
9 document which isn't in evidence?

10 COMMISSIONER HAMMOND: The objection that  
11 Mr. Hollies has twice tried to make but not been  
12 allowed in my opinion to finish.

13 CHAIRMAN GOLDWAY: By all means. If Mr.  
14 Hollies would like to expound on his objection, he  
15 may.

16 MR. HOLLIES: Thank you, Commissioner and  
17 Madam Chairman.

18 This is a multi-page exhibit, not overtly  
19 related to the testimony of the witness. The  
20 Commission's rules specify that cross-examination  
21 exhibits, especially if they're more complex or  
22 related to complex testimony, should be provided in  
23 advance to give the witness an opportunity to review  
24 the material.

25 So my objection here starts with relevance

1 and goes on to the point that we're not giving the  
2 witness an opportunity to take a look at what this is.  
3 She has had no opportunity to evaluate it. And the  
4 very first response we heard from her emphasized that  
5 fact, that this is not something that's appropriate  
6 for the conduct of cross-examination, especially at  
7 this stage of this proceeding.

8 MR. ANDERSON: May I respond, Madam  
9 Chairman?

10 CHAIRMAN GOLDWAY: You may respond.

11 MR. ANDERSON: It's on point to something  
12 that came up during the Commissioner's questions, and  
13 I frankly found it surprising that the witness  
14 couldn't distinguish between consumers and businesses,  
15 small businesses in terms of their knowledge about  
16 delivery standards, and so I thought it useful to  
17 challenge her.

18 MR. HOLLIES: Objection. That  
19 mischaracterizes her testimony.

20 CHAIRMAN GOLDWAY: I think whatever the  
21 objections are, the answer that the witness gave  
22 regarding the information that's in her testimony  
23 clarifying the responses from different levels of  
24 businesses and individuals was useful, and I  
25 appreciate it and it didn't comment in any way on this

1 particular document. So I think that we don't need to  
2 argue this issue any further. And I'm waiting to hear  
3 what your second question is, and hopefully it will be  
4 less controversial.

5 MR. ANDERSON: Thank you, Madam Chairman.

6 BY MR. ANDERSON:

7 Q If in fact businesses, large and small,  
8 respond to service standard changes made in Phase I  
9 let's say before 2014 by switching to electronic,  
10 using more, embracing innovative electronic  
11 strategies, encouraging customers to make payments  
12 electronically, reassessing their receivables strategy  
13 and prepare to receive electronic payments more, it  
14 could well be that the landscape will change so much  
15 that your research may not have any direct bearing on  
16 what to expect in 2014. Isn't that true?

17 A I believe I already said that there are  
18 things that are likely to occur between now and 2014  
19 that will suggest that the number may be the same or  
20 it could be different. And I have no way because,  
21 one, I don't know what's going to happen between 2012  
22 and 2014. If I knew, I wouldn't have to be sitting up  
23 here. I could be sitting someplace else as a seer so  
24 to speak. Nobody knows. You don't know, I don't  
25 know. You know, nobody knows.

1 CHAIRMAN GOLDWAY: I think this question's  
2 been answered.

3 MR. ANDERSON: Thank you very much. I  
4 appreciate your indulgence.

5 CHAIRMAN GOLDWAY: All right. That  
6 concludes your questions from the participants in the  
7 bench.

8 Counsel Hollies, would you like a few  
9 minutes with your witness to plan redirect?

10 MR. HOLLIES: Yes, 15 minutes.

11 CHAIRMAN GOLDWAY: Okay. We'll take a 15-  
12 minute break.

13 (Whereupon, a recess was taken.)

14 CHAIRMAN GOLDWAY: Counsel Hollies, may be  
15 begin? Thank you. We're actually a moment early.  
16 I'm going to have to leave quickly as you are.

17 Counsel Hollies, do you have any questions  
18 that you'd like to ask of your witness?

19 MR. HOLLIES: We do not have any questions  
20 at this point. Thank you.

21 CHAIRMAN GOLDWAY: That's wonderful. That  
22 means we can conclude the hearing today.

23 And I'm pleased to be able to tell you that  
24 you're excused from the witness bench. We want to  
25 thank you for your testimony and compliment you for

1 your honest answers and composure and the professional  
2 view that ORC often provides to us.

3 One thing before you leave is that I'd like  
4 to read, I know that counsel already has a copy and  
5 the court reporter has it, but I'd like to read for  
6 those of you who are listening the specific language  
7 of the question that we discussed that staff would  
8 like you to provide for them. It's a pending POIR.

9 To supplement POIR Question 9, No. 1.  
10 Excuse me, POIR 9, Question 1.

11 Will the ORC please provide for the  
12 Commission a commented executable program files that  
13 replicate the results presented in your testimony and  
14 that can be run using the data that you've already  
15 submitted in Library Reference No. 1 for the consumer,  
16 small and home-based business and large businesses?  
17 In addition, please provide the associated log files.

18 Good. If we get that information, I think  
19 the staff will be very happy and will be able to give  
20 us the kind of analysis that we need to develop our  
21 advisory opinion.

22 MR. HOLLIES: Madam Chairman, one  
23 clarification. Does that refer to Library Reference  
24 NP1?

25 CHAIRMAN GOLDWAY: Staff? Yes.

1 MR. HOLLIES: Okay. Thank you.

2 CHAIRMAN GOLDWAY: All right. Thank you  
3 then.

4 THE WITNESS: Excuse me. If I could just  
5 ask, can we do this to some extent in a step-wise  
6 fashion? Can you ask them that we provide you with  
7 one file and they say yes, this is what we need, and  
8 then we'll execute for the remaining?

9 CHAIRMAN GOLDWAY: Yes. Just please do it  
10 quickly.

11 THE WITNESS: That way we don't have to go  
12 back and forth.

13 CHAIRMAN GOLDWAY: Yes, but please work on  
14 this as quickly as possible so we can begin to do the  
15 analysis that we need to do as quickly as possible.

16 With that, once again, thank you, Ms.  
17 Elmore-Yalch, for being here today and for your  
18 lengthy contribution to the record. We appreciate it  
19 and we appreciate that the meeting is adjourning today  
20 and that we will not need to have any meetings  
21 tomorrow as had been scheduled. And I'm sure we will  
22 see many of you at other hearings and proceedings, but  
23 for the moment we adjourn the meetings in N2012-2.

24 (Whereupon, at 3:18 p.m., the hearing in the  
25 above-entitled matter was adjourned.)

4503

REPORTER'S CERTIFICATE

DOCKET NO. : N2012-1

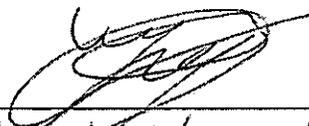
CASE TITLE: Mail Processing Network Rationalization  
Service Changes, 2012

HEARING DATE: 6/28/12

LOCATION: Washington, D.C.

I hereby certify that the proceedings and evidence are contained fully and accurately on the tapes and notes reported by me at the hearing in the above case before the Postal Regulatory Commission

Date: 6/28/12

  
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