

UNITED STATES OF AMERICA
POSTAL REGULATORY COMMISSION
WASHINGTON, DC 20268-0001

Before Commissioners:

Ruth Y. Goldway, Chairman;
Mark Acton, Vice Chairman; and
Robert G. Taub

Market Test of Experimental Product-
Customized Delivery

Docket No. MT2014-1

NOTICE AND ORDER CONCERNING MARKET TEST OF
EXPERIMENTAL PRODUCT—CUSTOMIZED DELIVERY

(Issued September 25, 2014)

I. INTRODUCTION

On September 23, 2014, the Postal Service filed a notice, pursuant to 39 U.S.C. 3641, announcing its intent to conduct a market test of an experimental product called Customized Delivery.¹ Customized Delivery is a package delivery service offering that will provide customers with delivery of groceries and other prepackaged goods during a 3 a.m. to 7 a.m. delivery window. *Id.* at 1. The market test will begin on or shortly after October 24, 2014 and continue for two years. *Id.* at 6.

¹ Notice of the United States Postal Service of Market Test of Experimental Product – Customized Delivery, September 23, 2014 (Notice). The Notice includes an Application for Non-Public Treatment of Materials related to the Postal Service’s pricing plans for the market test.

II. BACKGROUND

On September 23, 2014, the Postal Service filed the Notice proposing the Customized Delivery market test.² It states that grocery delivery services are expanding across the nation. Notice at 2. It asserts that with its operational reach, the Postal Service can provide retailers a nationwide solution offering a trained workforce and the trust and reliability of the Postal Service brand. *Id.* The Postal Service contends that it can garner profitable revenue through new revenue streams by expanding its carrier services and offering customized delivery. *Id.*

Operational testing. The Postal Service recently began operational testing for early morning grocery delivery. *Id.* The testing involves a retailer packing groceries into retailer-branded totes, some of which are chilled or include freezer packs.³ The retailer brings the totes directly into Postal Service destination delivery units (DDU) between 1:30 a.m. and 2:30 a.m. *Id.* The totes, which have a Quick Response (QR) code on the outside, are all the same size and color. *Id.* The retailer provides a manifest file to the Postal Service, which contains the address and QR code for each tote. *Id.* The Postal Service uses this file to dynamically route totes and create a line of travel for each route. *Id.*

City Carrier Assistants (CCAs) use iPhones to scan the totes, which are sorted by route and delivery order and back-loaded onto a truck for delivery. *Id.* at 3. Deliveries occur from 3 a.m. to 7 a.m. and are unattended; the carrier places the totes in a customer-designated location for delivery. *Id.* Totes are scanned to provide tracking and visibility through to delivery. *Id.* The public can easily recognize CCAs, who wear postal uniforms and lighted caps as safety measures. *Id.*

² On August 28, 2014, the Commission issued an order adopting final rules for market tests of experimental products under 39 U.S.C. 3641. Docket No. RM2013-5, Order No. 2173, Order Adopting Final Rules for Market Tests of Experimental Products, August 28, 2014. The rules were published in the *Federal Register* and will become effective on October 14, 2014. 79 FR 54552 (September 11, 2014).

³ *Id.* The Postal Service does not explain what totes are. Totes appear to refer to tote bags, which are large and often unfastened bags with parallel handles that emerge from the sides of its pouch.

Nature and scope of market test. Pursuant to section 3641(c)(1)(B), the Postal Service provides a description of the nature and scope of the market test. During operational testing, the Postal Service delivered on average 1 to 4 totes per address, with an average of 160 totes per day for the 38 ZIP Codes included in the testing. Notice at 3. Through the market test, the Postal Service seeks to test and develop a long-term scalable solution to expand Customized Delivery to additional major metropolitan markets nationwide. *Id.*

The market test will begin on or shortly after October 24, 2014 and will run for two years unless the Postal Services requests an extension for an additional year, establishes Customized Delivery as a permanent product, or terminates the market test early. *Id.* at 6.

Statutory authority. The Postal Service asserts that its proposal satisfies the criteria of 39 U.S.C. 3641, which imposes certain conditions on market tests of experimental products. The Postal Service asserts that Customized Delivery is significantly different from all products offered within the past two years because it has not offered a customized delivery product during that time. *Id.* at 4; see 39 U.S.C. 3641(b)(1). It states that it does not expect Customized Delivery to create an “unfair or otherwise inappropriate competitive advantage for the Postal Service or any mailer” because prices offered by competitors for grocery delivery typically fall within the price range that the Postal Service intends to test. *Id.* at 5; see 39 U.S.C. 3641(b)(2). The Postal Service classifies Customized Delivery as a competitive product because it is part of the highly-competitive package services market that does not fall under the Private Express statutes. *Id.* at 6; see 39 U.S.C. 3641(b)(3).

Exemption from revenue limitation. The Postal Service expects that the total revenue received from the market test may exceed the \$10 million revenue limitation for market tests in any fiscal year. *Id.* at 7; see 39 U.S.C. 3641(e)(1). It applies for an exemption of this statutory requirement and states that it has taken steps to ensure that anticipated revenues will not exceed \$50 million in any year. *Id.*; see 39 U.S.C. 3642(e)(2). It asserts that the market test is likely to benefit the public and meet an

expected demand, as well as contribute to the financial stability of the Postal Service.

Id.

Data collection. The Postal Service asserts that it will monitor market demand for Customized Delivery and will track the costs of providing delivery of grocery and other pre-packaged goods during customized delivery windows. *Id.* at 8. It has prepared a data collection plan to track volumes of packages delivered via Customized Delivery; total revenue generated; work hours, travel times, and other cost data; and administrative and start-up cost data. *Id.*

III. NOTICE OF FILING

The Commission establishes Docket No. MT2014-1 to consider matters raised by the Notice, including the Postal Service's request for exemption from the \$10 million revenue limitation. It encourages interested persons to review the Notice for more details. Interested persons may submit comments on whether the Postal Service's filing is consistent with the requirements of 39 U.S.C. 3641. Comments are due no later than October 9, 2014. The filing can be accessed via the Commission's website (<http://www.prc.gov>).

The Commission appoints Anne J. Siarnacki to serve as Public Representative in this docket.

IV. ORDERING PARAGRAPHS

It is ordered:

1. The Commission establishes Docket No. MT2014-1 to consider matters raised by the Notice.
2. Pursuant to 39 U.S.C. 505, Anne J. Siarnacki is appointed to serve as an officer of the Commission (Public Representative) to represent the interests of the general public in this proceeding.

3. Comments by interested persons are due no later than October 9, 2014.
4. The Secretary shall arrange for publication of this Order in the *Federal Register*.

By the Commission.

Ruth Ann Abrams
Acting Secretary