POSTAL REGULATORY COMMISSION

SUMMIT MEETING - POSTAL
CUSTOMER NEEDS IN A CHANGING REGULATORY ENVIRONMENT

Conference Hall
William F. Bolger Center
9600 Newbridge Drive
Potomac, Maryland

Tuesday,
March 13, 2007

The parties met, pursuant to notice, at 9:00 a.m.

BEFORE: HONORABLE WILLIAM M. TAKIS
Moderator

APPEARANCES:

WILLIAM M. TAKIS, Moderator
Partner, IBM Global Services

DAN G. BLAIR, Chairman
Postal Regulatory Commission

JOHN E. POTTER, Postmaster General
United States Postal Service

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APPEARANCES: (CONT'D)

PANEL 1 - MEETING CUSTOMER NEEDS IN THE MARKET DOMINANT CATEGORY:

JODY BERENBLATT, Senior Vice President
Postal Strategy, Bank of America

STEVE LASERSON, Vice President
Business Intelligence/Research & Development
American Greetings Corporation

LOUIS MILANI, Senior Director
Business Affairs & Publishing Operations
Consumers Union

MARKUS WILHELM, Chief Executive Officer
Bookspan

PANEL 2 - MEETING CUSTOMER NEEDS IN THE COMPETITIVE PRODUCT CATEGORY

RICK COLLINS, Managing Director
South East & Mid-Atlantic Region, AFMS

JULIE SWATEK, President
Scrap Your Memories, Inc.

TY TAYLOR, Manager
Marketing Transportation and Postal Affairs
JC Penney Company, Inc.

JAMES E. WEST, Director
Postal and Government Affairs, Williams-Sonoma, Inc.

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APPEARANCES: (CONT'D)

PANEL 3 - DESIGNING FLEXIBLE, CUSTOMER-RESPONSIVE, PRICING & PRODUCT REGULATION

ROGER KODAT, Deputy Assistant Secretary
Government Financing Policy, Department of the Treasury

DAVID LEVY, Partner
Sidley, Austin LLP

J. GREGORY SIDAK, Visiting Professor of Law
Georgetown University Law Center

IAN VOLNER, Partner
Venable LLP

PANEL 4 - SERVICE STANDARDS AND MEASUREMENT FOR MARKET DOMINANT PRODUCTS

DAN EMENS, First Vice President
Marketing Operations, Chase Card Services

BEN LAMM, Director
Direct Mail Operations, Capital One

BILL MCCOMB, Director
Operations Support, Netflix, Inc.

JAMES R. O'BRIEN, Director
Distribution and Postal Affairs, Time Incorporated

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MR. TAKIS: Thank you for all coming here today, and welcome to the U.S. Postal Service and the Postal Regulatory Commission’s Summit Meeting on Meeting Customer Needs in a Changing Regulatory Environment. Thank you all for coming today. My name is Bill Takis, and I am a partner with IBM’s Global Business Services located here in Washington, D.C., and I am very pleased to be your moderator for the day today.

As you all know, we’re here to discuss the challenges and the opportunities that are presented by the Postal Accountability and Enhancement Act of 2006. That’s a big mouthful but the Act as passed by Congress, as you know, not only to strength the mailing industry but also to ensure the long-term financial feasibility and viability of the Postal Service going forward.

Now many of the pricing provisions in the Act provide both the Postal Service and the Postal Regulatory Commission with an avenue at achieving these goals, through increased flexibility in the pricing mechanism, the pricing approaches that the Postal Service and the Postal Regulatory Commission

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will be taking in the future.

At the same time it also provides a framework to the Postal Service and to the PRC to promote efficiency in the overall industry, and allowing the Postal Service to operate in a more business-like environment, and most importantly to respond to customer needs in many different areas and a myriad of different approaches, and that’s exactly why we’re here today is to get feedback from you all for the Postal Service and the Postal Regulatory Commission around these various alternatives and various approaches that it can take.

So we’re going to be doing today, as you know, we have a series of panelists and different speakers, but we’re going to be trying to encourage as much customer and industry participation as we can, even in a group of 300 some odd people. So it’s going to be quite a challenge but I know we’re up to it.

Now the Postal Service and the PRC have designed this session today around four different sessions, and we’re going to be talking more about them in a moment, but I’ll give you a little overview now. The first session is going to be focused on the market dominant products and services, and then we’ll turn our attention to the competitive services and
products.

Next we'll have a discussion around the regulatory framework that the PRC and the Postal Service will be designing, and finally we'll have a session on service standards and measurements, which as you know is a very major part of the Act and the legislation going forward. At the very end of the day we're going to have a wrap-up session and we'll talk about that in a moment.

But before we get into the individual panels themselves, we're very pleased to have two very special speakers with us today who are going to be setting the stage for the entire day and providing a very good context for our discussions later in the morning and in the afternoon.

So let me introduce our first two speakers. Mr. Dan Blair is our first guest, and he was recently appointed by President George W. Bush as the very first Chairman of the Postal Regulatory Commission. Mr. Blair comes to this position with a long history of service to the American people, including extensive experience in the Postal and the Civil Service sectors. Most recently Mr. Blair served as the Deputy Director of the U.S. Office of Personnel Management where he was responsible for many different reform
efforts, and he also testified before Congress on issues concerning pensions and health benefit liabilities affecting the Postal Service.

Prior to joining OPM, Mr. Blair had a long and very distinguished career on Capitol Hill. He worked for nearly 17 years on the staffs of both the House and Senate committees, charged with Postal and Civil Service oversight. We are very honored to have Mr. Blair here today and for him to be sharing his views on the Act. Ladies and gentlemen, please welcome Mr. Dan Blair.

MR. BLAIR: Good morning everyone. Bill, thank you for that kind introduction. I appreciate it very much. I've had the pleasure to come out here on several occasions, and every time I've been out here I've always been struck by how much you can actually get done when you get outside the beltway. So I think that today's session should be a good one.

The Postal Service and the Postal Regulatory Commission are jointly sponsoring this program today to get your input. We all want an effective, responsive Postal Service, and in order to meet your needs, we have to understand them. Bill referenced that today in that we want your input, and we need your input.

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At the outset, I want to thank the Postal Service for hosting this. Later this summer the Postal Service will engage the Commission in full consultation to develop and establish new service standards for all classes of mail, and in preparation for this the Service has invited the Commission to observe the MTAC meetings of which our customer service requirements are being explored. We appreciate this outreach, and we look forward to the consultation.

All of this will guide us in our thinking as we proceed to engage the community in developing the complaint process. This morning I’m here and I would like to acknowledge in the audience today the other Commissioners from the Postal Regulatory Commission as well. We have Commissioners Acton, Goldway, and Hammond in the audience, and I also want to recognize my predecessor and good friend, George Omas, who is out here today, and also thank again Postmaster General Potter for his leadership in bringing us all together this morning.

Eleven days ago Jack Potter and I had the chance to speak at a program on Postal reform hosted by the American University School of Public Affairs. Jack identified what I believe are some key concepts...
that we should remember as we implement Postal reform.
First, Congress approved the new legislation to enable
the Postal Service to continue to evolve to meet the
needs of the American public. By any reasonable
measure, the Postal Reform Act of 1970 was indeed a
success. That law took politics out of the Post
Office and directed it to operate like a business.
The Postal Service has done that, and it’s improved
service while becoming financially sound.

The new legislation builds on that success.
It gives the Postal Service additional tools to meet
the challenges of changing markets and new authority
to price its own products. At the same time, Congress
reaffirmed the Postal Service’s role as a government
service whose primary mission remains providing
universal service at affordable rates for the American
public. It must serve both businesses and
individuals.

The Postal Regulatory Commission is the
means for providing the transparency appropriate for a
government body with this mission. My colleagues on
the Commission and I are charged with the task of
developing and implementing a new modern system of
rate regulation. This is an extremely challenging and
important responsibility. In order to do the best job

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possible, we need your help. We hope that all interested Postal stakeholders -- especially including the Postal Service -- will take the time to think about the many requirements, objectives and factors set out by Congress and provide us with advice on how best to balance those considerations.

In order to do this, the Commission issued an advanced notice of proposed rulemaking in late February asking for written comments. Those comments are due April 6. To date we have received no comments. We announced that all comments would be published on our website and invited interested persons to file responsive comments by May 6.

I hope our conversation today will generate innovative thinking on a system of rate regulation that will best serve the needs of the Postal Service, the mailing community and the entire nation. The Commission has asked for comments to facilitate dialogue, and I firmly believe that exchanging ideas and carefully evaluating alternatives is the best way to obtain the full potential benefits of the Postal Accountability and Enhancement Act.

If everyone waits and in fact keeps their powder dry, the opportunity for dialogue will pass. We have a deadline. Congress gave the Commission 18
months to enact implementing regulations, and we will meet that deadline. This raises a question I would like you all to think about today. Why 18 months? The House bill allowed 24 months, while the Senate bill gave us 12 months. As a compromise, the Congressional negotiators agreed to 18 months.

Eighteen months is precious little time for designing a modern system for rate regulation but the question I have for you today is whether it is the best interest of the Postal Service and the mailers and our Postal system for the Commission to use the full 18 months? Most of us in Washington have come to expect that when a government agency is given 18 months to do a job it will take the full 18 months, unless it takes 24 to 30 months.

But I think Congress had hoped that we might do things a little bit differently, think outside the box, and come up with some new ways to meet the problems of the new century. Congress may have presumed the Commission would take the full 18 months to act, and in any case it allowed the Postal Service to file one more rate case under the old system if it needed to generate additional revenues while the new system was being designed.

Again the question is: Does it make sense
to litigate an omnibus rate case at the same time
everyone is trying to develop a new system? In the
recently completed rate case, the Postal Service filed
testimony from dozens of witnesses and responded to
literally thousands of discovery requests from
intervenors. Does it make sense for the Postal
Service pricing and marketing executives -- the same
people who should be exploring how best to use pricing
flexibility -- to be spending their time justifying
rates under the old regime?

Certainly deciding an omnibus rate case
requires a huge commitment of time from the
Commissioners who are also responsible for important
new duties under the legislation. So for instance if
the Commission could get the new rules in place by say
October, would this be better for everyone in the
community? Might this allow the Postal Service to
forego another omnibus rate case? Under this
scenario, both the Postal Service and the Commission
will be better able to focus attention on the future
rather than the past.

These ideas, these questions are merely food
for thought, and I hope that it can be discussed today
and down the line. We certainly haven't made up our
minds on this, and the Commission would appreciate

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getting your thoughts on these in the April 6
comments. You can be sure the Commission will take
the right steps toward meeting the challenges and
opportunities presented by the enactment of the Postal
Reform law. So your opinion, your voice and your
concerns are so important to this effort.

We understand that an effective system of
regulation affects your business and your industry.
So to do our job right we need to get your ideas.
Please feel free to participate fully today during
both the session and providing written comments as the
rulemaking process takes shape. So that closes my
opening remarks this morning. It's my honor and
privilege to share this podium today with one of the
finest public servants in the United States today and
that's Postmaster General Jack Potter.

MR. POTTER: Hey Bill, whatever we're paying
you we get a deduction because Dan introduced me. All
right? Thank you, Dan. You saved us a few bucks.

Well good morning everyone. It's great to
see so many familiar faces. I looked around the room
and I said to one of the people, this is like a who's
who of the Postal Service. Maybe it's not that.
Maybe it's a who's who of the people who participate
at the Rate Commission. So welcome to everyone today.
I think the fact that we have so many people here shows that you are all interested in what’s going on because it’s so critical to the future of the Postal Service, the mailing industry and everybody in America because everyone in America receives mail, and I don’t think you would be here otherwise. If this wasn’t an important event, you wouldn’t be here. The fact that you’re here shows that there’s a willingness on the part of all to work together, to develop solutions that work for everyone.

I want to just take a moment to thank Dan Blair, Chairman of the PRC, the other Commissioners, Commissioners Hammond, Goldway and Acton, for being here, and to recognize George Omas, dear friend, because of the fact of the approach that they’re taking here. Very open minded. Willing to partner. Willing to listen to everyone because it is a new day. You know the Congress has laid down a path for us but in the process there was a lot of wisdom to what they did. You know not every I is dotted, not every T is crossed because I think it’s recognized that the best people to make the decisions about the future of the Postal Service are those that in the business, the Rate Commission, you folks here in the industry, the Postal Service. We need to collaborate,
and I think that’s the message of the law.

We need to collaborate and fill in the
details that were left open, and I really like the
fact that the law was not overly prescriptive when it
comes to that because had it been, we would all be
handcuffed. There wouldn’t be any need to be here
today. There wouldn’t be the flexibility on pricing.
There wouldn’t be the flexibility on regulation.
There wouldn’t be the opportunity to change, to move
the Postal Service from the Postal Service of the 20th
century to the Postal Service of the 21st century, and
that is what this session is all about.

It’s all about creating a path, a path to
success, and in my mind it’s a path to universal
service at affordable rates, first and primarily for
the American public, because I believe that’s who owns
the Postal Service, and the stakeholders and that’s
all the major mailers that are in this room.

Very important that we create a path that
enables the United States Postal Service to continue
to deliver mail to everyone in American for a long,
long time to come, that will enable your businesses to
thrive and grow -- emphasis on grow -- because if the
mailing community and the industry shrinks, guess
what? We’re not going to be able to sustain this

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institution and provide the level of service that we
do today and the frequency of service that we do
today.

So it's very important that we use the
flexibility in the law to look forward and create
opportunities for growth, opportunities to make this
system work for the American public and work for the
users of the mail. That's our job is to make sure
that that happens.

Now, we're in a period of change. When you
get into a period of change people always talk about
change. Change being inevitable, of course except
from vending machines, but other than that change is
inevitable, and we have to and are -- by the mere fact
we're embracing that change. And the challenge for us
is to work in a productive way.

You know when you get into a period of
change an anxiety is created, and oftentimes that
anxiety can be channeled into counterproductive
activity. Well I'm hoping that we can channel all of
the energy that's going to be created by the new law
into productive energy, energy that will take a look
at opportunity, will look at regulation.

We recognize in the Postal Service that you
know we have in effect a monopoly on paper products,
letter and flat mail, but that monopoly is challenged by the internet. So we need to recognize the monopoly today isn’t what it was in 1970, when the old law was put in place. So we do need additional flexibility. Flexibility to work with customers. Very proud of the fact that we had negotiated service agreements and very grateful to the Rate Commission -- and notice I used Rate Commission -- Rate Commission for the work that was done to break through and to get this concept that when a partnership can work to the better of everyone, we really need to embrace that.

So I’m looking to the regulatory body to continue to build upon what was started by the Rate Commission and the mailing community to take rates and really to segment them such that they enable people to better use the services that we’re there to provide. So I look forward to the product of today’s discussion. I look forward to future discussion.

As Dan said, the time for a discussion is now. You know don’t look back six months from now and say to yourself, gee, how did they make that decision? Well if you don’t step up and you don’t participate, then in the future you need to look in the mirror if you’re not satisfied with the outcome because nobody had the benefit of your input. And so I look forward
to today’s session. I think it’s going to be a building block for future dialogue.

I hope that we’re able to have additional sessions between now and whatever schedule the regulatory commission puts together to bring you know this process for establishment of regulation to conclusion. And I am encouraged by the fact that you want to do it faster, Dan. I really congratulate you on sharing that thought. We would love to know what it is as soon as possible so that we can make recommendations to our Board of Governors on what path we need to take going forward.

So we’re in a period of uncertainty. The sooner we can you know make certain what’s going on I think the better off the entire mailing community will be. So I applaud your efforts, and I hope that you will all make comments. Don’t lose site of the fact that there’s an opportunity to make comment on that. So I don’t want to delay the day.

Again, I look forward to a lot of open dialogue, and I’m looking forward to a product that works for us all, and not only deals with the regulatory process as Dan said, has to deal with the service measurements that we have, the standards and the performance measurements, as well as transparency.

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We need to step up to all three of those issues, and we will over the course of the coming year. So again, thank you, thank you very much for being here today. I look forward to your participation, and we all want to hear what you have to say. Thank you very much.

MR. TAKIS: Well thank you, Dan, and thank you, Jack. I thought those were perfect comments for kicking off today's session as I said before to set the stage for what we want to try to accomplish today, and that is to get as much input and as much feedback from you all about how this regulatory system should be designed and what are the things that the Postal Service and the Postal Regulatory Commission need to be thinking about over the next several months and into the future as it designs these regulatory frameworks? So thank you very much again. We appreciate those comments.

I would like to take a moment now to kind of give you a little bit of an overview of how the day is going to go today and walk you through some of the -- for lack of a better word -- logistics of the day. As I said before, we have four different panels and then a wrap-up session at the end, and those four different panels cover four very different areas within the new Act.

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And our first panel, which I’ll introduce in a moment, will titled Meeting Customer Needs in the Market Dominant Category, and as the title says, we’re going to be talking about market dominant products and services. As you know, that category comprises the bread and butter of the Postal Service, the vast majority of its overall revenues and operations, and it’s a very important part of the Postal Service going forward, and we’re very pleased today to have four very different customers who are going to be talking about that category and their views on where to take that going forward.

Our next session will be on the competitive category, and a lot of excitement has been put forth around that category, and I know we have a very good set of panelists to talk about various competitive products, and how those are going to be used in the future, and what people’s needs are in those areas.

And third we’re going to be hearing from various industry participants around designing flexible and customer responsive regulatory regimes. As Mr. Blair pointed out before, that’s going to be a very important part of what the Postal Regulatory Commission is going to be doing over the next several months and into the next few years, and our panel
today will be addressing some of those types of issues.

And then finally last but not least we're going to have a panel on measurement and service standards, and again as you know that's a very, very critical part of the overall legislation, and something that the Postal Service and the Postal Regulatory Commission will be working on very hard over the next several months to lay forth some standards in that area.

And then finally we're going to invite some of the panelists to come back up, some of the customers on the panels to come back up for a wrap-up session at the end to talk about next steps and going forward and a few themes. So what I would like to do right now rather than take a break to get our panelists up, I would like to invite the first set of panelists up to the podium, and I am going to talk a little bit about how we're going to ensure some audience participation as we go. So why don't you guys all come up, please?

The way we're going to run the panels today, as I said before, is designed to elicit as much audience participation as we can in a group of 300 people, and the way that we're going to do that is...
I'll start off the conversation with a few brief comments in each panel, and I'll keep them very brief, then I'll go through and introduce the panelists, and then ask an introductory question, and allow them to make essentially an opening statement around a very general question.

But as I said before, both the Postal Service and the Postal Reg Commission very much want to hear from you all in the audience, and so while I'm asking those questions I'd like for people to be lining up at the microphones. As you see I believe there's seven different microphones around the audience here, and as soon as a question hits you, the moment strikes you, just please line up at the microphone, and I'll look for you, and ask you to state your name and your organization and then ask your question.

I'm not going to have a separate call for people to come up. Just come up as you have questions throughout the session, and after that first set of introductory questions I'll be turning to the audience as much as I can. The idea would be to minimize the amount of talking that I do and maximize the amount of questions that you all do today. So please que up at any time during the panel.

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So that brings us to our first panel, and as I said before what we’re going to be talking about here for the next about hour and a half or so is the market dominant category, and that category which again represents the vast majority of the overall revenues and the operations of the Postal Service volumes it includes all the mail services that are subject to the letter mail monopoly, like first class mail and standard mail, as well as those over which the Postal Service exercises de facto marketplace control, such as periodical mail.

Now as we talked about before, the Postal Service will have increased flexibility in setting those prices under the new law because it will now be able to change the prices for those products without a detailed Postal rate proceeding, and changes in those prices can occur once a year as long as the increase in those prices do not exceed the CPI change, the consumer price index change, over the preceding year, and these are all spelled out in the law.

However, this new system still calls for every market dominant product to cover its attributable cost and to contribute to the overall institutional costs of the Postal Service, and the CPI limited increases are applied to all the mail classes.

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as a whole but not into individual products or subclasses. So some prices can go up and some other prices may go down over time.

In addition, the Postal Service can change its pricing structure and still create new products and services within the market dominant basket with the PRC having determination to the degree and the process by which this will occur over time. Therefore, the Postal Service will retain flexibility to offer varying products and prices within the market dominant category that reflect the differences in product features and customer demands and usage and needs.

The Postal Service can continue on with its long history of work sharing and conduct tests and experimental services and engage in negotiated service agreements as it's been doing in the past with many of its different customers. So again that's a context for the overall discussion. What I would like to do now is to introduce our panelists.

First to my immediate left is Mr. Markus Wilhelm, who's the Chief Executive Officer of Bookspan, which is a partnership between Bertlesman A.G. and Time Warner. Mr. Wilhelm is responsible for the overall marketing, operations and administration.

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of Bookspan. He's a leading global publishing industry executive, and he's a member of the Management Board of the Direct Grew Bertlesman, and he's also responsible for its English speaking book business worldwide. He's also Chairman of the Board of the Direct Marketing Association, and he's a member of its Executive Committee. Please join me in welcoming Mr. Markus Wilhelm.

To Markus' left we have Ms. Jody Berenblatt. Ms. Berenblatt has served as the Senior Vice President of Postal Strategy, Bank of America. Her Postal Strategy responsibilities are both global and enterprise wide. Under her leadership, the Bank and the Postal Service filed the first cost based negotiated service agreement with the PRC just this last February.

Ms. Berenblatt is a leader within the Postal industry, and she serves on a variety of committees including PostCom, the Universal Postal Union, and MTAC. She's also the former Chair of Education for the Postal Customer Council, and she's worked with the Postal Service on revisions to the domestic mail manual. So please join me in welcoming Ms. Jody Berenblatt.

To her left is Mr. Lou Milani. Mr. Milani
is the Senior Director in Publishing Operations and Business Affairs at Consumers Union, the nonprofit publisher of Consumer Reports. He has over 52 years of service to Consumers Union, where he's focused on the distribution of CU's information products, a responsibility that has fostered decades of close relationships with the Postal Service.

And as we were talking earlier today, we were talking about his prior to joining his CU career, Mr. Milani worked as a temporary clerk for the Post Office Department up in New York. So please join me in welcoming Mr. Lou Milani.

And last but not least is Mr. Steve Laserson, who's the Vice President of American Greetings Corporation, and he concentrates his efforts in the Business Intelligence and Research and Development for American Greetings. His 20-year cross functional career has been one of supporting and driving change in business strategy, process and culture. He joined American Greetings back in 1995 as a product manager, and he's served in several leadership roles in product development and sales prior to being named to his current position in 2005.

Mr. Laserson has been on the Executive Committee of the Greeting Card Association since 2003,

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and he's currently serving as its Vice President.

Please join me in welcoming Mr. Steve Laserson.

Well as I said before what I'd like to do is start off the conversation with a question that I'm going to pose to Markus, and Markus, if you could talk to us a little bit about what you hope to be able to achieve under this new legislation and how it may differ from the situation you've had before, and also give us a little bit of background on your company and where it sits within the mailing industry as a whole.

MR. WILHELM: Thank you. Let me first tell you that the German accent does not mean I'm here for Deutsche Post. I'm here for 20 years. I'm CEO Bookspan for the last 15 of that, and I'm working for Bertlesman for 25 years, and I have a little bit of international experience and quite a bit of experience in this country, and it's probably foolish for a CEO to be up here with all the Postal experts, and there are people in my organization who know more about Postal affairs than I do but maybe I can add a little bit of a different perspective, and I think the Postmaster General has already addressed all the important issues this morning. This is change incorporation.

Looking at it from a CEO's perspective of a Heritage Reporting Corporation  
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company that mails around 120 million catalogs a year, probably two or 300 million flats and standard letters, you know we can only succeed in our business if we work together. It’s all about creating a win-win. I was sitting in my room last night -- and the room is very small, I didn’t have much else to do -- trying to condense the speech that my staff had written, and I said, you know at the end it’s pretty simple. It’s all about creating a win-win.

We have to support the Postmaster General and the PRC to work on that win-win, and we have to find a solution that works for the industry and works for the Post Office. Now if you look at the agenda, meet customers needs in a changing regulatory environment, then change -- and I think the Postmaster mentioned that -- is one of the key words here, and I think change is good, and meeting customer needs is also good. The status quo is no option from my perspective at least.

What it requires is a cultural change within the Post Office and within the PRC and also within the industry. It requires the industry to work closely with the Post Office. It needs to focus on innovation. I think it needs to focus on flexibility, and it needs to focus on predictability but we also

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have to take into consideration the pricing flexibility that was mentioned this morning, service and value creation that I think we really need. We cannot just focus any more on cost cutting.

I'm responsible for approximately 15 profit centers, and I've been involved in a lot of turnaround situations over the years, and I can tell you cost cutting has never ever resolved a single situation. If you don't have revenue growth, cost cutting only gets you that far, and I think this is also true in this specific situation.

Now, the current rate case I think that has been filed is an example for what we should try to avoid. The DMA, Bookspan and many here in the room I think have raised their concerns and objections with the Board of Governors and asked them respectfully to reconsider the PRC's recommendation. What we have to do looking forward is take advantage of the new law and the flexibility given to the Post Office, and obviously there are quite a few things we can do.

From my perspective, and as Bookspan has a baseline NSA that's not based on cost cutting but on revenue growth, I think this is a very good example. I hope other companies will follow that suit but there are other things that can be done. Most of all the

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Post Office I think has to use the flexibility that it has gotten in packaging and pricing across all market dominant products, not merely in a particular class or even rate category.

Let me give you just a couple of examples regarding pricing. Can reduce seasonal rates. You know we all know we all mail heavily at the end of the year on January. You know if everybody wants to mail in January does it make sense to have the same price there as you have in the rest of the year? So you put for example raise prices there and lower it at other times of the year, incentivize companies to adjust their mailing schedule. Could you have different day of the week rates? It's just another idea.

I know most of the workload is right now happening in the Post Office on Tuesdays. I know from my own operation that we ship around 200,000 parcels a day, and our workload leveling is one of the big challenges. You know we could probably enable the Post Office to level their workload better and become more efficient in this aspect, and they could adjust their pricing and give us incentives to mail on different days of the week or give us free upgrades. There are many things that could be done at this point in time.

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For example, for me it's totally irrelevant if I mail on a Friday or on a Monday or Tuesday you know. So we could work with the Post Office, create a more flexible system if pricing is adjusted accordingly. It doesn't mean that we just have to lower the base or increase the rates. I think we can probably balance it much better. There are new ways of selling. You could auction off excess capacity, and these are ideas that I brainstormed with some of my colleagues in the DMA board you know. I mean the magazine industry is doing it for years. They sell remnant space so why can't we do that? I mean it probably needs some more input, and we have to spec it out more, but it could be done.

Could there be discounts for companies that use mail preference service off the DMA and comply and help reduce unwanted mail and help us deal with the do not mail threat and the 14 different legislative attempts this year to reduce the mail volume? I think that's something we really have to deal with. You know I think again there are new ways of selling that could be considered.

And last but not least we could create additional value. You know could there be a guaranteed day of delivery for example? I think that

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could be a really, really good idea. Very simple to do. Many other countries you know you don’t just mail based on weight. You could mail based on the box size or the shape of the parcel. Australia has a good example for that. Could there be frequent mailer points and incentives like that?

I mean we as an industry you know who operates under a different paradigm are working with these kind of concepts when we deal with our customers on an ongoing basis, and this is nothing new, and I think we have to just take that thinking and bring it now into our relationship with the Post Office, and again the idea here is not to push the Post Office just to lower rates or push for cost savings but really create something that we can do together.

I mean if you want to sum it up you know I think a lot of it is possible. I think we have to start testing things. We are direct marketers, a lot of us at least. We can test things and on some low hanging fruits, like NSAs that could be done immediately. We can utilize new technology, and most of all we really should work closer together and understand each other’s needs and requirements better, and I think that would go a very long way in enhancing the relationship and making the new law work. Thank

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you.

MR. TAKIS: Thank you, Mr. Wilhelm, for your help. Jody, what about you? How does your company see the opportunities that are posed by the new legislation and what you can do now that you couldn't do before?

MS. BERENBLATT: Well Bank of America mails about a billion dollars worth of postage in the U.S., and that's 3.3 billion pieces. In Europe and UK and Canada, we mail about 442 million pieces that's about $133 million, translated to American dollars. So we're big.

We primarily use the mail to advertise and provide statements and customer communication. As you noted earlier, we recently filed an innovative NSA regarding pay-for-performance that is cost based but for the very first time it includes intelligent mail as the backbone for the measurement system. So when we start a process at Bank of America, the Six Sigma Company, we need to start thinking the demaic.

We've now defined it, and we can't get on to measure, analyze, and improve and control until, and we hope that the Postal Regulatory Commission approves it expeditiously. Because our former CEO, Rudy Peterson, was on the Capo Commission, we feel that we

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have a legacy to the growth and development of the Postal Service, and I’m not an expert in Postal rate making but I know that businesses can’t survive without relationships with their customers and understanding their customers.

So I’ll take a moment to just quote Peterson who said, "Banking’s not cold cash and statistics but millions of personal relationships", and as Markus said, I’m not sure how you regulate relationships in a positive, constructive way but we do need to better understand each other, and there needs to be sort of institutionalized incentives to focus on the customer. So we support the Postal Service’s cultural evolution to be a new organization that’s more diverse, sustainable, and more environmentally active, and customer centric.

Thriving also means doing new innovative things, using technology as well as understanding your customers to grow, and at the same time since postage is such a big expense for us we’re willing to pay our fair share but we don’t have an interest in supporting a system that’s not efficient. From that same Time, Inc. article, thank goodness they put it on the internet all the archives, Peterson said to his competitors, "I don’t want to take away your business."

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I just want my fair share of the new business, like 80 percent."

So since we’re focused on pricing, one of the things that we’re very appreciative of is that the Congress put in a rate cap so that it would be tied to CPI, and we would have predictability. The law may allow challenges even to those rates that are below the cap, and although the grounds for challenges are not clear -- as a matter of fact it’s still being written -- I guess I’d like to sort of explore what that means.

The cap system has to provide incentives to the Postal Service to be more efficient but also the Postal Service needs to be able to have freedom to innovate. So we shouldn’t take away all the fiscal benefits from the Service to getting more efficient. They need to be able to use some of that funds to build the business back up.

We can’t allow the Postal Service, on the other hand, to shift the expenses over to the customers. For example, you know mailers shouldn’t be allowed to just you know go deeper into the Postal system for no further rate incentive. There shouldn’t be mail preparation changes without rate incentives tied to them otherwise there’s really no price cap in
any meaningful sense.

So if it takes mail longer to get delivered and time for delivery is less certain, then there really isn't a better service, and we need it to be better for the future. So competition of course is a much more effective regulator but that's not what we have in the U.S. We’ve decided that this is a monopoly, and therefore we need to have a regulator that is generous and allows the Postal Service the freedom to grow and to innovate.

We’re concerned that generally speaking regulatory oversight takes away that freedom to experiment and make mistakes, because you can’t actually learn without making mistakes. So the new system should have a very light hand in innovative areas such as NSAs which is only one source of innovation so far. And while the law does provide for flexibility, it's also important to keep in mind, and I’ll quote the Regulatory Commission here, "Rates that more accurately reflect costs and proper price signals, rates that send proper price signals result in more efficiency processing and transportation practices which in turn reduces costs, thereby allowing smaller rate increases and less volume losses."

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So there may be a need to do some balancing of flexibility with the need for efficiency. If we can make that happen, we should all be proud.

MR. TAKIS: Well thank you, Jody. It should be very interesting throughout the day especially on our third panel when we talk about the different regulatory frameworks that we can put together to ensure that light handed type of regulation you're talking about. Lou, how about you? Can you tell us a little bit about your views on the new legislation?

MR. MILANI: Yes. I'd just like to get one thing out. Say one thing you know about those 52 years I've been working as CEO. I started as a child. Now one other things, it's not in my notes, but it was brought up this morning by a few people about our experience, Consumers Union, Consumer Reports on the web.

About nine years ago, we decided we had to have a website, and at that time we spent a lot of discussions -- like all websites at that time -- were we going to give away any information or would we make the subscribers pay for the information. We don't take advertising. Our only revenue is from people buying our magazine and other products.

So we decided we had to have a pay website.
Well it hasn’t hurt the magazine, Consumer Reports.

Consumer Reports has grown. It is now I think it’s 4.3 million paid subscribers, the magazine. Of course the website is 2.7 million paid subscribers. On the website though over 25 percent of the subscribers to the web end up taking the magazine too. So there’s opportunity in websites, and we have to remember that.

Okay. Now at CU my main responsibility for our products -- mainly but not excluding Consumer Reports magazine -- has been to oversee paper, printing, distribution and postage. Postage is our second largest expense. We spend -- we’re not in the billions -- but we spend $38 million a year on postage. That’s a lot of money for us.

Okay. And we pay postage on about 219 million pieces of mail. It’s broken down to about 12 million on first class, 70 million on periodicals and 137 million on standard mail. I have always enjoyed working with the Postal Service for a lot of reasons. I’m financially you know tuned, and for every penny decrease that you can get you know, every penny increase you can get from postage it turns into $2 million to CU’s bottom line. The other side of the coin, for every penny more it costs it takes away $2 million from the bottom line.

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The secret is not so much taking away or adding but efficiency is what you get for the money you spend, and working together with the Postal Service you know we have over the years made our Postal course much more efficient. When I joined CU, you know our subscription base was approximately 400,000 subscribers. Today all our products, including Consumer Reports, is over eight million subscribers. We could not have done that without the Postal Service.

Very recently CU had to send out an unexpected and important message to our members. We asked the Post Office -- maybe some of you heard it. We had an error in one of our articles in Consumer Reports. This is the issue. Good looking issue too I have to say. We asked the Post Office for their help, and they responded wonderfully, and I just want to say thank you to all Postal Service employees.

Okay. We want and need a financially healthy U.S. Postal Service. You know we depend on it for almost everything. You know the distribution of our publications. To communicate with our members. To bring in new subs, bring in renewals and more. You know at the same time though we don't want to pay more you know than we have to. You know we want a

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financially sound Postal Service but we want an
efficient Postal Service too.

Like most other business you know for
profit, nonprofit, we happen to be nonprofit, but
really you have to have a bottom line otherwise you
won't be in business for long. You know and we have
to live within a budget. Increased postage costs cut
into our research and other programs so we can give
more information to outside there to our members.

Like I said before, every penny increase in
Postal costs increased CU's costs more than $2
million. Also because of competition -- and this is
interesting -- we've been able to do this. We have no
increased the subscription price for Consumer Reports
in nine years. Nine years no increase, and we have
managed. That's a big story right there though.

Consumers Union has had great success in
acquiring new subscriptions using a direct mail
promotion piece but it happens to be a flat. It's
like the size of the magazine. In fact, in our
standard mail about 40 percent of all our standard
mail are flats, 40 percent of 137 million pieces of
direct mail. That means 55 million are flats. The
effect of the new PRC rates on these programs is
profound, and CU cannot react quickly enough before

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these rates are scheduled to be implemented. You know we just can’t change the programs in six weeks or seven weeks.

In the last couple of rate cases, the Postal Service has been sensitive in not causing rate shocks. It’s been beautiful. But what we have now in front of us anyway is rate shock, and it’s very disturbing. I understand the attempt to structure rates based on size, costs and classes of mail. I understand that. I’m not qualified to say whether that is achieved in the new PRC proposal. Hopefully it is but I’m not sure. My concern at this moment is the short notice we have been given for the possible increases. We do not have room to maneuver in that timeframe.

Consumers Union believes and supports a financially strong Postal Service. We take on all variable work saving opportunities because we’re Consumers Union, whether it’s commingling or comailing or destination entry sorting. We are dedicated to helping the Postal Service succeed.

The Postal Service has always been our business partner, and we intend to continue that relationship. We applaud the new rules and are satisfied with the Postal rates being tied into the CPI. Thank you.

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MR. TAKIS: Thank you, Lou. We appreciate that. Steve, how about you? What does your organization hope to accomplish under the new legislation that it couldn't before?

MR. LASERSON: Sure. Before I go on to directly address that question of what my company and the industry hope to achieve under the new law, I need to explain for a minute that I really today have a different perspective than probably the rest of the panelist the entire day. I'm not a mailer. I'm not coming to you as a mailer. I mail things but I'm not coming to you today as a mailer but rather on behalf of the citizen mailer that Postmaster General Potter spoke about, the American public.

The Greeting Card Association represents the interests of the individual or citizen mailer both formally in rate cases and informally in discussions with the Postal Service. We are the only industry mailing group that has taken on this role. Now certainly part of our motivation to play this role is natural self-interest. We know that an affordable single piece first class stamp will make it more likely that folks will continue to buy our products and send them to friends and loved ones and mail them to friends and loved ones.

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But it is not only our direct interests of course that benefit from this. The greeting card industry represents a significant portion of the mail stream. In fact, we estimate that of the in excess of 40 billion pieces of single piece first class mail sent each year at least 10 percent is comprised of our industry's products.

This is because the greeting card usage is nearly universal. We enjoy household penetration rates of 88 percent, and the average household buys and sends well in excess of 30 greeting cards per year. Beyond this and of equal importance, we've taken on this role of advocate for the citizen mailer because we believe in fostering a culture of personal expression and social connection, foundations upon which the Postal Service was both founded and built.

Okay. So now with this backdrop I'll move on to discuss some of what our industry hopes to achieve under the new law. We see this reform as an enabler, an enabler that the Postal Service can and must leverage to bolster citizen mailers continued use of the mail. One of the key elements of Postal reform legislation is to provide for pricing flexibility.

I would encourage the Postal Service and the Commission to consider this flexibility in its widest...
sense and use it to better meet the varying needs of its customer segments and the use indications within each segment. I believe it is incumbent upon the Postal Service to develop a genuine understanding of these needs and apply this understanding to rate setting, rate implementation and service levels.

As one of many possible examples, we believe the Postal Service should implement rates at a time of the year that will not depress mail volume. Clearly the greeting card industry has a mutual interest with the Postal Service in avoiding rate increases during the fall for example, which have been proven to have significant impacts on seasonal mail volumes especially since experience has actually demonstrated quite clearly that such mail volume lost does not readily return to the system.

Looking at another example, flexibility should also be leveraged with regard to the frequency of rate increases which can and should be structured to reflect the sensitivities of distinct user groups. We are convinced that successive annual increases in the price of a stamp will negatively impact consumers' willingness to use the mail.

Now this is partially alleviated by the introduction of the forever stamp because that

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certainly takes away the inconvenience element
associated with regular price increases. However,
there is strong evidence to suggest that a continued
pattern of frequent increases will result in consumer
frustration and sooner or later will negatively impact
the positive perception that the Postal Service
currently enjoys.

We believe it is essential that the Postal
Service research this issue with consumers to
determine the impact the frequency would have on mail
usage. The bottom line is that Postal reform offers
the Postal Service the flexibility to become much more
responsive to customer needs, and my industry is
hopeful that it will capitalize on this opportunity.

MR. TAKIS: Thank you, Steve. Those are
very interesting points and a very interesting
viewpoint. Thank you. Before we go to the next
question I want to again encourage people as much as
possible to ask questions that occur to you. Please
come up to the microphones, and I'll ask you as soon
as I can to identify yourself and ask your question
but we want to get as much audience participation as
we can.

I think everyone talked about the need for a
financially viable Postal Service going forward, and I

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would be interested in exploring that a little bit more. How specifically do you think the Postal Service and the Postal Regulatory Commission should be looking at that tradeoff or those dual goals I should say, not a tradeoff, but those dual goals of keeping the Postal Service financially sound and fostering overall industry growth in the future and your use of the mail? Jody, do you want to talk a little bit more about that? You had some thoughts on that I know.

MS. BERENBLATT: Well there's the idea of productivity, and while you can manage the business more efficiently and be focused on efficiency, we also need obviously to create growth. It is not uncommon in private businesses for the contract to include a productivity clause where there's an assumption about what sorts of things can be accomplished and then pretty much a reward for having accomplished them. I would suggest that we look in those sorts of areas, not compromise any of the basic business needs, and yet look to innovate moving forward.

MR. TAKIS: So include some type of productivity analysis or measure into that as it goes?

MS. BERENBLATT: Into the customer relations, yes.

MR. TAKIS: How about other thoughts?
Steve, do you have any thoughts on that issue, and how to promote industry growth and have a financially viable Postal Service as you go forward?

MR. LASERSON: Yes. I think that the key to success for all of us lies in recognition of the interdependence between mail classes. Really we can't take any class of mail for granted, and we can't consider any class of mail dispensable because of that interdependence. To understand why personal correspondence is and will continue to be such an important component of first class mail, we need to consider mail from the recipient's point of view which is of course the way we always look at it.

Simply put people like receiving personal correspondence. They also like receiving other highly valued material like magazines and online purchases. We know that. And this is really why the Postal Service enjoys such high regard or what we would consider brand equity. The Postal Service really has a great, great brand equity with its consumers.

In fact, we believe this is probably its most valuable intangible asset, and it's the ability to bring that gratifying mail moment to every citizen's doorstep each year that has allowed advertising mail to be such an effective medium. I
would argue that it will continue to be such an
effective medium only to the extent that personal
communications continue to be a part of the overall
mail stream.

In fact, we so firmly believe this that we
have joined in supporting or in opposing the
increasing number of state level do not mail
initiatives that target advertising because we know
that personal correspondence cannot survive as
defective channel without advertising mail volume.
It's my sincere hope that decisionmakers within the
Postal Service and the PRC, as well as the wider
mailing community, will recognize that the converse is
true. For any mail to remain viable, consumer
generated content must remain an integral and
meaningful part of the mix.

MR. TAKIS: Thank you. We have a question
from the audience. Can you please state your name and
your affiliation, and then your question please?

MR. DEL POLITO: My name is Gene Del Polito.
I'm with the Association for Postal Commerce, and I'd
like to focus this question to Mr. Wilhelm. I need to
be clear in terms of what you were saying relative to
rate seasonalities.

Many businesses in the direct marketing
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world make or break their businesses on an annual basis on the basis of their seasonal mailings around the Christmas season. If this happens to be the time when there is the greatest demand for Postal Services, are you suggesting that you would find it acceptable if during this time of great demand the Postal Service were to increase rates during that period of the year?

MR. WILHELM: Yes, I would. But you have to look at the larger picture, Gene. You know you cannot look just at this wholly creation from the industry perspective alone. You know if you look at the rate case -- and I really don't want to talk too much about that -- but you know this is hitting us as a surprise, and it was mentioned here by Lou before, and it's very difficult to us to deal with.

If I can plan, if I have enough notice, predictability, I can deal with it. I can adjust my mail volume you know. In the new world that we are getting to, hopefully soon, you know we have to work together. You know the industry is only then going to do well when the Post Office is doing well.

I have seen in other countries where Post Offices have failed to deliver and had increases to a point where it was more expensive for me to mail the book than to buy the book. The product was suddenly
secondary, and the mailing costs for example in Canada is higher than for me printing the books. You know this puts me out of business as simple as that.

So I have a real interest in the Post Office succeeding, and I cannot just say you know what? I need it as cheap as possible in January. I can adjust. We can adjust. If I get discounts maybe at other times of the year, you know to balance it, I think we will find ways to shift volume. I mean this is how we work with other suppliers too. I mean a lot of industries in these days if you look at how we work together with our printers, you know they go in and out of our building. It's a tightly knit relationship. We look out for each other's interest.

We have to develop the same kind of relationship with the Post Office, and I think we have a really good relationship but I think much more can be done if they understand what we need. For example, right now you know it doesn't help me if you just look at one rate class. I mentioned it in my opening, and standard letters go up 6 percent which I use to recruit new customers, mostly in January. You're right. But then flats go up 36 percent or something like that, which I use to actually service these members.

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You know I cannot afford to mail anyway because it's cheap to get them in but then I cannot service them because my Postal expenses go up too much. You have to look at the larger picture, and I think this is really important, and you need predictability, and I think then we can deal with that within reason for sure. I didn't say you want to double it in January.

MR. TAKIS: How about some other thoughts on the panel? Do you share the same view that Markus does? Lou?

MR. MILANI: I agree on that. Different times of the year charge different rates. It's business you know. The most expensive order you know is the one that doesn't do well in your promotion program. So you know if you do better in the Christmas season and we do mail our biggest mailing is right after the Christmas season, and I think that's the biggest time for us. It brings in the most. So if you had to pay more, it's better for us to have it that way than have it spread out through the whole same rate the whole year.

The other part I was thinking about too is you know you have to remember for every piece of standard mail that gets sent out any way in our

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business, you know what does it do for the Postal Service? Well it ends up substantially number of first class mail, periodical mail and more standard mail. You know in business you’re allowed sometimes to defer promotion expense until the revenue comes in. It’s a good accounting practice.

And that’s what we call in the business the renewal factor. I don’t know how you could do it in the Postal Service but really it makes sense you know. Like if you lose you know it may pay to lose a little money on standard mail if you knew you were going to get back all this money in different classes of mail. I don’t know if it could work in the Postal Service. Definitely it works out in many businesses though.

MR. TAKIS: Steve, do you have a --

MR. LASERSON: Seasonal pricing in that sense is something from a citizen mailer standpoint we’d consider pretty dangerous. We know that Christmas time for example is the time when it’s very important for folks to keep in touch and maintain contact with a wide network of people, and anything we can do to encourage rather than discourage that wide network I think pays dividends throughout the year. So we have a different perspective from a first class perspective.
MR. TAKIS: Jody, do you have a comment?

MS. BERENBLATT: Well I’ll go back to quoting Peterson. He thought that it was a good deal to add a 5 percent surcharge in exchange for easier money and that it would be a good bargain. So it must be a good bargain to look at it in relationship to the mail. It depends what the tradeoff is.

MR. TAKIS: So there’s a diversion of viewpoints on this issue and question. Okay. Good. We have another question. Can you state your name, please, and your organization?

MR. STOVER: David Stover, Postal Consultant. I work for the Greeting Card Association. And I guess I got up in order to address a question of Mr. Wilhelm. Mr. Laserson of our organization has answered part of it but I would suggest for the panel that maybe the way to look at seasonality is not as a unitary phenomenon but customer group by customer group.

Consumers, unlike the business that Mr. Wilhelm spoke of, don’t necessarily, don’t often calculate a yearly bottom line. If you can incentivize the customer by an appropriate seasonal lowering of the rate or some other concession to increase his usage, to expand the Christmas card list

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-- and that by the way is an area where the greeting card customer has the same experience frequently that Mr. Wilhelm has had, the product being mailed costs less per unit than the postage -- the effect may be very positive for both the Postal Service and the customer.

For a business which looks at an annual bottom line, the result might be as Mr. Wilhelm suggests. So my question is: Why not consider seasonality on the basis of the characteristics of the customer group that chiefly uses the type of mail you're looking at?

MR. WILHELM: I have absolutely not problem with this whatsoever, and I wasn't thinking about the Christmas cards to be quite frank. I was thinking about you know mass mailings, standard mail, not so much first class mail. But you know I also have been reemphasizing that I think it's important that we understand each other's needs, and I think it's very hard to find one generic rule that pleases everybody.

But there might be ways and that's why I said you know it's really important that we start working closer together, and the Post Office understands what each group needs. We have different interests here. I think we will be able to find
something that is probably a really good compromise
and brings us ahead.

You know for my catalog mailings, for
example, right now let’s be honest about it. We mail
at the end of December or on the first week in
January, and we have certain assumptions on when this
mail arrives. We don’t even know exactly when. It’s
within a week, within two weeks depending on where we
mail. It’s not an accurate science you know.

I think you know you could for example to
bring another component in and if you would have
guaranteed delivery if it’s important for some of them
on a certain date, and you can add that and marry
that. The seasonality you know you could create maybe
new classes where for certain customers where it is
important that the mailing arrives in the first week
in January, let them pay a little bit extra.

But I also said let’s give the industry a
break in other times of the year. Let’s try to
balance the workload. I talked about seasonality. I
also talked about work days. You know for me it was a
surprise to hear -- I mean maybe because I’m a CEO and
not so deep in the Postal arena myself -- that 40
percent of the mail volume happens on a Tuesday. If
that’s the case you know, if you could give incentives

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to company to drop the mail off on different days and
work closer with the Post Office to address their
specific needs. I don’t have any problem with that.

My Postal bill is $160 million. Not in the
billions. It’s $160 million for Bookspan but I have
also been talking to a lot of CEOs and representatives
within the DMA. We’re 3,600 for profit and 400
not-for-profit customers. Not customers. Companies
in the DMA, and I think the seasonality aspect the
great majority that I talked to didn’t think it was
such a bad idea.

So you know you will always have to balance
things out, and I think there is something we can do
but we will have to for sure do more than just write a
top line down. We have to get some people around the
table, and work with the Post Office and see if we can
flush this out.

MR. TAKIS: Any other thoughts from folks on
the panel? Well one question I think that we’re
touching on here is kind of the age old discussion
between predictability of rate changes and the size of
those rate changes. We’ve been touching a little bit
on that right here, and Lou, you probably have some
thoughts on that given your growth.

MR. MILANI: I think everyone at this table
probably has thoughts on that but no doubt about it.
That’s why for the last few years, four or five years
I guess it has been, it’s been nice. It’s never easy
to take increases in anything but it’s been not very
hard to live with the Postal Service and their
increases in the last five years because they have
been you know predictable almost you know.

In fact, he’s not here right now, but really
the Postmaster he’s worked with the mailing community
you know trying to get their input. The adjustment
should have been made in the different classes of mail
during that time too. But that’s past us now and
we’re starting new, and we have to you know change
them if certain classes, flats cost more to handle, so
they have to cost more.

But you cannot just six weeks, seven weeks
before the date the rate becomes in force have
increases like 24 percent. That used to be way back
when were revenue foregone and they kept changing back
and forth if the government was going to authorize
that or not but that was affecting nonprofits of
course. So I think one of the reasons it has been
fairly predictable and you know reasonable and it’s a
little different this time.

MR. TAKIS: So you would applaud in the

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future a regulatory framework that would increase that
predictability or maintain that predictability.

MR. MILANI: I'm for it. I think the whole
industry is all for the predictability. You know yes,
and if it's going to be the CPI, we can live with
that. You know we can live with the CPI. We would
hope they would you know come in lower.

MR. WILHELM: From my viewpoint, I'm not so
sure that it was that easy to live with the increases
over the last five years. I mean some of us were on
the borderline of becoming not-for-profits ourselves,
and we didn't want to go there.

MR. MILANI: Sorry.

MR. WILHELM: So yes, predictability is
really important but I think the size of the increase
now is too, and you know I think ideally we want to
have something we can deal with, we can plan for.
Predictability is extremely important but we also have
to cap it at a rate where we can still digest it.

The problem that we are facing as an
industry has also been that you know especially on the
consumer side that we talk about you know parcel mail
and things like that, you cannot charge a customer any
more for shipping and handling.

I mean it becomes more and more obvious that
a lot of companies are struggling with the fact that
you know shipping and handling fees is becoming a big
marketing tool, and a lot of us have to absorb that.
It's not part of this panel you know but the Postal
expenses have become the serious, serious business
issue, and a lot of companies and I think the
increases were not easy for us over the last five
years. I really want to make that point.

MS. BERENBLATT: I'd like to add that we'd
like to consider Dan Blair's leadership here where he
announced this morning that when given 18 months he
would like to do it in less time. The same thing goes
for the predictability of the increases. We all need
predictability to run our business and to run our
lives but perhaps we can take that lead and say, if
you up until CPI you don't necessarily use it. You
take what you need, and to the extent that you can
keep price increases at a minimum, that will enhance
growth.

MR. TAKIS: That's a very good point to keep
in mind. Do you have another question?

MR. STOVER: We've got one marketer up
there, and I would hope that as we go through this
process we will not dwell exclusively on what I would
call operational concerns, predictable delivery, a day
of the week delivery and so on. What may be missing and what I hope we can fill in during the next 18 months is some sort of awareness from the people who are actually driving the marketing decision within their companies.

Where do you intend to go in the future in terms of the way you go about doing business? And perhaps the best way to focus the question is: It's nice to hear the gentlelady from Bank of America talk about the things that she thinks would be interesting to have for her Bank, but I know that paramount in the Postal Service's concern is probably where are banks going in terms of the way they intend to do business? And if you had this additional flexibility, what is it that your business could do with that flexibility in terms of generating an interest or an increased use of the mail.

So I hope that as this process goes by we figure out a way of reaching out to those people that are actually driving the marketing decisions of their businesses, and bring their input in here because I think it's going to be very tough for the Postal Service and the Postal Regulatory Commission to come up with something innovative if they don't hear how innovative the market believes they could be if that...
innovation is also provided to the Postal sector.

MR. TAKIS: Why don't we explore that question a little bit more? That's a very good one, Gene. Let's start with Jody. Where do you see your use of the mail and your industry's use of the mail going over the next several years, and how can the Postal Service and the Postal Regulatory Commission support that?

MS. BERENBLATT: Okay. Well I'm not a futurist.

MR. TAKIS: Okay.

MS. BERENBLATT: I'm certainly not the marketing person at the company but I don't think Bank of America is unique. We live in a world, the financial institutions all have the very same challenge, and I would venture to say that financial institutions are not the only ones that have the very same challenge. We're all managing the tension between internet and hard copy communications but more importantly than anything I think Steve said it first and I could quote Peterson again, basically banking is about personal relationships. Business is about personal relationships.

If we're going to grow and make money, we need to understand those customers and how they want
to relate to us. So I think that there's a significant resistance on the part of banking customers to go completely online, and I think that it's not entirely necessary for us to take that route. It's not a black and white world.

It's more as if I would like to aspire to what Lou's been able to create at Consumers Union which is using the best of both worlds, and you need to have a personal communication hard copy letter in order for somebody to touch and feel that experience. At the same time, maybe some of the communications from a financial institution don't need to be in hard copy and some of them are more effective as electronic.

Perhaps an emergency communication is better as electronic rather than a hard copy communication. There's lots of different ways to relate to the customers, and there's lots of different customers and different ways they want to be related to, and just as that's true for financial institutions, that's true for the posts. Regardless of the country they're in, it's the culture that we live in and the people that we serve.

MR. TAKIS: Let me ask a quick follow-up on that. Should the Postal Service then lead the way in
this area? Should it respond more to your needs in that area? Where should the Postal Service and the PRC sit on that?

MS. BERENBLATT: We go back to Markus’ comment. We’re in a relationship. We’re in a partnership. The Postal Service should understand who the customer is, and I need to also point out that we’re in a triangular relationship. All of the customers of Bank of America are citizens of this country or citizens of another country.

So we need to take into account the citizen need, who is our customer, as well as the direct customer of the Postal Service as a citizen, the needs of the institution, the Bank, as well as the needs of the institution, the Postal Service, and so we need to better understand each other to figure out and innovate together, collaborative. It’s not like one is leading another. We’re coming to it together, and we certainly need the voice of the marketing people.

MR. TAKIS: Lou, how about you on this question? Because when you introduced your topic this morning you talked about how Consumers Union uses the web, it uses direct mail and it uses your magazine or your other publications for information. So you have a unique view.
MR. MILANI: Well I could say a moment.

It's difficult. I can understand you know the marketing end sitting out, but you know when you're shipping things out, that's difficult to say what's the alternative you know about not using the Post Office. But anyway, we do use the web and the Postal Service together. We promote the web by direct mail. We get our subscribers. We found that it works better than promoting it on the web. We do both though.

It works. It works in combination. The number of pieces we mail has increased dramatically since we've been on the web. It hasn't gone down. Well maybe some businesses but I think if you work it in the right sort of way it will increase the volume for the U.S. Postal Service. You know the web.

Different directions. Well there is limits. Markus said that you know. I didn't mean to say there's no limits what I'm willing to pay for postage. Definitely. Well you know we try everything too. We have free standing inserts in the newspapers all the time you know. At least going out we don't have to put that through the Postal system. It works but not as efficiently as the direct mail.

So it's like everything else. It's like the timing, and I don't know the card industry. I guess

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that is different because there’s probably maybe just
that one season but at the same time everything is
dollars and cents bottom line. If you get a 1 percent
return on a newsstand insert and you get a 2 percent
return on direct mail, direct mail you say is better.
Well but if you had to pay three times distribution
costs to get that message out there, it might be a
loser.

But the higher the cost of postage goes
everybody looks at of course alternative ways of
going the message across. For us you know and for
everybody sitting at this table anyway, we seem to
still be mailing and rates have gone up. So I think
if it’s done correctly that will continue.

MR. TAKIS: Markus, you had a follow-up?

MR. WILHELM: Yes. I mean think everything
is going to become more multichannel, and we know that
multichannel customers are better than internet only
or mail only customers. So I think this is where we
would like to go but it depends on what we can afford,
and I think you know at the end the money is going to
go where it gets the highest return of investment. If
that’s the internet, it’s going to become interactive.
If it’s the mail, it’s going to be more of the mail.

Ideally we would like to have both but I
think it depends on the outcome of what is going to happen this Postal reform and how close we can work with the Post Office because if we do what we have been doing over the last few years and just keep on raising prices, you know we will mail less and less. This is the reality.

That's why I look at Gene for greater voice to say you know what is it that we can do to keep the mail volume high so that the Post Office is in a win situation and the industry is in a win situation? I cannot look at this whole thing in isolation. So I think that at the end its economics and financials that's going to drive where the volume is going to go, and that's what marketers follow. They follow the money trail, and I think it makes a lot of sense.

So if you can make Postal reform a success, I think we will mail all more, and this is what this is all about. We will put more into the mail stream. If it doesn't work and then we are also responsible from the industry perspective you know I think we should be perceived of these as part owners here. If it doesn't work you know I think that's going to be a real problem. It's going to put my company out of business, simply spoke.

MR. TAKIS: Thank you, Markus. We have a

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question from over here.

MS. GOLDWAY: Thank you. I'm Commissioner Goldway and I appreciate the very specific, concrete examples that you presented about how to make the mail more flexible. My question from a regulator's point of view would be: If each of the customers of the Postal Service is arranging its own special rate systems, how are you ensured that your competitor does not get a more favorable rate than you do? How do you feel that a flexible system should be balanced with some sort of transparency or accountability so that everyone who's in your industry using the mail the way you do has similar arrangements or is not unfairly treated?

MR. WILHELM: I think this is a difficult question, but we are dealing with it already with our other suppliers. I think you know I don't know if Random House is printing the books cheaper than I do. I cannot tell you if they get similar preferential rates or better rates or worse rates but I know that the rates I have are the rates that make sense for my company, and that's what I negotiated and obviously it makes sense to our printers because otherwise they wouldn't agree to that.

You know I understand that a government body
like the Post Office needs some transparency, and I think that we have to sit down and I would suggest we do that between maybe some industry associations and the Commissioners and try to figure out how we can make sure that the system is fair and makes sense for the larger community. I think it can be done.

At the end it's all subjective. To some degree it's never going to be perfect. I think we have to live with that, and the market will set the price to some degree, and it's going to depend on volume and specific situations you know. I think any attempt that we would make to have a perfect system is going to take years, and it's not going to address the underlying problem that we currently have but I think we can find a much better compromise than what we have right now.

MR. TAKIS: Jody, do you have any thoughts on that around your competitors?

MS. BERENBLATT: Well I couldn't possibly disagree. I think the primary difference is that financial institutions are regulated by law to put things in the mail. So while Markus is put with the threat of going out of business if things aren't balanced in a business-like way, we probably have a threat of a loss as opposed to going bankrupt.
MR. TAKIS: Okay. We have another question in the center.

MR. MCLEAN: Bob Mclean with the Mailers Council. You've talked a little bit about flexibility in rate setting but I wonder if you could address flexibility after the rate case. Right now the Postal Service has enormous flexibility in determining how many or how few days we have between final decision and when the rates are implemented, and I wonder if the panelists could address how much they would value having a mandatory minimum number of days between final decision and rate implementation, and perhaps you could use the current rate situation as an example of what you're facing if we are forced to go with an early May rate implementation period in this case.

MR. TAKIS: Maybe I'll start at the end of the table. Steve, do you have any thoughts on that from an individual mailer's point of view?

MR. LASERSON: Well on a related note, you know whatever that time lag is, I'll talk a little bit about the complaint mechanism because I think whatever process is put in place for the complaint mechanism it looks pretty likely that the opportunity for that complaint will come in after rates are put into effect.
So for us you know I don't know that there will be a long enough lag to allow for the complaint mechanism. That's why we changed the system but it's very important for us that that complaint system be robust, transparent and effective, and it's really important that smaller mailers, in particular especially as small as household mailers, have the opportunity to get transparency that they'll need to bring forth complaints.

MR. TAKIS: Lou, any thoughts on that?

MR. MILANI: I was thinking differently. Our marketing plans are done a year in advance. My marketing plans, and we're talking about changes in rates, and to get new packages any marketer you know you have to test that package for months, get results, team it up, and then see if you can change the package, change your marketing tool. Right now our main package that happens to be working the best happens to be a flat.

If we could change that in six weeks that would be great but it'll probably take six months you know. You have to go out there and test packages to see which one works because like he said, the most expensive package is the one that doesn't work you know but at the same time, if you get a 25 percent...
increase in your main package that you said was
dynamite it might not be dynamite after a 25 percent
increase in the Postal rates. So timing it should be
time as far as in advance as possible. Like I said, I
think six months is minimum.

MR. TAKIS: Any other thoughts? Markus?

MR. WILHELM: No. I agree with everything
that has been said but you know hopefully this is
anyway something that we don’t have to deal with going
forward if there’s not another rate filing hopefully
you know. Predictability is given based on the new
law.

MS. BERENBLATT: I would say it’s actually a
bigger question than the one that Bob asked because we
have a problem right now where the software isn’t
available in the amount of time for most companies to
be able to implement it, to be able to be in
compliance with the deadline for the new rates, but in
the new world it’s not clear, it’s not written, it’s
not clear to me anyway what the process is.

It’s possible that the regulations could be
implemented in an entirely different timeframe than
the rates, and it’s also not clear to me what a
communication process is around that. Right now we
have an extremely formal process to understand what
the changes will be, and unfortunately we’re back into
the weeds of operations here but it’s not at all clear
to me what the process will be for the Postal Service
to notify the industry that there will be changes in
terms of mail preparation, and it also isn’t clear how
customers will be able to communicate back to the
Postal Service, and how customers -- whether they’re
business customers or citizen customers -- will be
able to make an impact on what is proposed by the
Postal Service unless we have a really good
relationship.

Unfortunately while I am one of those
mailers that’s in the middle of this crunch, hearing
the word mandatory sort of is a bit of a conflict with
what the future is that we’re trying to paint. We’re
trying to paint flexibility, transparency,
accountability but mandatory just doesn’t seem to fit
in that box, and so if we respect and understand each
other then perhaps we wouldn’t do such things and
create sort of impossible tasks to redirect our
energies in ways that aren’t really mutually
productive.

MR. TAKIS: But your point was there needs
to be more clarity in that discussion?

MS. BERENBLATT: Absolutely. We need to
understand what the process is. I don't know that we
know how to think about what the process is as
customers. We certainly need a lot of time to make
changes to our operations. That's the nature of
operations.

MR. TAKIS: We have another question. Alan.

MR. ROBINSON: Alan Robinson, AnaBus. I
have a question that is slightly different. We've
been focusing a lot on the Postal Service customer
relationship and the importance of that being a
win-win, and there's some suggestions that there is
something missing in communications. But this is a
group of customers that will be regulated in some
ways.

So in terms of customer understanding, what
do you think the PRC has to learn so they could be a
customer focus just as the Postal Service has to be
customer focused because they have an impact on that
relationship?

MR. TAKIS: Thank you, Alan. That's a good
question. Who wants to take that? Lou?

MR. MILANI: If I understand the question
correctly it's what the PRC has to learn. Well I
think first of all I think that the Postal Regulatory
Commission you know intentions were very you know were
good. You know I think what they were trying to do is
cost out as best they could the actual costs of
delivering a certain type of mail, size you know,
class and all that.

I think what they did poorly was the
timeframe. You know the timeframe. So and I'm
surprised they would do that. Anyways just for us and
I think for many mailers it's not feasible to work
around that. You know work around that rate in six or
seven weeks: But most of the things -- you know I
think almost everything they did -- was good except
for that. That part of it. So I think they could
learn you know from the Postal Service that part of
it. Like the time it takes for the mail community to
adjust to large increases.

MR. TAKIS: What about going forward? In
terms of -- I’ll follow-up on Alan’s question --
learning more about how to be customer responsive and
taking into the needs of the mailing community. More
sessions like this or --

MR. MILANI: Yes. I think what they're
doing I can see how they work together and greet one
another, you know the Service and the Commission. I
think the same thing. They work together. They
continue working together you know and I think more
meetings like this. Yes.

MR. TAKIS: We have a question here in the center.

MR. RUTHKOSKY: Hi. My name is Frank Ruthkosky. I'm with Taylor Gifts. We have mail order catalogs. I'm a customer, and we about 10 years ago used to mail out 60 million catalogs, and this past year we mailed out 30 million. It's because of the price pressure of the postage, and what we would like to do is get some kind of foothold on the pricing so that we can understand what's going to happen very soon and in the future.

We mail through the standard class, which is going to have more than a 20 percent increase, and we cannot afford that. Last year we paid over $6 million in postage, and I liked what Steve said about the interdependence between mail classes because when we mail our catalogs out, over 40 percent of the orders come back first class, and although we used to fulfill more packages, an annual volume of 1.2 million parcels, we are down to about 600,000 which is still quite a few.

We have a lot of employees, and I'm responsible for buying paper, for paying the postage, all of the printing, color separations and right down...
the line. We mail two to three, sometimes four
million catalogs a month, and the price pressure is
for us very real. I think there needs to strongly be
considered the price elasticity between the first
class and the standard mail as far as volume loss.

If there's a penny increase in first class,
what happens to the volume of mail versus if there's a
penny increase in the standard mail, what happens to
that volume? I can't speak about other people but I
know that in the last 10 years ours has gone down by
50 percent.

I agree that Markus had said increased
volumes really help, and that pressure on reducing
costs is not always the place to go but I do think the
Postal Service has a lot of opportunity to reduce
costs, and that we could help through increasing our
drop shipping of catalogs which right now 60 percent
of our catalogs go to sectional centers and 40
percent, a little less than 40 percent go to BMCs.
We'd like to deliver to DDUs, but many of them can't
take big trucks, and to put them on smaller trucks and
bring them in costs more than the discount allows.

So depending on what you'd like us to do,
structuring with those additional costs in mind would
really help us. The other things that we could do

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would be cleaner addresses, better addressing, use of any kind of pander files and change of address files can be updated more often. We’re happy to use them. We use address correction services every three or four months depending on the cost of that, and especially with the fast processing times of the computers today we could do it more.

Ask yourself what would we do if somebody said that we could not increase the rates. What would you do? And that might be the place to start.

Thanks.

MR. TAKIS: Thank you. Very interesting.

Markus, did you have some response to that?

MR. WILHELM: Yes. Maybe one brief comment. What I meant the revenue growth is important, I didn’t say cost is not important. I mean you have to be as lean as we can be. I mean despite of the fact that you know every CEO is pushing the company for higher revenue we always at the same time tighten the belt on the cost side as much as possible.

I think this goes without saying but I think the focus has to change. The focus has to change just on from reducing cost to also growing revenue, and that’s why I made proposals that you know we can talk about like seasonality or days of the week or auction
off excess capacity. Why not? You know a printer
would do that. Television stations, magazines,
everybody. If you have excess capacity, you auction
it off.

And to get back maybe to the one question
from the Commissioner before, you know every customer
is going to be different. You know I mean I think
your case was very interesting, and I feel for you
with 50 percent reduction in mail, and we analyzed on
our side for example that every book club member I
recruit generates 55 pieces of mail. That’s a
so-called multiplier effect. That’s very specific to
my business.

I’m sure there’s a multiplier effect to your
business, and I think you know if a business has a
multiplier effect of 100 with each, maybe the Post
Office should actually subsidize that to some degree
and say, hey you know if I get this customer enrolled
in this mailing system and he generates 100 letters or
passes of follow-up business for me, that’s good
business.

This is what we would do as a commercial
organization, and I think that’s why at the end NSAs
will not be comparable. I think it’s fair, and I
think it has to be evaluated on a case-by-case basis,
and then we can avoid these hardships that we
currently have. But we have one shoe that has to fit
everybody.

MR. TAKIS: You have a quick follow-up on
that?

MR. RUTHKOSKY: Yes, just a quick follow-up.
Louis had said that in the past nine years you had not
increased your rates to your customers. That's I'm
not sure not because you didn't want to. You simply
couldn't because that increase in pricing wouldn't
stick.

MR. MILANI: No. Yes. You're right on that
but it was a good lesson too. We lived.

MR. RUTHKOSKY: I think that is very similar
to what a lot of people see where you're just not able
to pass along to increase prices.

MR. MILANI: No. We've been trying.

MR. RUTHKOSKY: If you could you would.

MR. MILANI: But we have managed, and we've
found different ways to get around that. Yes. Well
that's all right. I forgot what I was going to say.

MR. TAKIS: Do we have another question in
the back?

MR. ACKERLY: My name is Todd Ackerly. I'm
the Postal Counsel for the Direct Marketing

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Association, and I'd like to focus on this a little further, dig a little deeper into the question of predictability, and since this panel is talking about customer needs, ask the customers what it really means because in fact although the statute uses the term predictability, it is anything but predictable, the legal structure that we have to work with.

It has the CPI cap but as Lou very well knows from the last rate case which by the way for standard mail was within a pretty standard cap, on an individual mailer basis the new system is anything but predictable as far as the CPI cap is concerned. Furthermore, there's a 45-day notice period between the time that the Postal Service can notify of a rate adjustment and the time that the rates can go into affect.

Clearly 45 days, based on what the panel has been saying, is not enough time to be predictable, to allow the software to change, to allow mailers to deal with whatever the Postal Service has notified. As someone who's going to be involved in working with the development of the new regulations, I would like to hear from the panel as to what basically predictability means to you. What sort of provisions should the regulations strive for so that the

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predictability goal can be met on a mailer-by-mailer
basis?

MR. TAKIS: Lou, do you want to take that
one first?

MR. MILANI: Ideally everything you say
would be wonderful. You know what's predictable now
is if you know and it's out there, the CPI. Overall
that's the ceiling, right? Of all the rates. And so
that's better than we've had in the past. And if
there was some way of predicting you know say in every
category within every class of mail would not go above
a certain percentage, CPI, you know something, that
would be better.

If instead of the 45 days it was six months,
that would be better. I'm not sure. You see I
haven't looked at the rationale behind the rates. I
think the Postal Service and the PRC probably they
have left some room in there. Of course I'm saying on
the whole class up to the CPI.

There must be some rationale why they left
it that way so they can get maybe 1 percent in you
know one area. You know discounts for moving it
around or something. And moving one area up 3 percent
but overall so the average is two and a half percent.

I think that question probably should be explained by

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the Postal Service.

MR. WILHELM: I always tell my CFO when, how much and where? Don’t surprise me, and don’t give me any surprises. I can’t deal with this. When is the increase happening? How much is the increase going to be? On which class of mail are we talking about? And surprised would be for example reclassification or stuff like that you know that we are not prepared for, and we cannot deal with.

So whatever happens I think predictability has to be a factor that we have to define as an industry, and maybe we should get together as a group of people and try to come up with some definitions that most people can live with. But I think what we want at the end of the day is we don’t want to have anything we can’t deal with. We have to be able to deal with it, and that is probably different for customer-to-customer but I think we can find a common denominator here very quickly.

MR. TAKIS: Steve, this echoes some of your thoughts earlier about predictability to the individual consumer.

MR. LASERSON: Yes. For the consumer it’s a little different though because predictability to the consumer if you look historically over the last 30 years...
years rates have increased every two and half to three years. So what consumers consider predictable isn’t that regular. So if it were to change from every two to three years to every year, that would actually be a shock in a different way I think on the consumer side because what they have become accustomed to.

In fact, there was one time back in 1981 where rates increased twice in the same year, and it had a detrimental impact on our business. So again I think as usual we’re coming at this from a different perspective, and then it also strikes me that predictability and flexibility may be at odds with each other because if we get where you know Lou was talking about where we tighten the cap down you know within the class, then we’ve lost the flexibility to truly understand the different usage occasions, the different sensitivities, and make adjustments that are going to help grow overall volume and revenue.

MR. TAKIS: Is there a question over here? We have time for one more very quick question because we are bumping up against our time.

MS. LEHMUTH: This is really a statement regarding the seasonal --

MR. TAKIS: Can you tell us who you are?

Thank you.
MS. LEHMUTH: I'm sorry. My name is Georgette Lehmuth. I represent the National Catholic Development Conference, a group of over 400 charitable organizations, and it's from that perspective that I speak about the seasonal issue because as fundraisers for charitable purposes year end giving is extremely essential for our donor base, and therefore seasonal affects would really impact us greatly.

Also I want to talk about following up on what Lou has said regarding the flats and not having enough time to prepare, again charities are under a lot of scrutiny and we work very hard to make ever penny count to go towards our missions, and when we get these unpredictable increases it makes it very difficult for us to operate, and it also makes it very difficult for us to acquire new donors because many of our acquisition packages would be affected by these new rates. Thank you.

MR. TAKIS: Thank you. I think that echoes a lot of the concerns that we've heard from the panel. I'd like to take this opportunity at the end of this panel to thank everyone who was on the panel for their great comments today, and please join me in thanking them. If this is any indication of how the rest of the day is going to go, I think we're going to have a

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wonderful rest of the day no doubt about it. We're going to take a break, and I think as you all know we're experiencing an early spring, a beautiful early spring day here in D.C. So if we lose you to the outside, please come back.

Let me tell you a couple of housekeeping items here. We're going to start promptly back at 11 o'clock. So that's 15 minutes from now. And there are restrooms out to this direction, and as well up in the main atrium area which is also where we're going to be having the lunch, and I'll talk to you about that before the next session.

(Whereupon, a short recess was taken.)

MR. TAKIS: Okay. Ladies and gentlemen, if you could take your seats. I think we have the microphone situation worked out. Thank you very much for your patience. We had a short circuit over here that knocked out the entire PA system. So I think we're back, and hopefully everyone can hear me but more importantly hopefully you can hear the speakers here.

So our next panel is going to be focusing on the competitive category, and as we talked about before that includes those mail classes and services where there is substantial marketplace competition.

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from other providers, including bulk parcel post, Priority mail, Express mail and bulk international mail, and the competitive products can be thought of as having a price floor -- we talked about that before -- where some market dominant products have a price ceiling.

The Postal Service will enjoy a great amount of flexibility for this competitive products but with some very, very strict provisions. First off, each product must recoup its attributable cost. As most of you know that's the structure. Secondly, no revenues from the market dominant services can be used to subsidize any competitive services.

And third competitive services as a whole must make a fair contribution to institutional costs recovery, and this is a very important issue because this will impact or have a big effect on the financial viability of competitive products going forward and the market dominant products because of the structure of the Postal Service.

And then fourth the Postal Service must calculate and assumed federal income tax on its competitive products and income, and transfer that amount back to the market dominant fund. The Postal Service can change its pricing structure and create

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new classes and subclasses and categories within the competitive product basket as long as it continues to observe those constraints governing the attributable institutional costs coverage that we just talked about.

The Postal Service can continue to further work share and conduct tests and experimental services just like on the market dominant side as we were talking about before. And then finally the competitive products fund will be established to address the accounting for these revenues and costs and profits and investments within this overall competitive category.

So that gives an overview of what the legislation talks about with regards to the competitive category. We’re very much looking forward to a very lively and exciting conversation here today because this product category has an awful lot of interest in it no doubt about it.

So what I’d like to do now is introduce the various panels that we have here, and we’re honored to have here today up in Potomac. To my immediate left is Julie Swatek, and Julie is the President and founder of Scrap Your Memories, Inc., which is the parent company of a popular ecommerce site that
specializes in vacation, sports and military theme scrapbooking supplies.

She founded this company in 2002 out of a spare bedroom in her house, and it has since grown to over a million dollars in annual revenue but prior to founding her company, Ms. Swatek was a financial reporting and budgeting manager for Crossroads Hospitality Company, which is a division of Interstate Hotels and Resorts, and most importantly, however, is Scrap Your Memories is a large user of Postal Service products and services. So please join me in welcoming Ms. Julie Swatek.

To Julie’s left is Mr. Rick Collins who’s the Managing Director of AFMS. AFMS is one of the nation’s leading consulting firms in the area of domestic and international air freight, express package shipments and ground shipments, less than truckload transportation and the U.S. Postal Service. Mr. Collins assists a wide variety of clients with carrier selection, negotiation and auditing expertise and support, and prior to joining AFMS, Mr. Collins was a regional sales director with a major LTL carrier, and was also a senior manager at UPS. Please join me in welcoming Mr. Rick Collins.

To Rick’s left we have Mr. Ty Taylor, who’s Heritage Reporting Corporation (202) 628-4888
a Manager, Marketing Transportation and Postal Affairs for JC Penney logistics. In his position he manages the distribution for all retail and catalog direct mail advertising, national reprint programs, as well as catalog distribution. He’s also responsible for tracking direct mail events through the Postal network and utilized confirm services extensively to assist JC Penney in receiving timely in-home delivery.

Mr. Taylor is also very active in the mailing community through the Mailer’s Technical Advisory Committee, serving on two separate work groups. Please join me in welcoming Mr. Ty Taylor.

And to Ty’s left, we have Mr. James West, who is a Director at Williams-Sonoma. Mr. West has served on Postal and Government Affairs for Williams-Sonoma since 2004. He joined the company’s catalog group more than 30 years ago, growing its circulation to over 380 million catalogs annually in 2006. Mr. West is also active in various mailing industry groups, including the MTAC FSS work group. Please join me in welcoming Mr. James West.

So just as a reminder to the audience we’re going to do the same format. So I’ll ask an introductory question of each of the panelists but again we’d like to encourage as many questions as we
can from the audience. So please line up when you have the questions.

What I'd like to do first, Julie, if you could talk about this issue is talk about you know what do you see the future of your mailing needs to be, and how does this new reform legislation affect that?

MS. SWATEK: Well you know Steve earlier said that he was here representing the individual mailer, and obviously the very large mailers are very well represented, and I guess I wrote that I'm here to represent the small and midsize shippers. I run an ecommerce company. As you all know ecommerce is fueling a lot of growth in the country.

There are millions of people just like me standing in line at the Post Office every day with their ebay boxes and they'll click n ship things that they've put on. So I have an entirely different perspective than everybody else in the room.

Prior to a year ago, I didn't know what a DDU or BMC or all those other acronyms you people use are, and to be quite honest with you the majority of the people that are like me don't even know that you all are in this room probably don't know a thing about Postal reform, and all we know is that without low

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prices we can't be in business.

I kind of had to chuckle to myself when Louis was talking about his one penny and costing him $2 million to the bottom line. That's more than my revenue a year. So while although the costs hit them hard, I would say that they probably hit us smaller people a lot harder than they do you because it's a lot larger percentage of our revenue.

So quite honestly I wouldn't even be where I was if it was not for my relationship with the Post Office, and I would love to make sure that they remain in a position to be able to partner not only you know you guys talked a lot earlier before about partnerships with large companies, and I'd just like to say that the Post Office has done a great job of partnering with very small companies like myself.

They've made me a custom box that's just special just for me which quite honestly I've been able to because of that I've hired a publicist, and I've been able to cobrand that box with the largest leader in my industry that I'm now going to be able to go to different conventions throughout this year and have access to anywhere from 60 to 80,000 people to talk about my business and my industry and the Post Office and how those people mail those packages.
So I would just say that again not really having known much about the Postal Reform Act prior to getting here, I just am so happy to be part of this discussion to make sure that everybody is a win-win as he said earlier going forward.

MR. TAKIS: Thank you, Julie. I appreciate that. Rick, your position in the industry is a little different. You’re not a customer, although we all are customers of the Postal Service, but you represent many clients that make shipping choices every single day. What can you tell us about your client’s view and your personal views about reform legislation and what you hope to see for your clients going forward?

MR. COLLINS: Thanks. I think that in regards to in our company certainly we like in all former Vice President, Senior Managers with FedEx, UPS, we have folks from the Postal Service, DHL, et cetera throughout all of this supply chain but we really truly think for the Post Office -- it was interesting.

I was traveling from Richmond, Virginia where I work out of our regional office there, and stopped at a very large USPS customer, and they gave me a tour of their facility, and I think he was expressing to me some of the flexibility and some of...
the I guess enhancements of even their sales resource
that was calling on their account that certainly they
had been able to reduce some cost areas but also it
seemed like a partnership.

So I see from the Postal reform even in the
rate structure that you’re seeking here to from the
Postal Rate Commission there’s some real positives in
the marketplace from a competitive side, especially on
the products that we’re discussing here on the panel
today. I’ve got a number of comments that I’m sure
we’ll touch base on that we see in the marketplace in
order for the Postal Service to remain competitive
with the other integrated carriers in some select
products.

There are certain things that will require
revenues to be competitive, and that’s certainly from
a technology side, from a flexibility side, even from
an operations side. Again, we have a great pulse of
the marketplace, and the bottom line even on the cost
is package characteristics.

There are really only a couple of drivers of
discount programs with the integrated carriers today
and that’s package characteristics and marketplace
conditions, and certainly I think through the Postal
reform and the concerns that have been expressed
earlier I think the Postal Service is trying to position themselves to be a more customer friendly solution to clients today. So we’re seeing that in the marketplace.

MR. TAKIS: Thank you. Ty, how about you? Your organization’s use of the mail stream and what do you see Postal reform helping you in that use of the mail?

MR. TAYLOR: Well we’re obviously a little bigger than Julie. We ship a couple of packages through FedEx, UPS as well as the Post Office. You know it’s very simple for us. What we’d like to see is competitive pricing, and what I mean by that is volume based. If we’re mailing these quantities, we believe that we should get a discount on those quantities.

You know we feel at JC Penney -- I’m sure many other customers in this room -- don’t pay list price when you’re going out to other carriers, and that’s a big important factor that we’d like to touch base on is not only do we want to get competitive pricing but it might have to be based by customer, and as well you know we feel that this service has to be comparable, not just the cost but we have to get the service that we do feel we deserve and we’ll pay for.
MR. TAKIS: Thank you, Ty. James, how about you? Williams-Sonoma, your use of the mail stream, and how do you see the Postal reform legislation affecting your business?

MR. WEST: Well first in terms of our mail stream, I'd like to start by saying that I've had the privilege of working for Williams-Sonoma for over 30 years, and during that time Williams-Sonoma's revenues have grown from about a million dollars to nearly $4 billion. So, Julie, you see you have an opportunity ahead of you.

MR. TAKIS: Right.

MR. WEST: But during the entire 32 years that I've been there, Williams-Sonoma has depended on the United States Postal Service for delivering our catalogs, and I have to note that our catalogs over that period have probably represented 99 percent of our marketing budget. So I might as well say the only thing we do is catalogs, and we use the USPS to deliver those naturally.

And so the help, the continued help of the USPS is of vital importance to us in many ways. When I was asked to do this panel, it was kind of a surprise maybe a little bit because I told him, why do you want me here? I don’t ship any packages through

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the USPS. Just maybe you know a few Post Office boxes and APOs, and the reply was exactly that. It's what can the USPS do?

And I'm going to kind of just speak off what Ty just said. There is an opportunity and probably foremost is service. I'd kind of like to challenge the USPS. You know they look at us as a customer but we have customers, and in many respects our customers are also those of the USPS. You know first off they know we produce catalogs but our customers see that USPS is the man that delivers it.

But in terms of you know the competitive products and packages more specifically, it's the service, and you know many of the services of the USPS already has in place. There's pricing. Competitive pricing is going to be key to growing that business and ever making us a player in that.

The technical side, the tracking and tracing is extremely important. Our customers demand that they know where their packages are. As a matter of fact, we handle fewer and fewer calls through our call center but invariably a call is concluded by the end with the customer asking, now when am I going to get it? You know and we have to be able to say with really pretty good accuracy, well you're going to have

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it in three days or you’re going to have it in five
days, depending on where you’re living.

And to carry that through to the USPS and
the Postal Service, we’ve got to have the support that
backs that up. So we could tell the customer you know
you’re going to be able to go online and find out
where your package is at any given time. And the
guarantee that is going to be there. Extremely
important to us and our customers. Accurate delivery
estimates to different zones. That’s really key.

And another thing that we haven’t touched on
that you know I would feel remiss without mentioning
is building public perception and confidence in the
Postal Service as a carrier of packages. Some years
ago -- if I can just digress here for a minute -- we
did a test, and we compared the two big commercial
carriers against the USPS in a promotion to our
customers and said you can order in one of three ways,
and there were definite price benefits to going.

We have good pricing with the commercial
carriers, as Ty mentioned, but you know we had the
best value price was for the Postal Service, and the
customers tended to shy away from that. You know they
wanted to know that they were going to get service and
delivery, and so I think that’s going to be you know

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key for the Postal Service to build on. Build a structure around really bringing that up to you know kind of a good competitive standard you know. So the category is really that competitive, and that's what it boils down to. You're going to have to be competitive with everybody else in the marketplace.

MR. TAKIS: It's an interesting theme across all of you all about service, price and how that affects competition. I would encourage everyone to remember the mics are there to be used. Please, Julie, I'd like to follow on that thought too. You know your business is a relatively new customer to the Postal Service but what do you think the Postal Service can do to retain your business over time as you grow bigger and have more options available to you for other shipping options? What do you think is important to the Postal Service and the PRC for that matter too?

MS. SWATEK: You know I've thought a lot about this question, and I've heard a lot of people price, price, price, price, price, price, and I would have to say that I tend to disagree with that. You know I'm a pure play internet person. I don't have a catalog. I'm not multichannel, and in my world you can choose
to be the low cost provider and compete with WalMart
and go out of business or you can pick another
differentiator.

You know the explosion of the internet is
all about the niche. I have a very tightly focused
niche, and no one else in the world does what I do
better than what I do, and I’ve not tried to be all
things to all people. I think if you try to be all
things to all people you will ultimately fail. You
have to pick what it is that you are the best at and
kick everybody else’s butt out of the way, and having
gone through you know and attending several of these
things, one of the things I’ve heard the Post Office
say over and over and over again is that they are the
carrier of the last mile, and I think that that is the
thing that they are the best at.

I actually will say that I have a different
story than Jerry has down there. I have always
shipped with Priority mail. Quite honestly I don’t
know that I’d be in business without Priority mail
because free boxes are really cool. It goes right to
that bottom line.

But there was a particular day a little over
a year ago where because there is no tracking and you
know capabilities that I had numerous packages lost in
one day, and so I was quite aggravated with the Post Office to be quite honest with you, and I sent an email out to my customer database and asked them, okay well I was going to switch to UPS because I was done with the Post Office. I was tired of having packages lost. I was just in a bad mood that day. Don’t take it personally.

And I would say probably 90 percent of my customers came back and said, please don’t switch from the Post Office. You know one of the things that I’ve noticed especially in a pure play internet world is that there has been an explosion of commerce in rural America. You know if you don’t live somewhere close to a mall where you can walk into a Williams-Sonoma store, if you don’t get the catalog in the mail or the JC Penney catalog in the mail, you’re not buying anything, and so those people are the people that know their mailman.

You know they bring them their birthday cards, their Christmas cards, their packages. They know mail carrier. Excuse me. So they know their mail carrier, and overwhelmingly I was actually quite surprised at the vehement objection to my switching to UPS. So I would say that my experience is different than his in that you know my customers love the Post Office.

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I got just a tremendous amount of very heartwarming stories, and again I think it goes back to what they were talking about in the first panel. It's that relationship, and in a lot of rural America there is a relationship between the person and their mail carrier.

MR. TAKIS: Interesting.

MS. SWATEK: I can remember one of my old mail carriers turned out she left the Postal Service, and she actually went to go work for a daycare center, and it turned out she was my daughter's teacher, and it was kind of interesting because she remembered me. She had never met me but she remembered my address, and she knew where I lived, and she knew what mail I got. So sometimes hopefully they might know a little bit more about you than you want them to know but I think that that relationship exists between the customer and the person who's delivering their package.

MR. TAKIS: It's interesting that it's not just the shipper's choice but then your end customer's choice too. Interesting. Rick, how about you? When you're advising your clients on what service they should use, what competitor they should use, what are
some of the key attributes that they're thinking about in either increasing their use of U.S. Postal Service products or even just maintaining what they've got, like Julie just answered?

MR. COLLINS: I think that at least in our world again we have a little over 1,000 clients we work with but the clients you know we see one thing that I would just encourage even the Post Office, you know you talk about -- we were talking off line in between with Steve here up front just about it wasn't too long ago that the integrated carriers, even as late as 1990, even offered any type of customized agreements with individual customers.

Even as 1990 you might have a major client who has shipped 20 trailers of volume a day, and you would have you know me ship a package to my mother, and they had the same rate base. So they saw the customer as truly the end of all but certainly life has changed in that world, and for the Postal Service even though we're involved in whether it's a request for a proposal or working with clients not just negotiating rates, but there's a lot more to that as far as it's just not the rate.

There's got to be the side of technology and solutions. I can't help but think that many times if

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the Postal Service is going to play in this world of products they’re going to have to certainly be able to be flexible from a customized solutions to segmented clients, maybe a larger tier client, and even in Julie’s case for a specific client, and meet their specific needs.

But many times if you don’t have some of the basics of technology today of tracking and tracing those are just key issues for clients, at least the ones that we work with in the marketplace, and I have to think that the pulse, I think James mentioned that earlier, you know it’s just critical to their company, and so from a customer service side, the Post Office is certainly going to have to enhance their ability to improve tracking, scanning at all locations, and really down.

Even though they do even a scanning job, the percentages are low, the numbers are so high that it becomes a fairly significant number. When you’re competing against the integrated carriers, you know I think most of them tout that they are the technology leader in their specific industry, and for the purpose of this small package industry and for Priority mail and for the parcel post piece and I think it’s going to be critical that they improve on the B to C type
from a tracking and tracing and basically this will
give the information that Julie needs to tell her
clients for even those few days that explode that you
don't have that information. It's just critical.

MR. TAKIS: So the service attributes are
very, very important?

MR. COLLINS: Service and technology.

MR. TAKIS: Technology.

MR. COLLINS: Again going back to the USPS,
the integrated carriers have certainly positioned
themselves from a technology side of really building
and even switching barriers that through technology to
help secure that business for long-term partnerships.
They even priced it for long-term partnerships. So
when you look at you know how the USPS can be
competitive in this world, they're certainly going to
have to be more flexible in customized solutions to
clients, and in Julie's case it could be customized
boxes where it really helps them move their business
forward and grow.

MR. TAKIS: Ty? James? Anything you'd like
to add to that because that echoes a lot of what you
were saying before?

MR. TAYLOR: Yes.

MR. WEST: You can to first.

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MR. TAYLOR: Actually on Friday when my boss told me I would be sitting in for him on this panel, he made an underlined statement tracking and tracing, highlighted capital letters. It’s not value added. It is the baseline, and that is a very important point that he would like me to get across. That not only do we want the service, you know our customers they’re okay if they get it five days, seven days, three days, whatever it is, as long as it gets there on five days, three days, seven days when you say you’re going to deliver it.

We can pay less for slower service, and if they’re okay with that everybody’s fine. If it doesn’t deliver and they can’t go on and see the 15 scans, they feel as though they’re missing out. So that is a very important piece to our business as well as just consistent service. You know if you say it’s going to be there in seven days and we agree to that, then that’s when we need it there.

And also another to kind of get off that subject just for a second is in our warehouses I would like to see maybe a more user friendly atmosphere between the Post Office and our distribution centers. Right now it’s set up where we have to basically ship according to the Postal requirements, not when is good
for us, and that hinders us operationally.

You know and that's just one example.

Another example might be that we're not able to bed
load or we're not able to get containers. Stuff like
that. You know I mean if we could work through issues
like that we would certainly want to send more of our
packages through but tracking really is a big deal to
the end customer. I'll let you continue.

MR. WEST: I think just one thing to add on
the tracking accuracy. Currently if we're watching an
order for a customer and all of a sudden the tracking
ends, that means we're going to ship that order again.
We may have it arrive twice at the customer's door
which is not good. So as the USPS is addressing this,
we know there's problems in certain classes you know
with certain services now and that's got to be
corrected. It's got to be complete and very accurate
all the way through otherwise we ship again. There's
no way around it.

MR. TAYLOR: Good point. Very good point.

MR. TAKIS: Gene, you have a question?

MR. DEL POLITO: Yes, I do. Before reform
passed when the Postmaster General had to announce
where they were going to be going strategically he
made mention about the fact that he didn't think that
the Postal Service ought to try to out UPS UPS or out
FedEx FedEx, and as a matter of fact, the world has
changed considerably and we now see that both FedEx
and UPS are partners with the Postal Service at least
on the transportation side.

Julie has talked about doing what you do
better than anybody else can and probably defining it
within a niche, and at the same time she also
mentioned the fact that the unique niche that seems to
demand Postal Services from her end happens to be
people who are in more rural areas of the country. I
would like to ask the panel this. To what extent do
you think that the rules for establishing rates for
competitive services need to be tailored to permit the
Postal Service to engage in the kind of partnership
relationships that it may not have explored up to this
point?

For instance, why go to an urban area if an
urban area is already satisfied adequately by another
private sector provide and pour your resources in
there or are there certain sorts of teamed up
relationships that would make sense for the Postal
Service to explore with other service providers to hit
those less populous areas of the country?

In other words, how should the roles be

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changed not just to reflect what is the interest of the Postal Service as a provider or the end user, but in terms of what kind of resources the Postal Service can and should bring to bear to focus on satisfying the areas where as Julie would say you can do the job better than anybody else can?

MR. TAKIS: That’s an excellent question.

Rick, do you want to take that question first?

MR. COLLINS: Certainly the Post Office and FedEx are already partnered in some areas, and they do an absolutely great job the last mile from you know whether it’s through UPS at Mail Innovations or from a FedEx Smart Post site or the DHL At Home, there’s partnerships that have really ended up benefitting both the integrated carrier and the Postal carrier. It’s been interesting to see from a pricing side, and I guess that’s your questions, how can you both from a pricing side and a customer service side that if you look at the surcharges today from the integrated carriers, it appears that Julie’s customers, the ones in rural or super rural areas, are the ones that are delivered by the Post Office because of a profitability piece for UPS and for FedEx and even DHL.

They see that in their costing model as if

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it meets the customer's needs, then they can certainly fulfill those service needs and cost point needs through a partnership with the Post Office. So you know some of those relationships I think are already established to some extent. Jim, I'm not sure if I've answered your question or not but from a pricing side, I think that even in that last mile I have to go back to sometimes you know from the tracking issue. You know even in the last mile you can lose that visibility of that individual package.

So when they can close that loop at some point I think from a customer service side you know Julie's customers or any business would certainly benefit greatly from that partnership with the Postal Service to close that last little loop. So I'm not sure if I answered that question exactly but certainly there are opportunities that are in place today. I see those continuing to blossom with both the integrated carriers and the Postal Service.

MR. TAKIS: Let's stay with that question. James, can you answer the question?

MR. WEST: Yes, I can expound upon what Rick just said a little bit because we're using some integrated service for delivery of some of our packages right now. It's probably only 100, 120,000 a
year but first off, yes, we have that loss of tracking in the last mile. You mentioned Mail Innovations, which is the partner we have in this, and I'd like to see some sort of partnership between USPS and Mail Innovations to speed up the process.

That's our issue with it right now. Here again it comes back to the service because we're not getting something to the customers as fast as we'd like to but you know we have to penetrate it as deep in the USPS system as we can but we're relying on someone else to do it, and I think we need to speed this process up, and we'd love to be able to look to USPS and see what you can do to help us speed this up? Can we meet halfway for example you know? And then of course we have to tack on the tracking.

You know we're happy with the relationship. You know it's that last mile and the USPS is doing a very good job of fulfilling but we need to get a little bit more in the center with that.

MR. TAKIS: Ty, do you have --

MR. TAYLOR: I agree with what they've said. The only thing I could add is you know we do have a good relationship with our carriers and the Post Office, and they work well together. We do need to come up with something. Our online business two years
ago surpassed a billion dollars. This year it’s at $1.3 billion. So it’s only going to grow hopefully for us and for you as well. So we’d like to have another option to be able to deal with those packages.

MR. TAKIS: Julie, how about you? Your thoughts on that question about the price aspects of it.

MS. SWATEK: Well the question as I understood it was more about the Regulatory Committee, and the thoughts that are going through my head as I sit here and listen to this is it’s actually a book that I shared with Jim Cochran. It’s called Cooperatition. To compete with your competition cooperate with your competition.

Not compete with your competition, cooperate with your competition, and I think that you know the marketplace will vote with their dollars, and the marketplace will decide, and in the free market system if the market is left to vote itself, things will come of it that no one in this room can even think about, and I think that if it’s too tightly regulated that we lose that.

I mean you know everybody has been in a brainstorming session where you know somebody has an idea and somebody has that idea, and you know by the
time you’re done the idea is so much better than
anybody by themselves could have come up with. So I
think that regulatory wise they need to allow that
collection to keep happening so that you know the
innovation can continue and things that never were
thought of 20 years ago, the things that are going to
be five years from now, nobody’s even thought of yet,
and we need to allow that to happen.

MR. TAKIS: Good point. Thank you. Gene,
did you have another follow-up on that?

MR. DEL POLITO: No. I think Julie
addressed it quite fine.

MS. SWATEK: Thank you.

MR. TAKIS: Well in our previous panel I
think you all heard we talked a little bit about the
predictability of rate changes and the timing of price
changes and things like that. Can you all talk about
your views on that question? How important is
predictability and timing of price changes to your
overall business? Maybe, Ty, if you want to take a

MR. TAYLOR: Well it’s very important from a
budgeting standpoint. Our fiscal year is different
than a calendar year so that impacts us. Not only do
we want predictability though but we don’t want to

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just assume that there will be a price increase. With our contracts with our current carriers, there might be one. There might not. So there needs to be flexibility within the contract process, and this goes back to the NSA process which you know we’d like to see. We’ve been in the works with our company but maybe a faster and more flexible process for the NSA process as well.

MR. TAKIS: That’s a good point. James, do you have any thoughts on that?

MR. WEST: Yes. First, I agree with everything Ty just said, and I would like to add that first off the timing, it’s different for everybody. Ty has their budgeting process. We have ours. We’d like to know in October what’s going to happen. Everybody’s different. So we’re going to have to learn to live with that.

But one thing you know being a part of a public company we have to deal with this issue called guidance, and you know every quarter we have to basically state our position, where we’re going, what we anticipate happening to the analysts and to an extent our customers and our shareholders, and as the USPS moves into kind of a new operating structure under the new reform, I’d hope that this would be a
consideration.

You know I feel like a lot of times we’re sitting in the dark. We don’t know exactly you know what’s going to happen. We heard you know about another you know -- the possibility of another rate case coming up or maybe not. Hopefully not. But in my world that’s something we can’t, you know we can’t deal with. Our shareholders just will not tolerate that. We have to issue guidance on it, an accurate guidance on a quarterly basis. You know some sort of predictability.

We can’t tell them exactly the numbers but that’s what I hope in the new era moving forward we can move towards something like that. You know just a better idea of what’s coming. Better predictability. You know we have rate caps. You know we’re going to live with a net and there’s going to be some adjustment, but if we can know just a little bit more about where the operation is headed and what’s going to occur.

MR. TAKIS: Again, that echoes some of the comments in our earlier panel. Ms. Jody Berenblatt talked about that with regards to clarity of that communication and how that goes. So that’s a good point. Rick, how about your clients? Do they see
MR. COLLINS: Yes. I want to comment a little bit about the integrated carriers. I think most of you who use UPS, FedEx, or DHL experienced probably one of the largest, the largest increase in the past 10 years in January, and you know for most companies if any of you are involved in budgets and planning, most of the time it’s based on a calendar year and not a fiscal year.

You’ve completed this back in October or as you said you need it in October, and so come January you certainly forecast what you had seen in the trend, and this year it got blown out of the water from a trending side with the integrated carriers, and of course the industry is responding right now to that from the integrated side.

So I think in light of that I know from a profitability side that it’s not that even the fact that you’re having an increase but what that increase represents to your bottom line. What is that true measurement of that? And the timing is just so critical for budget planning, for forecasting.

I mean if anything that I’ve heard and last night I was sharing with a couple of folks that certainly what’s headed for the Postal Service here

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some of it's as shared this morning I think with Taylor Gifts was certainly a huge impact to his company as an individual, and so when you look at the implications of that I think that if there is some moderation in the increases over a period of time. I think I understand the Postal Rate Commission, what their desire is, and try to get this to a place of profitability, but in the same token for the unexpected hit on bottom lines many companies will seek alternatives at that point because they have to survive in the marketplace, and so you know even though the integrated carriers this year made large increases, I think the timing of that, I think the timing of the Postal increase and what that means to their bottom line it has to be in incremental sections that can be measurable and they can manage so the expectancy doesn’t hit them and their company suffers greatly on the bottom line.

MR. TAKIS: Julie, how about you? As a smaller mailer, about the clarity of the communications around rate changes and various things like that, how does that affect you?

MS. SWATEK: Well it’s a little different for me because the first I ever find out about it is like way after all you guys have discussed it all, and
you know when I was listening to the panel earlier
talk about they couldn't make it happen I was thankful
for my nimbleness as a much smaller company because
it's just like one computer I have to go change, and I
can make a change in a much smaller, shorter period of
time than they can.

But you know for customers -- because really
that's the bottom line is it's the customer. It's the
person sitting in their house, and they're ultimately
the ones who are paying this cost. Shipping is a
necessary evil, and boy are they not happy about it
you know, and fortunately or unfortunately --
depending on what side you fall on -- you know a lot
of the larger companies have gone to you know a
reduced shipping or a free shipping model but
everybody knows it's not really free.

It's getting buried in a cost somewhere, and
you know people are willing to pay for the convenience
of not having to go to the mall, being able to get
what they want and you know I can sit on my computer
on my lunch hour and order something, and it shows up.
You know we've talked a lot about tracking before is
you know the world has changed so much. The speed of
life, as I like to call it, you know people expect
that they hit that send button on their computer, and

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like wait a minute. Was that the doorbell? It should be here already.

So I just think that from the pricing aspect of it, if the price continues to go up I think it has the potential to negatively affect the entire industry. You know he spoke before about you know and even one spoke about having to go out of business because the customers are only willing to absorb a certain level of pricing. You know gas is going up. Heating oil is going up. Everything.

They're getting hit from all directions, and you know what we're talking about from a commerce standpoint is discretionary income. Discretionary income goes down, and now I don't have as much money to spend at the JC Penney catalog or the Williams-Sonoma catalog or to buy more scrapbooking supplies, and so I think that everyone has to be cognizant.

It's a very precarious balancing situation that we're in. That you know everybody has to be financially solvent but yet you want to make money, you want to cover your costs, and so it's a very difficult balancing act, and you know 30 percent increase just seems like the scale got tipped too far in the other direction.

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MR. TAKIS: I understand. I'm sorry.

Please. James, you go first.

MR. WEST: Just one moment. Two things I'd like to respond in terms of what Julie just said.

First, you found out about the increase you know like it seems like after everything was all said and done, and I think that's extremely unfortunate, and there's been a lot of frustration under my people you know that are really involved in the industry, and Gene's done a good job of you know putting what he feels out there, and I agree entirely.

And I think the Postal Service really should make a better effort at communicating what this whole rate process is about. I'm fortunate enough that I have a national account manager that services my account but he can't speak to the rates and the rate increases, and I think that's very unfortunate. You know I don't know whether it's the account management system or the Postal Customers Council, but I think I would really like to see the USPS play more of a role in getting out there and really discussing the rate case with the ratepayers.

MR. TAKIS: More communication.

MR. WEST: And so then the other point I just wanted to make in terms of the pricing, you know

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you mentioned hitting the send button. Unfortunately you know and I know I said earlier that our customers really want service and they seem to be able to pay for it but when people are shopping online, a lot of times we find that they get their shopping cart full, and they want to hit the send button, but they see the cost of shipping and handling, and they stop right there.

MS. SWATEK: Shopping cart abandonment.

Nobody wants to talk about it.

MR. WEST: Yes, they stop right there. In the new operating structure, I really hope that the institutional costs associated with parcels and the competitive products will be handled appropriately you know. They have to carry their fair share. That's true but I hope it doesn't go up or even comes down from where it's at right now so that the Post Office can remain you know truly competitive.

MR. TAKIS: Okay. Thank you. Good point. We have two people. I did see you got up first. Okay. Please.

MS. MUTH: It's like at karaoke where the same two bad singers keep getting up and asking all the questions.

MR. TAKIS: Can you introduce yourself?
MS. MUTH: I'm Kate Muth with PostCom, and I'm usurping my boss at the moment.

MR. TAKIS: That's right. He pointed to you so that you can speak first. I got that.

MS. MUTH: Two questions. To the commercial mailers in particular, is the Postal Service harmed in its ability to compete by its inability to offer customized agreements across all the product lines? In other words, James and Ty, I'm sure you would like to have an agreement whereby you would get a discount on your standard mail, on your catalogs as well as the packages that you send, and then the second question for all the panel is in order for the Postal Service to be an effective competitor, does Priority mail need to be a guaranteed service as in two days for one, two zones, et cetera?

MR. TAKIS: Ty, do you want to take that question?

MR. TAYLOR: Yes. Guaranteed we would like that. But on the direct mail, basically you know we can't really do anything about that but with the parcels, definitely. We feel that they probably are losing out because they're not able to come in and negotiate a rate with us. It's unfortunate but I think it's the world that we live in today. So if
that does change, then I do feel that they might have at least a window of opportunity to come in and speak.

MR. TAKIS: James.

MR. WEST: I would just add one thing to that. You know don’t think of just the commercial shippers such as Ty and myself you know in negotiating our rates because we have two concerns. With a lot of players in the consumer market, we also have this issue called customer returns, which is becoming bigger. I’m not in fashion so I don’t think my return rate looks anything like Ty’s fortunately but it’s becoming a bigger concern for us.

Granted it’s hard for someone to send back a sofa, but it’s not so hard to send back some dish towels that they decided they didn’t like them. But we need to find ways to help make that easier for our customers. We want to be able to offer them something to make it easy.

MR. TAKIS: Sure.

MR. WEST: You know and negotiated pricing is a part of that.

MR. TAKIS: Yes.

MR. COLLINS: I just wanted to address the guarantee question. I guess today when we’re involved in whether it’s an RFP or an RFQ for our clients out

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there we find that most of those carriers can come to the table and their sales resources can supply on-time performance and guarantees.

So it's critical I think that if you're going to compete in that product category that you're going to have to provide that information, and not only be able to quantify that but really measure that in a way that you know the integrated carrier is going to be and your product is going to be in the 99 percent range and the ground product is probably in the high 98s. So you're certainly going to have to perform at those levels if you truly want to compete with those specific products in the marketplace.

MR. TAKIS: Julie, how about you? To follow-up on what James is asking about, product returns. Hopefully all of your customers love all your products so you don't have to return too many but is that an issue to you?

MS. SWATEK: No. Product return is not really an issue for me. I think I've probably had like maybe 20 in four years. So I don't really have that.

MR. WEST: How do you do that?

MR. TAYLOR: Good products.

MS. SWATEK: One thing that I would like to Heritage Reporting Corporation
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say though to speak to the issue of guarantee,
apparently you know I'm also here as like the you know
consumer advocate person but you know if you think
about somebody's got to be there to get the package,
and especially with some of the carriers like if
you're not there to sign for the package they won't
leave it for you, and the vast majority of people are
not home during the day.

So if they knew, okay my stuff is coming on
Thursday, I've got to be home on Thursday, I've got to
be home on Thursday, well I'm here. Okay. Well I
stayed home because I knew that this was when they
were going to come, and my package didn't show up on
Thursday. That creates a lot of ill will towards both
the carrier and the company that they ordered it from.

So I think that the whole guaranteed
delivery is a very, very important aspect because like
Ty said before, people don't care really how long it's
going to take just as long as it takes what you --
well within reason you know but if it's three days or
five days or seven days, you know I'm willing to pay
less for it to take seven days, but it better be here
when you told me it was going to be here, and I think
that the inability to have that guarantee again
reflects poorly on us as shippers when things don't

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work like we said it was going to. You know a lot of times the consumers don't understand that it’s out of our control.

MR. TAKIS: Good point. Gene?

MR. DEL POLITO: Yes. I’m sure my colleague on the left will address this issue but the point is we’re here to talk about what kind of approach needs to be taken for the purposes of regulating and dealing with issues pertaining to competitive services. It’s nice to hear from the mailers but the major task is going to fall to the Postal Service and the Postal Regulatory Commission.

I really would like to hear them ask questions of people within the room or people up on the dias in terms of what is it that they think they need to hear from us in order to facilitate this regulatory making process.

MR. TAKIS: Well your wish is about to be granted. Commissioner Goldway, please.

MS. GOLDWAY: Well I do have one question. I’m sure if I was pressed I could have many, many more but the Postal Service having been a monopoly has not been accountable for lack of service when the service does not meet what its standards are. One of the issues that we will face is establishing service

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standards and they will be negotiating with you about services that they promise. What is their accountability under the new competitive regime if they don’t meet the service that they have provided?

And what is the difference currently between your dealings with the private sector delivery services who don’t do what they promise versus what the Postal Service does with you, and is that an issue that needs to be resolved so that in the complaint mechanism or some accountability mechanism that we know that the Postal Service will do what it in fact has promised to do?

MR. TAKIS: Rick, would you like to take that question first about the accountability in the marketplace?

MR. COLLINS: I can only speak on the private sector but certainly there is, in my opinion, certainly a high accountability on regards to just take for the guaranteed service refunds. If we don’t deliver, we pay, and so there’s mechanisms that the carriers even provide to the customers. There’s internal software that both for example UPS, FedEx and DHL provide their customers that gives them information about their deliveries, both inbound and outbound, whether it’s on time or it’s not on time.
So there's definitely an accountability tool that's in place. Not every business out there or consumer takes advantage of that but it certainly is a high standard that's been set for the industry as a whole. So I think the private sector certainly has set the bar on expectations for in that particular case guaranteed service refunds or on-time delivery. Even in all products even including ground products. So it's not just express products. It's priority.

MR. TAKIS: Ty, how about you?

MR. TAYLOR: And you're right. They're written into the contracts but you know ultimately what could happen is they would lose the business, and that's what we have the ability to do.

MR. TAKIS: Do those contracts get enforced? I mean sorry contracts get enforced but do you find that that's a normal practice that that has to happen where you know the carriers are having to refund money or service issues crop up in the context of that?

MR. TAYLOR: It does happen just like any other supplier that we deal with. We call them supplier charge backs. It does happen but like Rick was saying, their percents are so high we'll work with them. It's not just if you didn't deliver it, this one package, then we're going to charge you. If it's
a consistent issue, back to consistency, maybe a consistent region or however you might want to split it up, then certainly we would get into monetary penalties but we're going to try to resolve those issues between the companies first.

MR. TAKIS: Right. Julie, how about you with regards to service and issues like that? You mentioned the situation where you weren't very happy with the Postal Service's service at the time. In relation to what Commissioner Goldway asked, how would you answer that question?

MS. SWATEK: Well the thought that popped into my head is when you asked your question is kind of what I said before. The market will decide. You know JC Penney is here, and I know they do not ship the majority of their packages with USPS because they're not getting what they want out of the market. So if USPS is going to you know play in the sandbox with the other ones, they have to play by the same rules, and if they can't play by the same rules, then no one is going to want to play with them. So I think that you know ultimately the market will vote with their dollars.

MS. GOLDWAY: And what I hear you saying is that the standard is not just the standard but meeting Heritage Reporting Corporation (202) 628-4888
the standard has to occur 98 to 99 percent of the time to really meet a competitive marketplace.

MS. SWATEK: Well because what he said before it's not the standard. Well I mean it's expected that that's like the baseline. You know it didn't used to be but it is now, and you know the game changed, and everybody's got to change along with the game. So that's what's expected now, and because USPS does not offer that, that you're already you know behind what is now considered the new rule.

You know quite honestly I mean I ship a vast majority of my packages with USPS but I don't ship all of my packages with USPS because of that same reason. You know there are consumers who want that trackability. There are people who you know just want to watch their package. Literally I've had customers tell me that they log on every day, and they watch their package move across the country. Apparently they have a lot of time on their hands.

MR. TAYLOR: It would almost be a leap of faith for you. You know it would be something that the Postal Service would have to get all the operations in place, all the lanes set up, all the logistics of it, get the people in line, and then say we have to have faith in what we just set up, and then
be held accountable just like the other players do.

MS. SWATEK: Well and I think as I listen to this I think that you know you guys are already in catch-up mode. So let’s try to figure out like how to get ahead. You know not just get to where you know FedEx, UPS, DHL are because they’re already there, and you’re already in catch-up mode. So you know with groups like this where you can talk and try to come up with something that you know again puts you ahead of them instead of just trying to get to where they already set the bar two years ago.

MR. COLLINS: Most of this carrier performance right now is at an all-time high in the integrated carriers. When I go to my local Post Office and they give me all the options that they give -- and they’re doing a very good job of that now. I mean they go through the whole routine of when would you like this, and all the questions of whether I’m shipping something hazardous, but I guess my point along that is that you’ve got to make improvements.

Does it all have to happen at once? No, I don’t think so because I mean I’ve shipped things Priority mail or even Express mail that they’re there on time. But there’s no mechanism to really give -- to go back to Ty’s -- just the assurance and knowing

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that hey, this is a guaranteed service, and it’s going to be there on time, and if not we pay for it. So that’s what’s out in the marketplace today to set the bar.

MR. TAKIS: Do you have any follow-up, Commissioner Goldway?

MS. GOLDWAY: Well it seems to me in the reporting that we get that the service standards that the Postal Service meets are more in the 93 to 94 percent range for all of their various products. Some of them even lower on the tail of some of the items. So I’m just raising this as a question for when we look at new service standards and the costs that might be involved in raising the bar for everyone, and I don’t have any solutions for it but I just think it’s an issue that needs to be addressed if the Postal Service is going to meet what is the new private sector standard, and that is to come up with systems that get their products to the places they’re supposed to go when they’re promised 99 percent of the time, and that’s a big leap.

MR. TAKIS: We have a question in the center, please.

MR. STOVER: David Stover again. Greeting Card Association. I wanted to raise a question about Heritage Reporting Corporation (202) 628-4888
the relationship between the competitive and market
dominant sectors. Mr. Takis pointed out in his
introduction that the competitive services as a group
have to make a contribution to institutional cost,
individually they have to cover attributable costs,
and I would be interested in hearing if the panelists
have any views on this question.

Suppose that individual customer
arrangements become dominant or even the dominant
situation in the competitive services. You have to
assume I think that these individual arrangements each
will come with its own special cost picture. How are
these individualized cost patterns going to get
identified, collected and made available to the people
who need to know them in order to ensure that these
general rules about the relationship between
competitive and noncompetitive or market dominant
categories can be implemented?

MR. TAKIS: Does anyone on the panel have
thoughts on that? That might be beyond them. Rick,
any thoughts on that at all?

MR. COLLINS: He has already left the mic.
I guess, David, you're speaking about specifically
customized agreements? I mean if you're going to
customize agreements.

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MR. STOVER: The situation I was thinking about was suppose that the kind of customized agreements that have been discussed this morning come to dominate a category like Priority mail or parcel post, and that is a competitive category, bulk parcel post. Presumably if there are customized services there are also going to be particular cost patterns associated with them. They may be lower than the average for the category. They might in some situations be higher.

Some of those costs will be costs that can be isolated in more or less traditional way as attributable costs, and somebody under the new statute is going to have an interest in seeing whether the general rules that Mr. Takis identified at the beginning are being met.

MR. COLLINS: Right.

MR. STOVER: How do we collect those costs? How do we make them available to the people who need to police the rules about recovery of the attributable costs and contribution institutional costs from the competitive sector given that these stem from a large collection of individual company contracts?

MR. COLLINS: Right. You know I guess I can only speak from a private sector standpoint, from an

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integrated side that from a costing side they would
tell you that no package is a bad package if it's
priced right, and so in saying that, it takes an
enormous amount of work on the front side for the
pricing group in setting those standards for
customized agreements to ensure that you're making a
reasonable you know price profit on this particular
package, and you're going to have to make that
information available, and usually that's just through
data.

Being able to go out to a customer, and I'm
thinking, David, that if you take a specific client
and then you have really got to understand what their
specific -- if it's overnight letters for an example,
and you're comparing that to a Priority product,
you've certainly got to understand and be able to in
this world that you're working in right now which is
again is a little bit different than the private
sector, but yet understanding the true cost variables
that are driving those overnight letters, with that
customized agreement that you have with that specific
client.

Individualized customized contracts I'm
sure, Julie, I'm sure Williams-Sonoma, they're all
customized based on package characteristics. So the

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Postal Service would have to then -- given a broad range -- would have to look at each individual customer in a unique way. I think that came up earlier when we were talking about how do you differentiate yourselves with the Postal Service with the different customer segments? I mean how does a million dollar customer and a multimillion dollars in transportation costs their customized contracts I can assure you look a lot different.

MS. SWATEK: Can they make mine look like his?

MR. COLLINS: And, David, I'm not sure that if I answered that question for you but I'm just saying from a costing side, the pricing group is certainly going to have to from a profitability side make that available to all the parties that are interested in this from a profitability side.

MR. TAYLOR: And you would have people on both sides monitoring the rates. You would be making sure that the Postal Service would charge us the correct rates, and we would be making sure that we were charged the correct rates, and everybody has their rate sheet in front of them, and that's what you live by. But it would be different for me, for James, for Julie.
MR. STOVER: It sounds as though one thing that might be being suggested here is that many of these contracts might be put together from modules of service with certain fairly closely defined characteristics where the Postal Service has been able to say, okay, we know what this particular operation will cost, and if you need it this is what we're going to write into your contract.

The bottom line though for the whole sector has to be the correct relationship between its revenues and the revenues that the Service gets from the market dominant products. Now obviously I'm saying this from the standpoint of somebody who's concerned with market dominant product but the reason I thought that the question might be of interest is partly the matter that we've just discussed back and forth. How do you put the contracts together so that the costs are known before the contract is signed without the enormous amount of research?

Number two -- and I'm not sure there is a ready answer to this one -- how does an individual customer contract with information in it that some people might consider confidential get factored into this evaluation process to see how the competitive sector as a whole is behaving in terms of its cost

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recovery and contribution?

MR. COLLINS: I guess I will say this. I know from each of their contracts they have with the integrated carrier they're all confidentiality clauses in there that protect both the carriers and them sharing information. It's just there for you can't get up and exchange one contract for another and say, I've got a better one to five pound rate than you do. I mean it's customized for that reason but I think, David, going back to your question, there has to be a way that if the Postal Service is going to at some point offer customized agreements on a product, say a Priority product, they're going to have to be able to model that based on a costing side that's both profitable and also at the same token be competitive in the marketplace, and that only comes through understanding package characteristics and having a group that does that in your pricing group.

MR. TAYLOR: And at the end of the day, you're not going to agree upon a contract that goes through many different departments with our company as well as the Post Office unless you're comfortable with the rates on both sides. So it will be well agreed upon before Mr. Potter or Mr. Olman or whoever signs the contracts actually put them into play.
MR. WEST: And part of the rates would be everybody's respective responsibilities for reporting the cost and everything that's going into it. So everything is agreed to right up front.

MR. TAYLOR: The reportings within the --

MR. WEST: Yes. And who's going to provide what, and you'd go into it making sure everyone's going to be satisfied.

MR. TAYLOR: Right. It's got to be a win-win.

MS. SWATEK: But from my perspective as I sit here as someone who does not have the volume to negotiate an NSA, you know if the costs aren't you know really known beforehand, you guys have negotiated your contract, they can't raise your rates, and all of a sudden we don't have enough. You know we didn't generate enough revenue.

We're not following the guidelines of the law, and the people who are going to get stuck with the difference is people like me not you guys because you have an agreement in place that you're not going to pay any more. I don't have an agreement in place. So you know if those costs aren't really true costs and measured properly you know all of a sudden we're going to be back to oh well we can't file a rate case.

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but oh well you know Priority mail just went up another 46 percent. It doesn't go up for you but it goes up for me.

MR. TAKIS: Very good point.
MR. TAYLOR: Well they are both sides of accountability.

MS. SWATEK: Right.
MR. TAYLOR: We have to deliver the volume, and you have to deliver what -- not you but the Postal Service.

MS. SWATEK: Yes.
MR. TAYLOR: So it's two-sided.
MS. SWATEK: No. My only point is he's talking about costs. I think that you know there just has to be you know tremendous mechanisms in place to make sure that those costs are accounted for properly because you know it's my understanding of how this has worked up until this point as you know not actually like a regular business with a profit and loss. Oh gee we have a loss. Well we'll just go increase our revenues. You know true business doesn't work that way.

So if that mechanism for covering costs is going to be taken away and their only option is to go figure out how to raise revenue somewhere else, the

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revenues aren't going to get raised to companies that have negotiated contracts. You know it's going to be oh well I know there's a difference between the market dominant and competitive product but I think that you know the rest of us who if you add us all together probably are still more than you guys but the rest of us together are going to be the ones who are going to have to make up the shortfall I guess is what I'm saying.

MR. TAYLOR: Well, Steve and Mike are very smart so they can figure that out.

MR. TAKIS: There you go. Pressure on you guys. I see there are several people that want to ask questions, and we're already over our time limit. So what I'm going to do is I'm going to go with one more question, and I think you were standing the longest of all, please.

MS. DREYFUSS: Thank you. I'm Shelly Dreyfuss with the Office of the Consumer Advocate at the Postal Regulatory Commission. I wanted to introduce the topic of parcel post. The Postal Service has sort of divided that class into two parts. There's parcel select. That's the product that many of you may use.

And actually I don't know if you've tried it
out lately or looked at it. The Postal Service is reporting really high scores for parcel select. I think running around 97 percent. So you may want to reconsider using parcel select. If you haven’t looked in a few years, I think that would be a good way to go.

So that’s the good news. There’s a little bit of bad news unfortunately with retail parcel post. Those are the customers that I represent. Retail parcel post is only about 50 percent on time, and I don’t think we’ve ever heard numbers like that in the room so far. I mean that’s pretty bad, and that’s pretty low.

The Postal Service I guess because of the small volumes of parcel post that have to be carried around the country is having a lot of trouble meeting its announced targets, its service standards, which run about two to nine days I think. Do you have a feel for whether the Postal Service should simply redefine its standards and say, you know we used to tell you three days between these two points, but really it’s going to be more like five days? We used to tell you nine days, but realistically it’s more like 12 days. Should they go in that direction, be realistic and state what sound

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like very, very long periods of time to get mail
delivered or should they put money into these products
and try to get those scores closer to the 98 and 99
percent that their competitors are offering?

MR. TAKIS: That’s a good question. What
would you all like to see?

MR. WEST: I think you know going to more
realistic time estimates you know it’s realistic but
at the same time I think that the consumer, the
consuming public is going to have a hard time with it,
at least I know our customers are. They you know
don’t want to wait. Like I mentioned a set of pot
holders, they don’t want to wait two weeks for it.
They really want to have it in three days for you know
whatever reason.

And so I think it would probably behoove the
Postal Service to really look you know and find out
why we’re not meeting the standards right now and what
needs to be done to make the existing standards more
realistic.

MR. TAKIS: Ty, your thoughts?

MR. TAYLOR: Well I was going to say with
what they do deliver today, my good friend Carol, you
know whenever I order checks from her they always try
to upsell that service and get it you know but it’s

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being delivered quicker. So I think they can hit the 
standards. This is a great company. The Postal 
Service does good work. I think they can.

MR. TAKIS: Julie, your thoughts on that?

MS. SWATEK: You know I would say the answer 
is both. Why does it have to be one or the other?
You know kind of echoing what they’re saying, and what 
they were saying during the earlier panel, you know 
people don’t like surprises. So if it’s 14 days, then 
tell me it’s 14 days. But by the way, 14 days isn’t 
acceptable so I’m glad that you told me that it’s 14 
days, but now I’m going to go choose another option 
because that was an unacceptable answer.

MR. WEST: Yes. And I just wanted to add 
one more thing that I mentioned earlier. I think it’s 
the consumer’s perception of parcel post and the USPS. 
You know they take it into the Post Office. We’ll get 
it there in you know four or five days but it ends up 
being seven or eight days. You know that’s got to be 
corrected to really build up a confidence if they’re 
going to grow the parcel post business.

MR. TAKIS: Rick, any last thoughts on that?

MR. COLLINS: I just think you have to be 
realistic and tell the consumer. You know it’s
Interesting in sales. Sales is all about trust. People believe in what you say is true, and if you're trying to sell USPS to consumers, you've got to tell them what the reality of it is, and then seek to make improvements.

MR. TAKIS: Well thank you everyone for your thoughts, and we appreciate your participation on the panel today. Please join me in thanking everyone. Again, a wonderful conversation. It raised a lot of good issues I think.

(Whereupon, at 12:25 p.m., the summit meeting in the above-entitled matter was recessed to reconvene at 1:20 p.m., this same day.)

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MR. TAKIS: Okay. We're going to go ahead and get started. I hope everyone enjoyed lunch as much as I did. One thing I wanted to mention to you I heard some feedback about the panels over lunch, and one question that came my way is why isn't the Postal Service asking a lot of questions or the Postal Rate Commission has now been asking a few questions, but I believe we talked to Steve and others over the lunch break and said, they really want to hear from you.

You know primarily it's your chance to talk and raise questions and let yourselves be heard, particularly in this next panel as we talk about the regulatory changes, it's going to be very important that we do hear all the comments and thoughts that you all have, and so I think they just wanted to let people know that.

So this next panel is on the regulatory issues facing the Postal Service and the Postal Regulatory Commission, and as a group the Postal Service, the Postal Regulatory Commission and the mailing community are going to be working together over the next several months -- as you've heard from Dan Blair and Jack Potter earlier today -- to develop
the final regulatory processes that will govern the Postal Service into the future.

In a meeting such as this summit and the proposed rulemaking process that we heard about earlier today and other forums that are going to allow the Postal Regulatory Commission and the Postal Service to develop a framework that meets the overall needs of everyone in the entire mailing community.

However, the new legislation -- as we talked about before -- contains many different provisions on how that regulatory framework is going to work, and in particular the forethoughts that I wanted to tee up here today is that the PRC will have the authority to review prices and service performance for noncompliance with provisions in the law and request responses to action from the Postal Service which is an interesting requirement.

The Postal Service will also require annual reports from the Postal Service on costs and revenues and prices and quality of service using methods determined by the PRC. So that will be developed over the next several months I'm sure.

The law also requires quarterly financial reporting containing information required by the SEC, the Securities and Exchange Commission, and any Heritage Reporting Corporation (202) 628-4888
interested persons will have the opportunity to file complaints with the PRC -- we’ve heard a little bit about that earlier today -- if they believe that the Postal Service is not following the new regulatory provisions, and the PRC has the authority to fine the Postal Service if valid complaints are not remedied.

So as you can tell there’s going to be an awful lot of changes in the regulatory process going forward, and what we’d like to focus in on this next panel especially is looking forward, not looking backwards at the old policies and approaches in the past that the Postal Service and the PRC and all the mailing community have been governed under but really looking at the future, and trying to focus in on that as we go.

I’m joined today with four very distinguished panelists, and I’d like to introduce them very quickly here. To my immediate left is Mr. David Levy. David is a Partner with the Washington office of Sidley and Austin, and his practice focuses on Postal Service but also a variety of other industries as well including transportation, telecommunications law. It’s going to be good to hear David’s views on those regulatory regimes, and how they might affect the Postal Service.

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He's participated in every omnibus Postal rate case since 1983. He's also cross-examined me several times on the stand I believe.

MR. LEVY: I'm waiting for the payback.

MR. TAKIS: There you go. It's coming right now. Just kidding. It was a good cross-examination. Friendly cross almost. Yes, well. In 2006, David represented Alliance of Nonprofit Mailers and Magazine Publishers of America, the National Association of Presort Mailers and the National Postal Policy Council. So he's very busy in the last omnibus case.

He's also appeared in most of the negotiated service agreement cases before the PRC since 2001, and recent NSA clients include JP Morgan Chase, formerly Bank One, and Bank of America. Please join me in welcoming Mr. David Levy.

To David's left is Mr. Roger Kodat. Roger is the Deputy Assistant Secretary, Government and Financial Policy of the Department of the Treasury. He was appointed to that position in 2001 bringing 17 years of commercial and investment banking experience to the Treasury Department. His principle issues include Postal reform, federal government lending and extension of federal loan guarantees and overall financial policy.

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We're very pleased to have Mr. Kodat on our panel today as he was going to be bringing a unique perspective as a representative of a key stakeholder in the future financial performance of the Postal Service, namely the United States Government. Please join me in welcoming Mr. Roger Kodat.

To Roger's left is Mr. Ian Volner. Ian is a Partner with Venable LLP where he focuses his law practice on direct marketing, communications and mass media. His clients include Bookspan, R.R. Donnelley and Sons, Ameriprise Financial Services, the Direct Marketing Association and the Association for Postal Commerce.

In addition to his extensive experience in the Postal industry, Mr. Volner also have extensive experience in other regulated arenas including the Federal Communications Commission and the Federal Trade Commission, and again we're looking forward to hearing his views on the regulatory approaches taken by those industries as they've undergone significant change. Please join me in welcoming Mr. Ian Volner.

And to Ian's left we have Professor Gregory Sidak, who is a visiting Professor of Law at Georgetown University. He's the founding editor of *The Journal of Competition Law and Economics*, and his Heritage Reporting Corporation (202) 628-4888
work focuses in on antitrust policy, the regulation of
network industries, intellectual property, and
constitutional issues regarding economic regulation.

Professor Sidak has held numerous positions
throughout his distinguished career, including
positions with the FCC, the Federal Communications
Commission, the Council of Economic Advisors, the
American Enterprise Institute for Public Policy and
Research. Professor Sidak is also a leading authority
on Postal regulation, having authored several articles
and books on this topic, which many of you I'm sure
have read. Please join me in welcoming Professor
Gregory Sidak.

I'd like to start with David. If you could
tell us from your perspective as a long-term Postal
participant in many different rate proceedings over
time, how do you see the new law affecting your
clients and the opportunities that they face in the
marketplace today?

MR. LEVY: Thanks, Bill. If I'm not talking
loud enough or if I'm talking too loud, please signal.
The short answer to the question is how the law
affects the Postal Service and the other stakeholders
will in this instance largely be up to the Postal
Regulatory Commission. Those of us sitting at this

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table have seen a number of instances of major regulatory reform in the past, The Telecom Act of 1996, the Staggers Rail Act of 1980. I don’t think I’ve ever seen one that delegates as much of the final decision to the Commission to set the rules as this one. The law does set some outer bounds. Congress clearly did not intend to deregulate market dominant products completely, and it appears that Congress did not intend that the CPI index based price cap would be the only constraint on market dominant products. If that were the case, you wouldn’t have factors and objectives in the Act. You wouldn’t have the complaint mechanism. You wouldn’t have the annual review mechanism.

On the other hand, it seems equally clear that Congress intended that regulation of market dominant products that have rates under the cap would be more streamlined and flexible in the past. If the result of this legislation were to impose a CPI cap on top of the same old regulatory scheme or something even more heavy handed and intrusive, the Act really would be a cruel joke on the Postal Service. I don’t think that’s what Congress intended.

Within this broad range Congress clearly
intended to give an awful lot of leeway to the
Commission to set the rules, and the truth is that if
the Commission does a good job of writing its decision
it can do an awful lot of range of things that would
pass review.

How should the Commission fill in the
interstices in the statute that Congress left for it?
In this limited time I'm going to focus on two major
areas. One is the working of the index, and the other
is regulation of market dominant rates that are below
the index.

On the first, index based adjustments,
indexing seems like a great idea. It could make rate
changes more predictable. In theory it could create
incentives for the Postal Service to hold down its
cost below the index, although the absence of equity
shareholders, the absence of equity at all and the cap
on the compensation that Postal Service managers can
receive certainly do moot that incentive somewhat.

There are four areas in which I'd like to
point out how the index needs to be managed to work
properly. First of all, it's important to prevent the
Postal Service from beating the index just by cutting
corners on service performance.

But let me give you an example. One easy
way to save money in the short-run would be for the Postal Service to cut its staffing at facilities during Christmas and other peak periods. Service would go downhill. That would save the Postal Service a lot of money in the short-run but the service being provided would be different in quality, and it really wouldn’t be the same thing. It would be like offering -- to use an old cliche -- Chevrolet service at an Oldsmobile price, and that really is a disguised rate increase, and the index needs to be adjusted or have some mechanism to take into account changes in quality of what the Postal Service provides.

Second of all, it’s equally important to make sure that the index is adjusted to reflect changes in what the Postal Service makes mailers do. If, for example, the Postal Service says you can’t get a destination entry discount unless you enter your mail in these facilities and these facilities changes from 1,000 facilities to 10 facilities in the United States, that in effect is shifting transportation costs from the Postal Service to its customers, and that is as much as a disguised rate increase -- I’m sorry Lou Milani isn’t here right now -- as the company Consumers Union features showing that the price of a candy bar is left unchanged, but the thing

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shrinks by two ounces.

And this is an important thing to adjust the index for. It's also a difficult one to measure, and it's one that I think the Commission is going to need to spend a lot of time on.

One possible potentially promising approach which interestingly was suggested by Professors Klue and Kleindorfer and Professor Panzer in a book that Greg Sidak edited in 1994, is to have the index applied as an access charge to delivery only, and then which is probably the most critical thing because that's the one element of the Service for which there isn't a competition, and then the Postal Service can offer surcharges for things like sorting and transportation and other bells and whistles.

Another issue which I'm only going to touch on but not offer a solution right now is how do you incorporate new services into the index? And a final issue is, if you want to have the index give any incentive to the Postal Service, they've got to be able to keep some of the gains if they manage to keep their costs below the CPI.

Some of those gains are going to have to go to the Postal Service managers in the form of bonuses, to the Postal Service's workers, and to the Postal Heritage Reporting Corporation (202) 628-4888
Service itself, maybe even to update the furniture in 475 L’Enfant Plaza. If you want to have an incentive, the Postal Service has got to keep some of the loot. There’s no choice about that.

Now the other main general area is regulation of below index rates, and I think most of the stakeholders don’t want below index rates to be completely unregulated in the index but at the same time I think there’s a general consensus we don’t want to see the same degree of regulation you had in the past.

I’m just going to raise one issue here to think about that I think is an area of performance that’s important enough to continue regulating for below index rates, and that’s the promotion of competition. You might say well why am I talking about that? These are market dominant classes. Indeed for letter mail it’s a crime to compete in many cases so what are you talking about competition for? Well even for the market dominant captive classes of mail there is still competition for upstream functions like transportation, sorting, acceptance, payment of postage. The one area where there is legal monopoly and arguably natural monopoly is just in the delivery segment, and experience

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teaches in other regulated industries that the most
effective regulator is competition. That competition
provides a better control of costs, monopoly profits
and quality than even the most farsighted and hard
working regulators.

And as experience telecom companies in the
1980s felt they were lean and mean, and the railroad
industry thought in the 1980s it was lean and mean,
and the trucking industry before 1980, and if you
asked anyone they would tell you the same thing that
I’m sure the Postal Service people would tell you that
they really have extracted all the low hanging fruit
out of the system, and the big cost savings are gone,
and they’re really pretty much like a committed
business.

In the years that followed when these
companies faced real competition, facilities based
competition, in many instances they managed to squeeze
another 40, 50, 60 percent out of that unit cost.
Real competition really works more than regulation.
And for that reason at least on behalf of my clients I
would like to see a system that promotes competition
for everything except delivery, and the way to get at
that is something that the Commission has given I
think commendable attention to in its most recent

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recommended decision, the efficient component pricing rule.

The Postal Service ought to charge rates for its services so that the difference between services with and without the potentially competitive services, the rate differentials covers the costs avoided by the Postal Service when it doesn't provide those optional or competitive services. Let the marketplace, as an earlier panel said, decide. Let 1,000 flowers bloom. Neither you nor I nor anyone in this room can predict who should be winning those fights. The market will decide, and that's an unintended consequence that we ought to welcome.

I should emphasize that the efficiency component pricing rule is not intended here as a restriction on the Postal Service's overall earnings. Obviously they need to charge a mark up over attributable costs to recover their overhead costs. They can do that through the pricing of the delivery function, and I would not discourage that. I think that's all for my introductory remarks. Thank you.

MR. TAKIS: Roger, I'm going to ask you a little bit different question because you represent a little bit different constituency here, and that's obviously the view of a major stakeholder in this.
whole system, and that's the U.S. Treasury. When you take a look at the new legislation, what do you see as the potential opportunities from that perspective?

MR. KODAT: Well first of all I'd like to thank the Postal Service and the Postal Regulatory Commission for the chance to be here. I appreciate the invitation. This bill in our judgment places incentives for three important aspects of the business of the Postal Service and as it approaches its operations: Greater commercial freedom, which we think is a good thing; financial, it incentivizes, the bill incentivizes the Postal Service for greater financial rigor; and also greater transparency to the owners and the users which we think are very good parts of the bill which give us some comfort in thinking that this bill will result in an enhanced financial health of the Postal Service.

I know that as we started this journey more than five years ago I had the privilege of being involved in the earliest stages at the Treasury anyway, we recognized the important dynamics and changes in the marketplace which place a threat to the Postal Service's financial health, namely electronic diversion of letter mail, and it was all together important for us to be thinking together in working

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with Postal Service and others in the community to
understand what are some ways that we could address
that issue and overall financial health so that the
Postal Service can thrive, and indeed continue to
increase and improve its services to the American
public.

I'm heartened by the idea that GAO has taken
the Postal Service off of its high risk list. I think
this is a time where the Postal Service is poised and
ready with this reform bill passed and with its
current leadership in place to be able to achieve the
kinds of changes that are going to be necessary to
compete in the future. Just to remind you of the five
principles that the Administration articulated to
frame its approach, the Administration's approach to
thinking through the Postal Reform Bill, perhaps I
could just remind you of those five principles and
make a comment about one of the aspects of the bill
that would respond to that as a way of perhaps
expanding my thoughts on why I think this is a
positive step for the financial health of the Postal
Service.

I first of all think of transparency, one of
the five principles that we articulated. I'm
delighted to see that as was mentioned by Bill that

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there's a number of requirements of the Postal Service to be sharing information, disclosing financial information on an SEC-like basis. We recognize that the Postal Service was already moving in that direction. We recognize that and acknowledge that but it's nice to have it in my judgment in statute so that can continue.

We talked about the reports on the costs connected with products. We think that that's a positive step to enhance the overall financial health of the Postal Service. It will no doubt assist the management of the Postal Service as it understands its costs better and better. This is a huge company, and it's not an easy thing to be able to get your hands around all those costs but we think that this is a step to help the leadership of the Postal Service in getting there. So thinking about transparency we think that there's elements of this bill that are going to ultimately help the bottom line.

Secondly, we think of accountability, the second principle, and we're delighted to know that there is increased scrutiny to be given to the competitive products business. We think that that's altogether a good outcome of this bill. The Treasury Department is involved in some of the reports that

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will be important to deliver to the Postal Regulatory Commission in the months ahead so that there's confidence in the marketplace that the competitive products business for the Postal Service is being carried out on a level playing field, and we think that that also allows for the Postal Service to operate in a more commercial way.

And so we look forward to making our contribution in that area, and we think that that in turn has a greater impact on the overall operations of the Postal Service as it comes to grips with these costs connected with the competitive products fund but also the assets and liabilities on its balance sheet. It's a challenge for us to prepare that. We look forward to doing it.

Then with respect to self-financing, you would expect the Department of the Treasury representative to talk about that. This was a very important one of five principles that was articulated that was very important to us. I was told by Undersecretary at the time, Peter Fisher, our Undersecretary who attended a meeting early on in the White House with President Bush, and the mention of the very sizable unfunded liabilities connected with retiree health of employees of the Postal Service,
nearly $60 billion at the time, that the President had
a wincing reaction.

We’re very pleased that the 65 or so billion
dollars of unfunded retiree health liabilities are
finally being addressed through this bill. This is
quality, important financial response to a future
liability of the Postal Service, and as you know the
Postal Service has an obligation each year over the
period of the next 10 years and longer to prefund
this. We think that that’s a very positive outcome
and gives yet another reason to think that this bill
will result in a more financially healthy Postal
Service, healthy for its labor force who will
ultimately lay claim on these financial liabilities
through their retiree health needs and also for the
ratepayers, you and the community, because ultimately
the taxpayer was not to be obliged to cover these
costs.

Rather the Postal Service and if one was to
think that there could be a huge spike in outflows for
those obligations, rather than a step-by-step
incremental and regular contribution to that unfunded
liability, I would argue that that approach that’s in
this bill is much financially sane, financially sound
and is prudent, and is going to take a step-by-step

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approach that's not a shock to the Postal Service nor to the rate paying community.

I turn then to the fourth principle that the Administration articulated which was corporate governance. We sought for best practices of corporate governance, recognizing that the Postal Service is one of the largest companies in America, and indeed one of the most complex companies in America, and we have great respect for those who serve on the Board of Governors in the past, but we thought it was sound and prudent for putting some sets of requirements for future candidates to be a member of the Board of Governors so that there is some qualification connected with managing of large business that we believe could be helpful in the future.

This is a complicated period of time for the Postal Service to work through, and we give high credit to the Board of Governors, the members, Chairman Miller, but we know that it's going to require very careful management going forward, quality management of the Board of Governors, and we think that that element of the bill is positive for the overall bottom line of the Postal Service.

And lastly, the fifth principle that we articulated was flexibility, and flexibility is
connected with to some extent the commercialization or
corporatization of the Postal Service’s operation. I
don’t doubt for a moment that there’s not incredibly
savvy business professionals who are running the
Postal Service today. That doesn’t even enter my mind
as a question mark.

But it does require by giving the Postal
Service greater flexibility in setting its rates
rather than the present litigious process that we hope
will give the Postal Service more flexibility to
operate even more like a business and even more assist
the Postal Service in responding to the needs of its
customers and to the marketplace.

So in short, we are pleased with the outcome
of this bill. I remember working on it, and from
time-to-time probably like 95 percent of you in the
audience waking up with a nightmare, thinking of that
Dutch boy that stuck his hand in the dike and then
there’s a hole just a couple of meters away, and
that’s what from time-to-time seemed like was
happening. It was a cacophony of issues that were
flying around, so many concerns from so many
stakeholders, and it was just amazing that we could
have gotten to the finish line in some respects.

I remember Undersecretary Fisher saying when

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the President's Commission report was concluded and as
we set off formally to try to work through and prepare
a bill that we believed that the best outcome
ultimately is for probably everyone's ox to get gored.
That no one sits in the room untouched, and I would
like to suggest that that's what happened in this
bill.

No one got all of what they wanted, and so
in that sense perhaps if you think that every bill
should be drafted to be an integrated whole, that if
it got changed in any element, we could be set off
course, well there could be then some reason for us to
say, this may not turn out the way we all want it.
That's possible. But I believe that there's enough
elements in this bill that would give us the kind of
confidence, cautious optimism but confidence, that
this will ultimately lead to a stronger, healthier
Postal Service. Thank you.

MR. TAKIS: Thank you, Roger. Ian, could
you discuss your perspective on the new law, and how
it affects your clients, and particularly the Postal
Service and the PRC?

MR. VOLNER: President Reagan once said that
where you stand depends upon where you sit, and David
and I have been at this on somewhat different
perspectives in a number of agencies. So let me start by expressing some mild disagreement with what David said.

There's no question that the statute is in some respects ambiguous. Sometimes there were political reasons for it, as Roger has suggested. Sometimes it's because of the limits of the English language, and sometimes -- and most importantly -- it's because the drafters who worked very, very hard on this bill came to recognize that the Postal Service and we mailers are in a dynamic marketplace, and if you attempted to do an engineering task rather than a legislative task, you were going to fail.

David spoke of the role of the Commission to fill in the interstices of the statute. He's right in a sense. The difference between my view and his view is that I don't think their job is to fill it in. I think their job is to sketch broad outlines so that it can fill itself in as time goes on.

What I'm most concerned about is two things. First, I don't think we need to pour stale wine into new bottles. This statute is meant to make a major change, not only in the way the Postal Service behaves but what the role of the Regulatory Commission is, and I hope as we go through the rulemaking process that

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the Commission and all of us help the Commission to understand that.

The second thing that alarms me is how Postal centric we are. Now I understand you know we're all mailers or lawyers for mailers or economists and the like but there was a conversation this morning about seasonality. I hate to tell you this guys but the issue of seasonality was addressed in 1976 by the Congress and then again by the State Public Utility Commissions, and they worked out a perfectly sensible compromise.

They recognized that some kinds of users could not adjust their business practices to meet or avoid peak. So what they essentially did was they said you'll pay a little bit more during the off peak periods but we won't whack you during the peak periods. For those who are capable of adjusting their activities in peak, there's a peak price which provides you with a signal if you can get off peak do it. Why we have not looked at that or I hope we will look at it in the course of the rulemakings.

There was a comment this morning about banking of the CPI which the statute does allow. Joe Mohler, cover your ears. The fact of the matter is that the Federal Energy Regulatory Commission has had

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price caps for over a decade. They've got a banking provision, and nobody has ever used it. Now I'm not an economist, and I'm not going to ask why but if I was advising a mailer I would suggest don’t put too much money in the banking provision.

Predictability keeps coming up and up and up, and let me give you an example from the Cable Act. When cable went to price caps in 1992, the FCC in an effort to do favors to consumers said to the cable operators you have to adjust your rates four times a year.

The notion was that by titrating with the movement of CPI on a quarterly basis consumers would not take as much of a hit. It was a disaster. It was an unmitigated disaster. It cost the companies fortunes. Made some lawyers some money, but it cost the companies fortunes, and the consumers were quite understandably in a constant state of confusion. What are my rates now, and how long are they going to last?

And the Commission took awhile to figure it out, and they said, whoops. We were overly prescriptive, and they came up with essentially a series of alternatives that the cable operators could use, and almost all of the cable operators have gone to an annual uptick, and I’m not holding out cable as
a perfect model of what you should look at because
there are separate problems there that fortunately do
not exist here.

But what I am saying is that in doing its
job the Commission needs not to be overly
prescription, to use Jack Potter's words this morning,
and to look at what other agencies, regulatory
agencies have done to understand their role and to
understand the mistakes that they made so that we
don't have to repeat them.

Part of that, it seems to me, is a central
role of the Commission in this context is to protect
the flexibility the statute gives to the Postal
Service, and that to me means don't try to second
guess them. Under the current statute there is some
authority really to say, gee, I wouldn't do it that
way. Here's a better way, and some of them
complaining about the last rate case may involve just
that.

Whether it's economic principle or business
judgment or what, this statute is intended to -- if
not completely eliminate -- then to minimize to the
fullest extent legally possible the role of the
Commission in microscopic examination of Postal
Service costs. Don't second guess. Protect the

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flexibility the Postal Service has.

By the same token, the Commission has a 
terribly important job, and it may be the most
difficult that this statute and its ambiguities 
creates. The Postal Service will violate the statute
at some point and in some way as was pointed out.

Well there are two points to it.

They do have a monopoly over the market
dominant classes either by statute or by the workings
of the marketplace, and as a very wise man said when
we blew up AT&T, and they were moving into a
deregulatory mode, do you think they’ll cheat? And
the answer was yes, if they think they can get away
with it. So the Regulatory Commission has to use its
sanction powers in ways which are meaningful. They
have to hit the Postal Service when it does violate
the statute. When it violates the law.

But that is the most difficult piece of this
exercise. As was commented on earlier this morning,
the complaint process is there. I hope it is used
sparingly, and I hope the Commission makes clear in
its sketch that you’ve got a heavy burden before you
can file a complaint and go through even the only
90-day ordeal that the complaint process provides.

But what happens when you find that there’s
a violation? If we were dealing with a private sector company, it's easy. You whack them with a civil penalty or you whack them with some other economic sanction that the stockholders bear, and if the stockholders are really unhappy about it, they'll throw the bums out. But you can't do that here, and exactly how you fashion sanctions or how you sketch sanctions to me is going to be one of the most difficult things that this Commission faces in the context of a new regulatory regime.

I guess what I'm saying is the Postal Service is mandated and encouraged and supported to be flexible, and what I'm asking is that the Commission also has to be flexible. If we try to figure out now what an exigent circumstance is, we're either going to be over inclusive in the regulation or under inclusive.

If it's over inclusive, the Postal Service will be shackled. If it's under inclusive, we're going to get hit with above CPI increases which we shouldn't have gotten. We're going to have to stay light on our feet, which means the Commission is going to have stay light on their feet as well.

There's one last piece to this, and it goes to this question of -- as Markus Wilhelm said this

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morning -- this does require a cultural change. It requires a cultural change on the part of the Commission as well. The Commission is no longer -- as the old statute provided -- a "partner" with the Postal Service. The Commission is much more of an umpire calling balls and strikes. It ain't a ball. It ain't a strike. It ain't nothing until the Commission calls it.

But there have to be changes in the way the Commission thinks about itself, and I think there has to be an important change in what seems to be an obscure rule. The Postal Regulatory Commission is subject to the most stringent ex parte rules that exist in any regulatory agency in the country. I think those rules have to be changed. The question came up this morning about how the Commission comes to better understand what the Postal Service is doing, and what the Commission comes to understand about what the mailers do.

The Postal Rate Commission has done a very good job of that but it is constrained. We can't go in there, as you can at the Federal Communication Commission, as you sometimes can at the Federal Trade Commission, and as you always can at the Federal Energy Regulatory Commission. I think we need to open

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up that door a little bit. I know there needs to be controls on it because otherwise those poor Commissioners and their staff are going to spend their time visiting with you and me and everybody else in this room.

But we're no longer always in an adjudicative mode. A lot of this is much less formal including what Greg Sidak was largely responsible for at the Federal Communications Commission, regulation by raised eyebrow. There's nothing to prevent the Postal Service under this new statute from walking in and saying, this is what we're thinking about doing. How are you going to react to it? And the Commission can react by saying, you're going to do what? We need to change the culture, and to me that is the single most important thing that this statute provides.

MR. TAKIS: Thank you, Ian, appreciate it. Very interesting thoughts. Greg, do you have some thoughts on that too? I'm sure you do.

MR. SIDAK: Sure. Thank you. I sat down and I read through the new Act which taught me a lot. I didn't realize number one how ambitious it is, how complex it is, and I think how potentially disruptive this statute is. Now having said that I think it's a better written statute than say the 1996 Telecom Act,
and I think that it probably will be implemented more
smoothly than that Act was, but I think it's important
to keep in mind that when you write a law that is such
a paradigm shift as the others on the panel have
mentioned, there will be unintended consequences.

At the FCC, since the mid 1980s the FCC has
published the FCC Record, which is the compilation of
all the official rulings of the agency over the course
of a year, rulemakings, adjudications and the like,
and before the 1996 Telecom Act was passed, the FCC
Record was about 8,000 pages a year.

Well does anybody have any guess how long
the FCC Record was after the 1996 Telecom Act? Say by
the late 1990s? It was about 25,000 pages a year. So
that statute of course was styled as deregulation. So
deregulation actually required more work than old
fashioned regulation.

I wouldn't be surprised to see a similar
kind of increased workload and regulatory output as a
consequence of this new Postal legislation. Something
else that of course happened in the telecom industry
is that there was a tremendous boom followed by a
tremendous bust. So it's important to bear in mind
that when you have this paradigm shift in a
traditional regulated network industry there can be
very dramatic competitive realignments with
significant financial implications.

Something that I think was a very important
part of the way the 1996 Telecom Act played out -- and
incidentally I think it's basically an obsolete
statute today because of technological change -- but
an important part of the way it played out and
something that I think is a lesson perhaps for how
this new statute will play out was the role that the
D.C. Circuit played in interpreting, either affirming
or reversing, decisions by the Federal Communications
Commission.

The FCC had a lot of its big rulemakings
reversed by the D.C. Circuit. Something went up to
the Supreme Court as well. And I think that the way
the statute got implemented could have actually been
quite different if you had had some different judges
on the panels that decided some key cases.

So I think judicial review, litigation, the
strategic use of the regulatory process are all things
that are sources of uncertainty and unpredictability,
which of course is an important theme in this new
statute. How do you increase predictability while
maintaining transparency and flexibility?

With respect to some of the more technical

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regulatory issues, I think that one of the biggest
tasks facing the PRC will be working out how costs
will be attributed and how institutional costs, the
overhead costs of the Postal Service will be
allocated. Fortunately there is already a lot of
experience at the PRC on these issues but there’s
plenty of experience with other regulatory agencies in
other network industries, and there’s also a very
large body of academic writing on this going back 30,
40 years.

If there’s a single piece of that academic
literature that I would recommend reading it’s an
article. Well don’t read the article. Read a summary
of it. It’s too technical but it’s Gerald Faulhaber
of the Wharton School wrote a very path breaking
article 32 years ago on how you ideally set up cost
allocation processes in a regulated firm with many,
many products, and I won’t go into the details of that
here but I think it’s actually a very useful starting
point for the discussion.

With respect to competition policy issues, I
think that this new statute is really fascinating. I
think that this is one of the wildcards in the
statute. It’s always been a big issue in the telecom
industry, how regulation dovetails with antitrust.
Remember the breakup of the Bell system was not a regulatory action. It was an antitrust case.

A couple of years ago the Supreme Court decided an antitrust case called Trinko which involved the question of whether or not the failure of one of the Bell companies to comply with certain regulatory obligations under the 1996 Telecom Act also gave rise to an antitrust claim. So this is a lively area of antitrust law generally as it applies to regulated network industries, and I would think that we would see potential controversies arise over where antitrust ends and regulation begins or whether they’re overlapping in certain areas.

I think, for example, it’s very interesting to look at the new statute and try to work through where do market dominant products and where do competitive products begin? What’s the relationship of market dominance to statutory monopoly that existed before this new act? To what extent are these definitions aimed at products as opposed to facilities for example?

A big piece of the current fervor of antitrust litigation in network industries is access to facilities, and in the Postal context of course we have the work share discounts which is a way of

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pricing access to facilities but potentially there could be antitrust issues here as well.

Let me just conclude by saying I think another really interesting issue that is raised by the new statute concerns the greater financial discretion that the Postal Service has. It can issue bonds under section 2011. We heard a minute ago about issues of peak load. I think it would be fascinating if there developed a secondary market for Postal delivery rights. You know a forward market for capacity at different times of the year or subject to different kinds of constraints that might hit the Postal Service in an unexpected way.

This is the way other markets deal with issues of predictability, and it's certainly not alien to network industries. We see transmission rights on electricity grids. We see capacity rights on pipelines and the like. It's quite conceivable to me that if permitted by the PRC, the Postal Service might be able to work with the financial community to design a kind of forward market for Postal delivery rights that might go a long way towards increasing predictability and reducing and shifting risk.

MR. TAKIS: Thank you, Mr. Sidak. Is there a question there? No. Just standing to the side.
Well I have a question, and I would pose it to David. If you could respond to some of Ian's comments. In particular, Ian was prescriptive to the PRC around what it should be learning from other regulated industries. I was wondering if you could say a few words about that as well.

MR. LEVY: I would be glad to. I have to say after hearing Ian's introduction I listened waiting to hear the things that I disagreed with what he said, and I must say I didn't hear any. I would pretty much endorse what he said in his remarks.

But let me respond with one example that sort of fits into some of the themes in terms of lesson from the industry and also giving the Postal Service flexibility, and it was an issue that was raised during I think both of the earlier panels today which is the pricing of competitive services, and particularly giving volume discounts or contracts for these big catalog customers so they don't take their business away to UPS or FedEx.

And there was a good question that Commissioner Goldway asked about -- and I think there were several other questions by others related to the same point -- the gist of which is how do you make sure that the Postal Service doesn't give away the

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store by setting prices too low? And how do we make
sure that their institutional costs are allocated
properly?

And my response to that based on -- and with
full disclosure, I represent NSA parties so take what
I say with a grain of salt -- but the experience with
the railroad industry where there were similar
concerns about letting railroads give away money and
discounts to keep high volume customers, and there
were a lot of concerns that railroads were a bunch of
incompetent keystone cops, the same things that
sometimes you hear said about the Postal Service.

In fact, Congress passed a law that really
left that process largely unregulated with a
relatively little challenge, and rates had to cover
short-run variable costs, and within a few short years
after railroads were allowed to do contracts,
contracts accounted for 80 to 90 percent of the
railroads movements, and not only was it widespread
but it was extremely successful.

The railroads and their shippers learned to
deal with each other in different ways. Railroads'
costs per unit have fallen. Railroads' profits have
risen. It's worked well. In contrast, contracting or
NSAs in the Postal world, the progress has been very
halting. Five years since NSAs were first allowed we have five of them as opposed to 90 percent of the volume, and I think part of the problem is the Commission doesn't trust the Postal Service to profit making deals.

I mean my instinct on this is set an attributable cost floor on these volume discounts and on unregulated rates, and let the Postal Service try to make as much money as it can from that traffic, and yes, they're going to make mistakes sometimes but by and large they're likely to make more money than if you micromanage every single one of these decisions.

If you don't take off the training wheels and take your hands off the handlebars, the Postal Service is never going to learn to balance on its own, and I really think that they can if they're allowed to do it.

MR. TAKIS: Thank you. Any other thoughts on that? We have a question out in the middle of the floor.

MR. SACKLER: Art Sackler for the National Postal Policy Council. I think there's great food for thought on this panel on a whole long list of issues but my question is primarily for Ian. One of the most important things that is coming out of the statute is
the establishment of service standards. That’s been talked about basically on and off all day.

You mentioned sanctions, Ian. Once the new service standards are set, if the Postal Service violates the standards for reasons that aren’t obvious -- a disaster, a huge snowstorm, whatever it might be -- should there be sanctions, and if so, what should the Regulatory Commission be looking at in establishing those sanctions?

MR. VOLNER: That to me, as I said, is a question of how you impose sanctions to me is the most difficult part of the equation, and there are not any easy analogies except arguably again in cable television because there are a large number of municipal cable companies out there that screw up with thundering regularity.

There plainly has to be sanctions for failure to meet delivery standards otherwise you face the problem that David addressed at the outset which is will they cheat? Yes, if they think they can get away with it. What’s the easiest way to cheat? Well the easiest way to cheat is to curtail service. When you’ve got a market dominant category, a curtailment of service can really be very serious except that the Commission also needs to keep in mind that for many,
many, many of the users the market dominance is somewhat overstated in the sense that they are multichannel marketers.

To the extent that you're talking about what is now the largest percentage of total Postal Service volume, there are very few direct mail marketers, users of standard mail and any of its subsets or its existing subsets, that can't find some other means of communicating with their customers. The problem of sanctions for service becomes more difficult because I absolutely agree with David that the Postal Service and the Commission have been altogether too stringent in their examination of NSAs.

It is not just true in the railroad industry. Before the complete deregulation of or substantially complete deregulation of telecom, virtually 80 percent of all business use was under what we called customized tariffs which is an NSA. I don't like the word NSA because it carries the same kind of nasty connotation that when we're talking about Aunt Minnie. It's evocative of too many things. I prefer customization, and it makes sense.

The problem of service standards can be to some extent resolved in the NSA context because as one of the panelists said, you know it's not that...
difficult guys. If I fail to do my end of the bargain, then I get penalized. If you fail to do your end of the bargain, you the Postal Service, then you get penalized, and we work that out through the NSA form itself.

David Stover raised the question of what happens. In the long run over a broad enough period of time, which was very quick in the context of telecom, it was 10 years, they did become modular. If you got a certain amount of volume, you got this kind of a deal. There were always peak and off peak provisions in those deals. Always. And if you violated the peak or if you failed to meet your minimum volume commitment, you took it hard.

If on the other hand the telecom failed to perform during peak periods or off peak periods, there was a penalty extracted from them as well. So that it seems to me that I'm not answering your question, Art, because it's a very difficult one. But we've got to find ways of solving it, and in part the solution lies in relaxation and increasing the use of customized arrangements.

MR. TAKIS: David, you had a response?

MR. LEVY: An elaboration. Two points. One is for broad -- I'm not talking about NSAs but for

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broad tariff type services of broad applicability.
Sanctions are a very crude instrument. You fine the
Postal Service you're really fining other mailers
because there are no equity shareholders whose
holdings can be clipped.

The second point -- and I don't mean to step
on the lines of the fourth panel -- but to some extent
measuring the service actually provided by the Postal
Service in terms of average delivery time and the
variance from that is probably more important than
publishing official standards. If mailers can know
what the Postal Service is actually doing quickly,
accurately, you know at a fine level of detail,
ostensible official standards recede in importance,
and if it is well publicized that may be the most
effective sanction of all.

Nobody was fined. The high level military
bureaucrats who were responsible for the fiasco at
Walter Reed, but a lot of those people have discovered
the very effective sanctioning effect of publicity.
So the most effective way of getting performance
monitored for broad classes of service may be to have
an accurate, current and nonmanipulatable measurement
of service performance and have it well publicized.

MR. TAKIS: I think we also heard earlier

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today that in the competitive category there's the sanctions that are imposed by the marketplace when they walk with their money. So they go to other service providers. Ian, would you have a view on that thought?

MR. VOLNER: Yes. David and I do not entirely agree on this one. David is right. Sanctions are a very crude instrument of getting performance. By the same time, the prospect of a hanging tends to concentrate the mind, and in my experience in dealing with companies that have been sanctioned by the Federal Communications Commission, by the Department of Justice, by the Federal Trade Commission, trust me. When there's a complaint and a prospect of a sanction out there, they tend to start taking -- particularly at the senior levels -- what is causing this and how do we fix it before this gets worse?

MR. TAKIS: Professor Sidak, do you have any views on sanctions? The use of sanctions in regulatory processes?

MR. SIDAK: I'll reserve my time.

MR. TAKIS: Okay. Gene, I believe you have a question?

MR. DEL POLITO: Yes. We heard everybody
talk about the need for a culture change, and I noticed that the panel began to start talking about NSAs and seemed to relish a little bit in beating up both the Postal Service and the Postal Rate Commission in terms of their conservatism. I would hope we would keep in mind that that was a manifestation of the Postal Reorganization Act, and I guess the question that really comes to mind is: Do we genuinely believe that under the new law we’re going to be able to see people go through the culture change that’s necessary within the short period of time to understand that as Ian would say we don’t want to put stale wine in new bottles?

At the same time, it would be foolish for us not to recognize that there are other constituencies in this room who hold different stakes. Whenever I hear Greg Sidak talk about the rules governing how do you calculate attributable cost and institutional cost recovery, it kind of sends a shiver up my back because I think well we’re back in 1971 doing rate making the way that it had been since Postal Reorganization.

And then finally, it’s really nice to talk about sanctions. But the fact of the matter is, is we’re not sanctioning a private company. We’re not sanctioning a company that can go bankrupt. We’re
talking about assigning a sanction to an entity that
in fact belongs to the U.S. Government, has a mandate
to continue to operate, and has a way in which it can
continue to operate in terms of the revenue that it
gets from its market dominant customers. So I
wouldn't put too much faith in the idea of sanctions
as an effective way of controlling behavior.

MR. TAKIS: Any responses to that?

MR. VOLNER: Yes. It's always wise to
quarrel with your client. I don't share his view on
the efficacy of sanctions. As I said, they have a
practical constraint but you can't be overly
prescriptive, and I recognize -- and I said it to Art
and I'm saying it again -- in this context the notions
of sanctions resulting from complaints is not easy.

As to the question of cultural change, you
know Greg Sidak talked about the bust that followed
the boom after the 1996 Act. There are some of us who
fortunately didn't represent any of the telecos
involved but represented large users that were
persuaded that that was because Congress was overly
prescriptive. I don't think you can jump start
competition.

I think that you can get the Postal Service
to recognize that its customers, its so-called market
dominant customers have alternatives or many of them do, and one of the things that has driven me nuts for years and is still driving me nuts is that when you look at the way the Postal Service does its measurements of price sensitivity, it's very, very complicated, very elaborative, undoubtedly horrendously expensive elasticity studies. Its own price elasticity.

They completely ignore the fact that if Bookspan finds the price for its flats to be too high they will cut the volume by 30 million pieces as Markus said, and what they will do is they will move to other channels. They will move to newsprint. They will move to nowadays ecommerce or they will go to a different technique of still using the Postal Service but in a very different way than they do now. So yes, we talk about change in the culture. But it requires changes in the way the Postal Service does its work, and the way in which the Commission does its.

Finally on the business of cost attribution, the Commission does technically have the responsibility for establishing the rules. The statute is reasonably clear about that. The statute is also a little bit inconsistent because the Postal Service is the one who has to develop the SEC rules.
and what I surely do not want to see -- because we've been living with them for too many years -- is what amounts to three sets of books, the books that the Postal Service presents to the Postal Rate Commission, the Postal Rate Commission's own set of cost and revenue analyses, and then the books that we never get to see, the books the Postal Service really uses to develop its business planning.

That's an important issue but it's an issue where the Commission has to -- to some extent -- work with the Postal Service so that we don't have that situation ever again. What I envision is there will be one set of books. There may be some of that stuff that we the consuming public never get to see because of competitive or other considerations but there will be one set of books, and we won't have the CRA being filed and then being rerun by the Postal Service to meet the Postal Regulatory Commission's rules.

I mean I don't know whether the former Chairman is still in the room but one consequence of the three book system is -- as he once famously said and now denies -- the Postal Service may be in the black but we're still in the dark.

MR. TAKIS: Please, Professor Sidak.

MR. SIDAK: I wanted to follow-up on Heritage Reporting Corporation (202) 628-4888
something that Ian said. In the telecom experience, after 1996, one of the big tasks assigned to the Federal Communications Commission was to go about setting the prices or setting the framework for calculating the prices of unbundled network elements. So this was the shift from retail price regulation to wholesale price regulation.

And in the process, the FCC would look at something like the local loop that connects your phone to the central office, and that was the least substitutable piece of the network, like the last mile delivery in Postal.

And in trying to determine what the right price was, the FCC was very resistant to considering intermodal competition, wireless for example, and that was one of the key points of friction between the FCC and the Court of Appeals that resulted in some of these big rulemakings being remanded to the agency. So I think the intermodal competition is really important. We can't get too self-absorbed in just one particular regulatory model.

Another point that I wanted to make relates to this issue of whether sanctions work. This reminds me of the debate in antitrust law over structural remedies versus behavioral remedies. Do you break up
Microsoft or do you have a long list of things that they must do or must not do? The new Postal statute has both behavioral and structural elements to it. If the actions that might give rise to sanctions -- I should say if the sanctions that could be imposed under the statute are seen to be toothless, then that will put more pressure for the structural aspects of the law to be given weight.

I'll give you a couple of examples. The Federal Trade Commission is supposed to do its study over like I said five years after enactment to recommend possible changes to the Postal monopoly. Well if sanctions don't work, don't be surprised if the FTC is making aggressive recommendations about curtailing the scope of the monopoly.

There are other provisions in the statute that talk about whether or not the Postal Service can continue to provide non Postal services for example. Provisions like that could become more important if there gets to be the view that sanctions by themselves are not very effective.

MR. TAKIS: Thank you. Roger, did you have some thoughts on that?

MR. KODAT: Yes. I'd just like to add with respect to the culture change anybody who really knows
me well understands that you can’t teach a big old dog new tricks but when it comes to this context in this bill I think that I’m definitely a half empty person. Sorry. A half full person in thinking that there’s a culture change. Anybody from the Department of the Treasury will say to you that the world goes around with finance, and I know that as we worked on this bill there were a lot of prescriptions that were suggested, partly from the President’s Commission.

For example, if I think about the labor section of the President’s Commission report that was issued in 2003, I think there were 15 recommendations on labor. You’ll notice that this bill doesn’t have anywhere near that number of recommendations that were integrated into the bill.

But there are also other prescriptions that were made by the President’s Commission that were sound as well but didn’t make their way into the bill that connected with perhaps one could say costs and managing of costs. I’m thinking of the Bratt Commission proposal by the President’s Commission on how to perhaps more efficiently, effectively and rapidly allow the Postal Service freedom and flexibility to change its network processing structures, and we know that there are sizable amounts
of money that could be saved in that process.

But those elements didn’t make it into the bill but what did make it into the bill from my point of view was a rate cap of CPI plus a tough exigency, and if I’m sitting in the financial seats of the Postal Service, I have to recognize that I have to operate within a pretty tight margin in order to stay and remain financially sound or I’ll have to borrow from the Department of the Treasury.

But I believe that the culture change is partly driven by that hard cap, and I believe that and I hope very much so that that hard cap is going to be an effective lever for the Postal Service when it, for example, perhaps encounters political pushback when it seeks to reorient its processing structures in order to be able to eke out a better financial outcome for itself or an encouragement and an incentive for the Postal Service to consider how to manage its real estate assets more effectively if it can.

It’s a culture change in that area. It’s a culture change in terms of its prefunding of these retiree health obligations, and that requirement is going to require discipline, and so I believe that because of these elements and others, the Postal Service’s leadership looking at the CPI rate cap each
year is going to be with that much more of motivation, seeking to continue to build on its already strong track record, but continue to build on it and increase its ability to manage its business more efficiently, effectively, productivity to increase, and the use of its most important resource of course are these human resources is its team of labor.

And we have had in Treasury just in the last months as we have started to work on the obligations that Treasury has in this bill to implement Postal reform, our experience has only shown itself to be excellent. That means that our interactions with the Postal Service are with an enthusiastic, communicative, and hard-working team that we are very much pleased to be working with on our parts of the implementation.

And I know from our experience in meeting with the top management of the Postal Service, it's that kind of leadership that I believe is going to drive a culture change. It's going to drive a culture change because they need to. They want to. And we need it as well as consumers.

MR. TAKIS: Thank you. We have time for one more question, and you've been waiting very patiently. I appreciate it. Thank you.
MS. RUSH: I'm Tonda Rush. I represent National Newspaper Association, mailers of periodicals -- and that is where the Commission usually sees me -- but also heavy mailers in the enhanced carrier route mail stream where our clients spend far more money and frankly where most of the growth in our industry is.

David's citing of the railroad deregulation made me think about the analog to the Postal Service. It seems to me that a closer one actually is the deregulation of long distance telephone. At least with the railroads the freight was being shipped from someone who intended to ship it to someone who intended to receive it, and I think in the Postal community we have a recipient who may or may not want what we're sending when we're in the advertising mail stream.

With deregulation of the telephones, what we got was cheaper long distance rates which led to telemarketing, and eventually the consumers rose up and reregulated it in the form of the do not call lists. My question for any of the panelists that want to address it is where in the calculus of the Postal Service in growing volume and in the mailers and in the Rate Commission should the parallels between do not call and the growth of the advertising mail stream
be taken into account if at all?

MR. LEVY: I'll answer that question on two levels which sort of really only scratch the surface of it. One is what do consumers really want? And in contrast to a do not call, there are at least two differences that come to mind with do not mail. One is getting unsolicited advertising mail is far less intrusive than getting an unwanted phone call. You know you go through your day's mail. What you don't want, you look at it a split second, and you pitch it in the wastebasket. It is not nearly as intrusive.

The second thing is that in terms of the sender, the cost of advertising mail is something that a business is not going to incur unless its response rate justifies the cost of sending out the ads, and that's the first point.

Second is you know the latest push at the state level has sort of a political dimension to it that I'm not sure is really matched by what consumers really want but sooner or later there's going to be a test case, and I'm not sure that any of these restrictions are going to pass a First Amendment or commerce clause muster in the Courts.

And Gene Del Polito is in the room, and he can say a thousand times more on the subject than I
can. I think I'll stop right here.

MR. VOLNER: I'd like to speak to that, please, if I may for one moment. Tonda's last comment was where does the Regulatory Commission fit into this equation, and the answer is it doesn't. Purely and simply it doesn't. I agree with David's basic assessment. There's a very famous series of cases which say it's a short walk from the mailbox to the garbage can, and that differentiates telemarketing.

Having lived through the telemarketing wars and continuing to do so, it is not simply that the long distance rates went down. It is -- and I have to say this with my clients in the room -- in part that the people in the telemarketing business found that it was a very effective medium, and instead of doing what Congress finally made them do on their own as a major CEO of a major member of the DMA board and probably the largest telemarketer in the world at the present time said to me, you know all Congress did was they made us do what we should have been doing in the first place.

Our list hygiene, our proclivity to send multiple copies of the same piece to someone who's been dead for 15 years, our proclivity not to pay attention to the fact that eight-year-old children
should not be getting -- forgive me -- credit card applications, doesn’t help the situation but that is not the job of the Federal Regulatory Commission.

That is a matter to be worked out between the Postal Service and its customers, and I think in the end, although it may not be the commerce clause, I think that this too will pass if we work it carefully because there is a difference.

MR. TAKIS: Interesting. Thank you. We do have time for one last question. Please.

MR. BAKER: I’m Bill Baker. I’m one of the lawyers. There’s been some discussion of flexibility to be accorded to the Postal Service for market dominant products and in the new regime. I was wondering if the panel could talk about what they would like to see in the new rate setting system on transparency and predictability.

MR. TAKIS: Who would like to take that one first? Ian?

MR. VOLNER: Well let me take a shot at it because Bill warned us that this question was going to come up. As to transparency, it seems to me that I’ve already spoken to it. I want to see one set of books. I recognize that there are some things that the Postal Service should not made to make public, and I think
the statute provides a very cumbersome way of dealing with that but it can work.

The extent of transparency depends upon how much you really need and try to keep it at the minimum -- again, I'm talking to the Regulatory Commission -- in order to do your job. At the present time in rate cases we get drowned with more information. I mean there were more than 100 library references in this last case of which I would bet that 95 percent were not looked at by anybody including the Postal Service lawyers who put them together.

That's excessive. It's costly. It's burdensome. It's utterly useless, and ultimately they're impenetrable. So that we've got to work out together -- at least until the SEC type reporting kicks in -- what it is that we need in terms of data in order to make sure that -- because the statute provides for it -- that there is no impermissible cross subsidy between the market dominant and non dominant, and the other things that the statute mandates. But this is not a cost of service statute anymore, thank God.

As to predictability, that's a hard question for the following respects, and I think the answer is this: I would like to see predictability in the sense
that the rates go up at a fixed point in time that is
known in advance. Given the flexibility the statute
provides, if you think you’re going to be able to
calculate to the last tenth of a cent what your rate
increase is going to be, I think you’re dreaming.

What there are, however, are some practical
realities because the Postal Service is looking for
revenue, and years ago I tried to persuade Ashley
Lyons to increase the rate at a particular category
and lower other categories. He said, Ian, that’s a
wonderful idea but there’s no volume there, and it
kind of killed the idea.

It seems to me that predictability has to be
worked through collectively but what it does not mean
is mathematic precision. What it does mean is
predictability in the knowledge that rates will go up
at a fixed point or at fixed points, if that’s what
the consensus of the community decides is the best way
to do it.

MR. TAKIS: Roger, do you have a last
thought on that? Greg, do you have any?

MR. SIDAK: I just had one thing to add.

One thing that I think might increase the confidence
that we have in flexible rates that pertained to
market dominant products is if we know that in the

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competitive products if the Postal Service is in fact earning the maximum contribution that it can to cover the institutional costs of the everything, I don’t think that the objective is to maximize volume. The objective should be to maximize net revenue. That is the difference between revenues and costs, and the value to consumers of market dominant products from the Postal Service’s provision of competitive products is that the competitive products generate some contribution to covering those overhead costs. If we’re clear in the way that the Commission interprets the cost allocation provisions in the Act that pertain to competitive products, that the Postal Service is supposed to act like a profit maximizer in competitive markets. I think it would give us more confidence with respect to the rates in market dominated products.

MR. TAKIS: David, do you have a comment?

MR. LEVY: Let me respond briefly to that. I think we have to accept the fact that there is a tension between a lot of the goals in the Act -- and this is not to criticize the drafters -- it’s just an inherent tension in the goals, and for example if we want to have relatively light handed flexible regulation, we’re not going to have full transparency
or full information about everything.

Greg's last point is a good example. In
1980, Congress amended the railroad statute to require
consideration in setting rates for market dominant
traffic, consideration of evidence that the railroad
was maximizing its contribution from the highly
competitive, relatively low mark-up traffic. And for
a year or so after that when we did railroad cases for
allegedly captive movements, we would put in multiple
volume binders that killed trees and enriched
printers, with elaborate explanation of how all of our
competitive traffic was squeezing the last possible
penny out of the buffalo nickel.

And you know the fact is it was kind of
nonsense because you know we had a plausible story
about how it was profit maximizing. Maybe somebody
who wanted to say that we weren't profit maximizing
could say that we in fact weren't squeezing the last
out but ultimately the Commission was faced with a
choice.

It could either second guess and micromanage
every single decision that the railroad did about
pricing its competitive traffic or it would have to
give the railroad some business judgment deference,
and it was ultimately the latter that the Interstate
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Commerce Commission chose. You know the Postal Regulatory Commission faces the same choice. It could do an elaborate analysis of every single rate for competitive traffic to prove that the Postal Service was leaving money on the table, and I suppose at the end of the day it would have some confidence in its own mind at least that the contribution was maximized but is that what we want in a statute that at least one of its purposes was supposed to produce a lighter regulation in sectors where competition could work?

MR. TAKIS: Greg? Last thought.

MR. SIDAK: My only addendum to that is that there is a difference I think between a railroad that's owned by shareholders that expect to receive dividends and the Postal Service, which is not a private corporation. You hope that the Postal Service is acting in a way that maximizes the net revenues that it derives from its competitive products but you don't have the pressure of private shareholders there that you do in the case of the railroad.

MR. LEVY: Let me respond to that. That is a standard point and a strong one. The only response I would make is I think that the incentives of management are more complex than that, and that when
they don’t cover their costs, Postal Service management incurs a lot of different kinds of psychological or political penalties beyond simply the risk of getting fired by their shareholders. They have to come before the people in this room. They have to be cross-examined. They have to justify themselves to the Regulators. It’s an unpleasant and costly process. It’s one that has a political cost. If we don’t believe that those kind of sanctions are sufficient to control the Postal Service, to at least give it some incentive to engage in an economically rational standpoint, then this whole index mechanism doesn’t make any sense because there are no shareholders for that either.

MR. TAKIS: Well, gentlemen, thank you very much. I appreciate your contributions to our panel today. We’re going to take a 10-minute break.

(Whereupon, a short recess was taken.)

MR. TAKIS: As I indicated previously this morning, we’re going to then have a wrap-up session where we’ve invited some of the folks that have agreed to stay back up on the stage and talk about next steps and wrap-up issues. So our final panel today is on a topic that’s already been talked about quite a bit.

So we’re looking forward to a lot of discussion around

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Now as you know, the Act requires that the Postal Service establish "modern service standards" and develop plans for meeting those standards. As most people in the room know, the Postal Service currently measures and publicly reports on externally measured service standards for first class mail but it also have service standards that are managed for other classes of mail including periodicals, standard mail, Priority mail and Express mail.

The Postal Service uses a variety of different approaches to measuring their performance including both internal and external measurement systems. That feels perfect by the way. Thank you.

These different systems include the transit time measurement system, TTMS, and then operational systems such as confirm, MODS, delivery confirmation and other systems which use active and passive scanning of mail pieces and packages to measure processing time. So this is a topic that is well known to the Postal Service, and is also going to be a very interesting one today as we culminate our discussion around service standards and service performance.

So I'd like to introduce our panel now, and

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to my immediate left is Mr. Jim O’Brien, who’s the Director, Vice President of Distribution and Postal Affairs for Time. He joined Time in 1978 after positions with U.S. News and World Report, UPS and R.R. Donnelley. While he’s been at Time, he has held a number of key positions including production director for Fortune and Money magazines and director of field operations for People magazine.

And he is also very, very active in the Postal industry. He’s the Chairman of the Association of Postal Commerce, PostCom, and the former Chairman of the Magazine Publishers of America Postal Committee. He serves on the Mailers Council Board of Directors. Mr. O’Brien has also been a witness before the President’s Commission on the Postal Service, and has presented testimony before the Postal Rate Commission in the past. Please join me in welcoming Mr. Jim O’Brien.

To Jim’s left is Mr. Bill McComb, and Bill is the Director of Operations Support at Netflix, and in this role he’s responsible for all Postal relations, logistics and service performance. Mr. McComb joined Netflix in 2003, after a 27-year career with the U.S. Postal Service, capping off that career as an area vice-president, midwest operations. Please
join me in welcoming Mr. Bill McComb.

To Bill's left is Dan Emens. Dan is the Vice President of Marketing Operations with Chase Card Services. He originally joined Bank One in August of 2003 which subsequently merged with JP Morgan Chase in 2005. Mr. Emens manages several operational areas supporting marketing campaign execution and delivery for several lines of business within the bank, these include both customer acquisition based programs, and in addition Mr. Emens represents the Bank's interest on Postal matters and has responsibility for management of the Bank's negotiated service agreement.

Dan is also a member of the Board of Directors of the Association of Postal Commerce, PostCom, and currently Treasurer of the Association. His career in direct marketing industry spans over 20 years and includes letter shop operations, print and customer services, data processing, and sales management. Throughout his career he's worked closely with Postal operations, managing direct mail campaigns for the commercial, retail, and the financial sectors.

Please join me in welcoming Mr. Dan Emens.

And finally to the left of Dan is Mr. Ben Lamm. He was the Director for Direct Mail Operations at Capital One, a broadly diversified financial

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service with global operations. Mr. Lamm is
responsible for Capital One's domestic direct mail
extended operations, which includes creative
development and production, mail piece manufacturing,
and delivery channels.

Mr. Lamm is active in steering Postal
supplier management environmental sustainability
efforts within Capital One as well the industry as a
whole. Please join me in welcoming Mr. Ben Lamm.

Well, gentlemen, you've heard today a lot of
discussions around service measurements, service
standards and how they could be looked at by the new
regulatory regime. I'd like for you to kind of start
off -- and Jim if you could start us off please --
we're talking a little bit about from a service
performance and service measurement standpoint how
this new law will affect your business.

MR. O'BRIEN: Sure. Well first of all a
little bit about our business. We spend over $600
million on postage in all classes of mail. So we have
you know bills, invoices that go to our consumers,
cable, Time-Warner cable bills, periodicals class
mail, direct mail, parcels, books. One of my
colleagues from Oxmoor House. We own 50 percent of
Bookspan. So we're in basically all classes of mail.

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Service is really important to our company, and you know to make sure that we get good service one of the things that we do is we try to understand the USPS' operations, and then we program our mail to maximize efficiency both from two perspectives. One is service, and the other is cost, and so when you know the operations and you kind of try to fit your mail to it, it really helps improve your service.

Last week I met with a number of foreign Postal Services, and one of the people in the audience -- I was on a panel -- and one of the people in the audience asked me, what's more important to Time Incorporated, consistency or speed? And I said yes. I mean that's really it. You know when you think about it you know we're competing with other media.

So speed is definitely important when you want to get your news out there for our news publications. But then to the consumers consistency is very important as well. So service you know is really key on both fronts.

So as a result of that what we do is we've developed our own seed program, and we send free copies of our magazines to about 700 people throughout the United States in proportion to the print orders of our various publications. So we try to spread it the

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same way that the population is spread.

And so they report back to us on the internet and tell us you know when they received their products. We then make those reports available to the Postal Service electronically so they can go in, log in, find out exactly where the problem areas are, and determine you know where adjustments need to be made.

So you know one of the ways this has played out for us really nicely is we just changed the schedule of *Time* magazine. *Time* magazine used to print on Sunday and start getting delivered Monday, Tuesday and a little bit on Wednesday, and we changed that to print on Wednesday and start getting delivered Thursday, Friday, Saturday, and so it’s been a huge change for us.

But because we have this tool available, this service measurement tool, the Postal Service has used our tools to go in and say, wow, here’s where we need to adjust the service. Here’s where we have problem areas, and they can look at it pretty quickly and efficiently, and it’s been a tremendous success for us.

Earlier today I spoke with Charlie Bravo, and one of the things that we discussed were I was just congratulating him on the Intelligent Mail tools,
and I think you know talking about where we’re going in the future, I think this is a critical success factor for us right now, having built those tools.

Going forward you know if we’re going to you know build a new system which we by law have to do, you know we need the operational knowledge that I talked about earlier, we need the Intelligent Mail tools, we need a solid reporting system -- kind of like what we’ve built for our magazines but a broader, more robust system for the industry -- and I think if we get those things then we’re going to have you know the consistency and predictability and actually the speed that I was talking about earlier.

So what’s in it for my company? Two things. You know one is -- as I just mentioned -- consistency, predictability, speed, but the other is you know these Intelligent Mail tools that we’re talking about you know with PostalOne and the barcodes and the four-state barcodes, et cetera, and the scanners.

What it’s going to mean to us is let’s say we take all this data, and right now in today’s business a consumer calls up our call center and says, you know what? I’m supposed to get my Time magazine. It’s Friday, and I didn’t receive it. We’re flatfooted just like you heard our catalog customers

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talk about earlier today. Right? They were saying you know we just don’t have a good answer.

With these intelligent tools though if we could empower our customer service people to say, wow, well we just saw your magazine. It got diverted. It’s over here in a warehouse somewhere. You’ll get your delivery on Monday instead of Saturday, don’t sweat it. The consumer feels like we know what we’re doing as opposed to being flatfooted as we are today.

So I think there’s some real power in that in terms of renewal rates and generating more mail in the future, and that’s going to be the key for us is trying to hold onto our consumers as we’re competing with other media, and giving that volume to the Postal Service.

MR. TAKIS: Bill, how about you?

MR. MCCOMB: Okay. Sure. As you can tell I’m not from inside the beltway. This is the first time I’ve had a starched shirt or a jacket on in years. So I’d like to start off like Jim did about our company. We’re probably the fastest growing first class mailer that the Postal Service has, letter mail one ounce, and I think we rank somewhere in the top 10 first class mailers.

We offer a subscription service for DVD

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movies by mail. I joined the company over about three
and a half years ago, and at that point we had just
crossed over the one million subscriber mark, and at
the end of last year, we were at 6.3 million
subscribers and growing. We're currently in 16
percent of all households in the San Francisco bay
area, which is where we started, and we started with
one distribution center in that area and mailed
throughout the country, and quickly found out that the
key to success and growth was one-day service.

We now have 44 distribution centers
throughout the country and many more on the drawing
board. We think in the San Francisco bay area we'll
probably top out at about 20 percent of all
households, which will be shortly, and if you
extrapolate that out in terms of where we go, open a
distribution center and move customers from a
three-day service to a one-day service, the growth
patterns are exactly the same as what we saw and have
seen in the bay area. So we're projecting by 2010,
2012 that we'll have about 20 million subscribers at
that point.

We do our own presorting every day and we
pay full rate for our pieces coming back to us. We
measure our own service, and we share that with the

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Postal Service every week, very similar to what Jim said. Basically what we do is for every shipment that we send out to every zip code -- and we're basically going to every zip code every day -- we sample 5 percent of those shipments in every zip code every day, and we do that through an email survey. We get the email back, and then we roll that up for the weekly reports.

So as I previously said, one-day service is very, very critical to us, and from a service standard setting standpoint, since it appears like it's going to be revisited, we think a more consistent methodology needs to be looked at such as maybe distance. I mean there's a huge difference in some areas about how large a one-day area is, and all standards should be reciprocal both ways which is not the case right now.

With the 24-hour clock that's now in place, we would also like to see more standardized critical entry times and pickup times you know when our mail is ready for us. In fact, we view that as a standard in itself. Meeting the critical entry times on our standpoint and having those not change as well as a time that we pick up our mail. Our whole operation is geared on that, and if it changes it could you know
cost us more money or so on and so forth.

From a service performance perspective, our business model is based on getting to the customer as quick as possible, and what's amazing is the single biggest marketing tool that we have is word-of-mouth, and word-of-mouth unfortunately is a two-edged sword, and we have significant data that shows where service performance is lacking we lose customers, and what that means is we don't bring in revenue, and we don't give out revenue. So we essentially have a mutual set of customers that we both have to satisfy.

MR. TAKIS: Thanks, Bill. Appreciate it.

Dan, how about you? Can you tell us a little bit about your view of service performance and measurement in the new law?

MR. EMENS: Sure. Yes. A couple of things I'd like to focus on, and I think we have a unique opportunity here in the new era as we face it under the new law to really engage in an open and productive dialogue with the Postal Regulatory Commission and the Post Office.

Chase is a very large mailer. Like some of my fellow financials, we do about three and a half billion pieces a year in predominantly letter mail categories in both standard and first, and spend a
large sum on postage. Mail is a critical or an
integral part of our marketing strategy. So we have a
very strong interest in the financial viability of the
Postal Service and the mail stream going forward.

From the Bank's perspective I've heard a lot
of discussion today around consistency of performance,
and I'd like to put a little bent on that in that I
think predictability is also critical. Quite frankly
if I know with a high level or degree of assurance
what I can expect in terms of that delivery
performance, I can adjust my marketing strategy
accordingly.

But clearly you know we have legally
required correspondence with existing customers. We
have a very robust acquisition stream in which we're
looking for new customers. We need to gear up
response channels in appropriate timeframes so that
we're not expending funds unnecessary to support.

The Post Office and the PRC has recently
engaged I think with the mailing community, and I've
very happy to see that in the formation of an MATC
work group focused on discussion around delivery
performance standards and reestablishing those. I
would like to focus a little on some kind of
overarching thoughts that I think we should all
consider as we go forward in this process, and I think really I want to focus on the measurement side of it. I think it’s been mentioned earlier in some of the panel discussions that whatever tools and methods we use they need to be objective, they need to be free of interference and interpretation, and they need to be robust, and they need to truly cover an end-to-end view. There are many points of gap today in which we do not measure certain process steps or induction points into the network, and unfortunately those are time to us as mailers and to our customers. Certainly the sample size needs to be representative of the whole, and it needs to be of sufficient size, and that varies amongst the various classes of mail that we have today. In terms of reporting, the level of aggregation becomes a critical element. I’ve always been a firm believer give me the detail, I’ll roll it up accordingly to what my needs are. So I’d like to see a disaggregation of the data down to a detailed level, and let me roll it up at my discretion. That gives me the most useful information.

I think that the results need to be published on a scheduled cycle. I’ve heard suggestions as frequently as weekly so that we can

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react as a business to those changing market conditions and network conditions in terms of delivery.

On the standards, I think they need to be more broad based, as I mentioned earlier. We don’t measure every aspect of the Postal cycle today, and that leaves a lot of gaps in terms of our judgment. I don’t always know what the cause is. Was the problem at the mail plant? Was the problem at the origin side? Was the problem at the destination side? And I don’t really see good reporting in terms of root cause analysis and what might lead us to take appropriate actions in remediation of those issues.

I also think that you know clearly we need to look at how do we gain greater accountability from the Postal management side? How do we tie them with more skin in the game? Today if they don’t meet a requirement against their existing standards, what happens? Sure we can make calls into various contacts within the Postal Service. Things will improve for a short period of time. But what happens to address the underlying causes of those issues? And put a fix in place that gives us that predictability on a consistent basis.

One of the suggestions that has come up

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recently is let’s face reality. Where are we today? Let’s look at what the performance measures are in today’s environment and be honest with not only the mailing community but also with the general single piece mailer. This is what you can expect, and then sets standards and tiered objectives against those standards to continually move that bar upwards in terms of performance.

MR. TAKIS: Okay. Thank you, Dan. I appreciate it. Ben, how about you? You’ve been waiting patiently all day long. I’ll tell you he was the first panelist here today at seven a.m., and he gets to be the last to speak.

MR. LAMM: Yes. Think you saved the best for last?

MR. TAKIS: Absolutely.

MR. LAMM: Also just to take a quick second and thank Bill for moderating throughout the day. I think hats off to you. It’s been a long day but thank you.

MR. TAKIS: Thank you.

MR. LAMM: Certainly a lot of the things that I have in my notes here have been said throughout the day. I’m going to echo two themes that you’ve heard predictably. I will talk about predictability.
and collaboration. Before I do, a little bit about
Capital One. Like some of my other panelists here,
large mailer, about two and a half billion pieces per
year, also a mix of standard and first class, multiple
shapes and sizes, but primarily letters.

We also enjoy a strong relationship with the
Postal Service. It’s based on the sharing of our
business needs, the sharing of our challenges, open
dialogue, and what do we get out of that? You know
hopefully a win-win, right? We’re better able to know
the strengths and challenges of the Postal Service and
vice versa, and what do we get out of that? I think
sometimes you get things like NSAs that can be to the
benefit of both and ultimately and hopefully, right,
to the benefit of the industry.

Back to the question. Kind of what are my
expectations of reform. Predictability and
collaboration. So on the predictability side, it’s
predictability of rates. You know I think it’s
essential for operating a well-managed business. I
also think you know predictability of delivery service
standards, right. What can I expect for my mail piece
whether that’s a customer statement, whether that’s an
acquisition piece? When can I expect that mail piece
to be delivered to a customer or a potential customer?

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If I put myself in the consumer's standpoint or the consumer's seat, when can that consumer expect their mail piece to be delivered, right? I send my bills, write my payments for my bills back through the Postal Service. You know right now when do I send it? I send it with plenty of time, right, because I don't know whether it's going to get there in one day, three days, five days. So I have to pad that.

You know if I'm managing my personal finances with an eye towards you know holding that bill until the last possible minute, I run the risk of not having that delivered on time. So that predictability of service, whether from the mailer perspective you know as a corporation or from you know myself personally mailing that bill, that predictability is important to me.

And finally on the point of collaboration, you know as it relates to reform law, I'm very pleased to see work sharing discounts and NSAs. Both I think you know are great examples of collaboration in the mailing system. You've know I'm very pleased to see that they continue to be encouraged in the new law.

That's it.

MR. TAKIS: Thank you, Ben, appreciate it.

Well I wanted to open up the question in regards to Heritage Reporting Corporation (202) 628-4888
some of the points that we've heard earlier today. I was going to start out with you, Jim, and talk a little bit about some of the discussions around sanctions that we heard earlier today. I know you've got some thoughts about that. We talked a little bit about them during a break. So if you could talk a little bit about that, that'd be great.

MR. O'BRIEN: Yes. Just to rewind the tape a little bit, you know in the early days of the discussion regarding reform law we had some pretty interesting PostCom board meetings, and you know at those board meetings there was a lot of debate about you know how do you provide the right incentives? And you know we talked an awful lot about that.

And I think you know when it comes to sanctions, you know if you say well we have a monopoly class of mail here and the Postal Service didn't meet the standard, we're going to levy a sanction, a fiscal sanction against the Postal Service. Guess who actually pays the sanction folks? It's us. Right?

So what good does that do? You're raising the rates for your mailers. So that's not an appropriate sanction, and when I look at my own corporation okay how do they sanction me? How do they incent performance? Well it's a bonus, right?
If you meet all your goals and the corporation meets its goals, you make more money, and that’s what we talked about at PostCom years ago is you know there’s got to be a way, and my colleagues at the Postal Service here may throw sticks at me or something I don’t know but there really needs to be a way to say, all right.

If you don’t meet the service goal, you know it hits you in the pocketbook. But if you hit it out of the ballpark with the service goal, it hits you in the pocketbook. So how do you think they’re going to perform if that’s the kind of sanction that you put in place? And so I’d rather use the carrot than the stick of a fiscal sanction to a class of mail.

MR. TAKIS: Why do you think at that time when you were having these discussions why did it die? Why did it not go forward? And what’s different now? I guess you know now we have legislation that talks about it.

MR. O’BRIEN: You know let the lawyers talk about this if they want to but I think we can do it. I think there was a limit as to being able -- here we go. My favorite lawyer.

MR. TAKIS: Ask and you will endeavor.

MR. O’BRIEN: Yes, exactly. But I think

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there was a problem with making more than the Vice President of the United States. So I think that was the issue. So let her rip.

MR. TAKIS: Mr. Volner, would you like to --

MR. VOLNER: I'll just pick it up without --

and I like actually the views of all the panelists. Jim has talked about using the bonus technique as a way of either encouraging or penalizing the Postal Service management. The problem is there's not enough money is there, Jim, in the bonus system because of the way the statute is constructed to make it worthwhile.

Now what I'm interested in -- Jim's right. You can't really impose monetary sanctions because we met the enemy and he is us. But what about remedies? Something like look you screwed up in the delivery of standard mail. Of periodicals for the last six months, and so the consequence is you don't get the full CPI. You only get half of it. Does that sort of thing appeal to the business community?

MR. TAKIS: Thank you, Ian. Any thoughts up here on the panel about that?

MR. O'BRIEN: Yes. To disagree with my lawyer, I think that maybe that could create a downward spiral. I don't necessarily agree with
saying you know you don’t get the full cap, but where
I do think you’re on the mark, Ian, is that if you do
ask for the full cap but you’re taking costs out of
the system and you don’t really need to hit the full
cap, there’s some margin there, I’d be willing to say
throw that margin at the folks that earned it you
know.

Just like if we hit a home run on our
financial goals, you know in private industry, you
know let’s pay for performance folks. You know we
shouldn’t be afraid of letting that happen. I think
we’ll all net better results in the long-term.

MR. TAKIS: Bill, let me ask you. I’ll put
you on the spot a little bit here because as your
former role as an area vice president, would
significant financial incentives help improve
performance? Would people change their behavior?

MR. MCCOMB: Sure. Well you know back then
I left in 1999 and you know the things in place that
are pretty much still there now that kind of started
when I was in my last five years that I thought were
significant was external measurement, and then being
tied to how well we did. EXFC. Customer
satisfaction. Employee satisfaction. And I think
those are all still well grounded things that should
be built upon.

But you know back on what Ian said, I mean you know from our standpoint a reduced rate tied to a CPI would be great for shareholders and the stock and so on and so forth but whether that fixes anything or not because you know as I said the greater we demonstrate to our customers that this is the way to go and you're satisfied, the more revenue that we'll be pouring in.

MR. TAKIS: I think we heard that earlier today in some of the competitive panel discussions as well and opposite right? If they don't meet certain standards, then the people will --

MR. O'BRIEN: Yes. You know somebody is probably saying well if they leave Netflix they'll go to Blockbuster but I can guarantee you if we're having poor service, Blockbuster is having poor service, and customers are going to look for some other media, not getting their movies in the mail.

MR. TAKIS: On demand. Dan do you have a thought on this?

MR. EMENS: Yes. I just wanted to add certainly to what Jim said. You know I think that's a component part of a motivational technique. I think we should also look at really improving the public...
display of those results, and the accountability to explain why, and to dig down into the details to understand you know where are the issues that need to be focused on and then you know hold the Postal Service accountable to work and put forth action plans in remedy.

MR. TAKIS: Ben, any thoughts on that to add?

MR. LAMM: Yes. I think as it relates to service standards, if service doesn’t meet my standards and those are not arbitrary standards those are the standards of my business, right, what services and what service timelines allow me to be profitable, right, and at what cost as well as my customer’s expectations, right. They have an expectation of how quickly and reliably they’re getting service but inbound and outbound.

So again if those standards aren’t met, I’ve got to tell you you know in the case of a different supplier or frankly any other supplier, those kind of penalties and sanctions they work, right. They’re not meant to punitive. They’re meant to correct an action. As has been said before in the case of this relationship with the Postal Service, I only see it as harmful, right. I don’t want the money, and in fact I
don’t want to end up harming the very service that I need, right, or that I want to only improve.

You know I need that healthy Postal Service so that penalty is really not of interest to me. What do I do? You know one is obviously dialogue, right. You make sure that it’s very clear. You understand. The Postal Service understands, again what those challenges and needs are, but at the end of the day, right, if again my needs aren’t met, my customer’s needs aren’t met and it’s not a profitable delivery mechanism, my business starts to migrate elsewhere, right, and we talked about it before.

It’s not an instant thing. I can’t throw the switch and have a reliable alternate delivery channel but what do you do? You start slowly probably. You start deploying your assets elsewhere, your resources, whether it’s people or dollars, and so you know ultimately that’s the incentive for good service is that the business stays, right, and hopefully the business grows. But the thought of a penalty has no appeal to me.

MR. TAKIS: Okay. Thank you. So we’re at this stage now where the Postal Service, the Postal Regulatory Commission and the mailing industry need to develop service standards. What do you all feel is
the best way to do that? How would you all like to participate in it? How would other people in the audience like to participate in it, and we'll get to your questions?

MR. O'BRIEN: Sure.

MR. TAKIS: Jim.

MR. O'BRIEN: Well first of all, I think you need to have the right tools before you start to develop a service standard, and you know in my opinion the right tools are mail.dat, Postal One, intelligent barcodes, effective readers on USPS machines so you can read those barcodes and develop the data that's going to build your standard. So that's kind of the hardware of it.

Once you do that, I think you have to realize that one size does not fit all, and the thought behind that is you know in the periodicals class the historical standard has been zone plus one. So if I enter in and the mail is getting delivered to zone three, I'm going to get four-day delivery from when I enter it in the mail.

I don't think that works anymore. I really feel that the standards need to reflect the operational realities of the Postal Service, and what I mean by that is you know we align the standard with
a couple of things. How is the mail prepared? Where is it entered? And did it meet the critical entry time?

Then you can start to judge all right if I know how it was prepared, how many machines does it have to get through, and did it meet the critical entry time to be on the schemes of those machines at the time when they're going to get processed, and I can tell you from you know the operational background you can predict when mail is going to get delivered. The Postal Service is really good at that. If you meet the prep, the entry time and the entry point, you're going to be in good shape. So do that.

The other thing that we do in our measurement system today is we try to reflect the realities of the network. So for example, if my truck breaks down on the way to an entry point at the Postal Service, we don't gig the Postal Service for a late delivery, even though it gets to the home a day later or whatever. That's my problem.

If there's a weather delay, that's my problem. You know if we can reflect those network realities, I think we need to. What if there's a power failure in a city? Do we gig the Postal Service for that? No. There was a power failure. How can
you say that it was their problem?

So take those things out to reflect. So we want to reflect operational reality, the network reality, and then I think what you need to do is select a diverse group of products to seed, and rotate those products periodically. You know we all heard that horror story a number of years ago -- and I apologize for bringing it up -- but that EXFC fiasco where somebody broke the code and was kind of hustling the mail through to you know up their performance goals.

Nobody wants that to happen, neither us nor the Postal Service. It's an embarrassment. So I think what we want to do is get a diverse group of seeds, large mailers, small mailers, regional mailers, national mailers, and use those seeds. You know periodically rotate them through so that it's impossible to predict you know who's the seed on a long-term basis? You know we're always going to hustle Time through because they're a seed. I don't want that to happen. I really want the network to reflect reality for me and all the mailers.

Then I guess the last thing having run a delivery business in the past I know that they're not perfect. Stuff happens. Carriers call in sick. This

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happens. That happens. So I think any type of measurement system needs to reflect a little bit of a tolerance from perfection you know because you’re never going to get perfection. I can tell you right now.

So you know let’s provide some latitude so that we’re measuring the right thing and giving it the right amount of tolerance. You know not a broad band of tolerance but enough to reflect reality, and I think the last thing that none of us want is to have a parade of litigants going before the Postal Regulatory Commission. It’s just going to spend our money, folks, and so we want to build a system that reflects reality so that we don’t have this unlimited complaint procedure going on.

MR. TAKIS: Thank you. Any other thoughts on that? We’re going to get to your question in just a moment. Dan, do you have anything?

MR. EMENS: Just a comment. I absolutely agree with Jim’s comments about we need to reflect the operational realities but at the same token I think you know with Intelligent Mail and the four-state barcode coming on board and confirm, we have an opportunity to utilize a tool that preexists within the Postal operational side to broaden the base of
what we measure, and to really get a detail that would
help guide the Postal Service and focus on areas that
need to be addressed.

But I agree. I mean absolutely we have to
not ding the Postal Service for those operational
realities. If there's a snowstorm in the midwest in
the middle of January, it is a reality. You know if I
was in a car driving out with my family, I'm going to
be delayed.

MR. TAKIS: Question, please.

MR. CERASALE: Yes. Jerry Cerasale with
Direct Marketing Association. I view service
standards, in general systematic service standards, as
being really tied to the rate process and the CPI, and
I'd like to hear -- I know what you said to Ian on
dinging the Postal Service -- but think about a
service standard, lack of meeting service standards on
a systematic basis, system wide because it's too
expensive to meet that service standard.

Then when you look at CPI capped rates, do
you then suddenly have a different service and not
give them that CPI because you really have only cut
cost through diminishing service? So I want to take a
look at service standards in a way of a systematic
loss not a hurricane Katrina, not a snowstorm or
MR. TAKIS: Your question is also about how to factor in the cost of meeting those service standards as well, right? To make sure I understand you.

MR. CERASALE: Well what you don’t want to do is have a diminution of service in order to meet your cost obligations and have that sit there with CPI because if you diminish service, still have CPI, that’s really a rate increase above CPI because you’re not getting the service you were paying for before.

MR. TAKIS: Jim?

MR. O’BRIEN: Yes. Jerry, you and I have talked about this in the past, and you know I guess to make it perfectly obvious to everyone you know what Jerry is saying here is all right, what if you said we’re going to cut back from six-day a week delivery to five-day a week delivery because we’ve got cost pressure to meet the cap, right?

MR. CERASALE: Right.

MR. O’BRIEN: So you’ve gone from six to five. That’s not acceptable. Right? I mean everybody in the room would say that’s not acceptable, and I think you know to your point, Jerry, I think we need you know people a lot smarter than me -- you
known folks like Ian and Tim Keegan and guys like that -- to think of how do we build this into the process going forward and submit comments to the Regulatory Commission to say, here's how you guard against that because you're exactly right.

MR. EMENS: In fact, I think David Levy brought it up in the previous panel discussion is there's a tight linkage and alignment between not only the rate index but also the performance. So that as adjustments are made in the network, it doesn't degrade performance in order to maintain cost because the net effect to me as a customer is I just got a rate increase. It's not dissimilar to that box of cereal that has the same size, the same price, but three ounces less of product.

MR. TAKIS: Right. Exactly. Any thoughts on that anyone?

MR. LAMM: Yes. I actually wanted to take a different approach to the answer because I think one of the concerns I have about the reform law in general and particularly as I've listened throughout the day is there seems to now be an expectation that rates are going to increase at CPI every year, right, or with some frequency.

And I know a number of you here on the panel.
and many of you in the room have run operations, right. I want you to think how many times folks have said to you, you know hey go ahead and increase your budget according to CPU, CPI or something else, right? If you have, more power to you. But that’s a very unlikely event.

You know just in general I have caution right and some concern that you know the question that was just asked is if CPI isn’t enough, right, well I actually wonder you know have we already moved the anchor or the benchmark to you know predictable CPI based increase, and I think the challenge you know to the Postal Service and the challenge I would put on the Postal Service -- like many of us as operations managers have had in the past -- is you need to find the efficiency. You need to find the productivity.

You need to use your creativity and your customer relationships to stay below that rate, and so just in general again a bit of a caution and concern that we are already predisposed to a CPI based increase with whatever frequency.

MR. TAKIS: Thank you. We’ve talked a little bit about the ways that you all as mailers can work with the Postal Service and the Postal Regulatory Commission to set the standards. Now let’s talk about

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ways that you all can work together with the Postal
Service and the Postal Regulatory Commission to create
better service. A little bit different view on that.

What ways do you all think the mailers can
work together with the Postal Service to produce the
most efficient, the most cost effective, and the
highest performing network that you can get? Again
balancing off those tradeoffs between the two. Bill,
do you have any thoughts on that?

MR. MCCOMB: Well you know I think Jim hit
on it quite a bit is you know there’s a bunch of tools
out there that shift or have the potential to shift
the measurement to a more passive mode, and I think
one, making that work -- because it’s failed miserably
in the past -- and then understanding what it’s
telling both the Postal Service, the mailers in terms
of success or failure but more why so there can be a
solution found for that I think is one big step.

And then understanding. You know like I
said before, you know I have a lot of data that
suggests below average standard in areas of the
country, we are losing customers left and right, and
understanding what that impact is on the Postal
Service and why is a matter that’s not well addressed
at this point but I think that --
MR. TAKIS: What's the best way to facilitate that type of conversation because it seems that that is a joint concern of you and your customer base as well as the Postal Service?

MR. MCCOMB: Right.

MR. TAKIS: If your customers aren't buying the movies, then they're not shipping the movies.

MR. MCCOMB: Well from our standpoint is we've created like a quarterly business review, and we go through this stuff. But you know it's kind of like somebody said before. Putting your finger in the dike you know you'll patch the one hole but then it'll break someplace else, and you need to figure out how systematically, you know standardization, better methodologies to attack those problems.

MR. TAKIS: Dan, do you have any thoughts on that because you were talking about it earlier?

MR. EMENS: Just listening to a lot of the conversations through the course of today and certainly this conversation, you know I think the mantra here is communicate, communicate, communicate, over communicate, and do it regularly, with a high degree of frequency, frankness, openness. You know nothing is sacred.

We need to share the metrics that we have on

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each side you know and work jointly and collaboratively towards looking at you know what are the issues, facing up to them, and then you know trying to put action plans to address them in place, recognizing that there is a cost potential impact, and we need to balance that.

You know ideally you know what do I look for as a customer? The best possible service that I can get at the most efficient costs.

MR. TAKIS: Right. Jim?

MR. O'BRIEN: Just one thing to tie back into operations again. A number of years ago, Mark McCreary and I went and visited a couple of Postal facilities out in the midwest, and I was presenting this concept of something we called node based presort, and it was to take a look at you know how do you process mail within your facility, and you know can we prepare our mail to perfectly fit the way your processing it in that facility?

And I think you know in the case of flats right now we’re going to be entering into a world of FSS, and if we can develop schemes that those machines are going to run and prepare our mail to fit those schemes, we’re going to get very consistent service and very low costs. So I don’t think that the two are
mutually exclusive.

MR. TAKIS: So working together with the Postal Service to do that.

MR. O'BRIEN: Big time.

MR. TAKIS: Ben, you had a thought?

MR. LAMM: Yes. I heard Dan's comment. You know communicate, communicate, communicate, and I have a slightly different thought as it relates to this issue, right, about how we improve, partner to improve service. It's probably measure, measure, measure. You know I'm surprised through the day that this hasn't been said. It was something that was beaten into me for many years from many bosses and mentors, and that is you can't manage what you don't measure, and I think in this case you know I'm back to measure, measure, measure.

I have an expectation for a system wide measurement tool but quite honestly I would expect to go beyond that and do my own measurements, right, whether it be through seed mail, through something else that maybe is more specific to the types of mail that I'm sending or to the type of customer that I'm having an interaction with but I do have an expectation for -- and I think the reform law calls for that base set of measurements.
And I would echo what was said earlier that it needs to be driven more broadly than it is today into all the classes and subclasses such that we have a reliable, unbiased measurement system.

MR. TAKIS: Okay. Thank you. Question over here?

MS. SMITH: One thing I wanted to comment on because I haven’t heard much spoken about it. I’m Wendy Smith.

MR. TAKIS: Can you tell us who you are?


MR. TAKIS: Thank you.

MS. SMITH: Having to do with service standards on standard parcels. Contrary to many people’s belief, in our business most of our sales is in merchandise, and most of it is in the standard parcel segment, and just as track and trace is a baseline for Parcel Select, I really feel it should be a free service baseline for standard parcels as well.

Granted from a technology standpoint mailers USPS would have to work to get an intelligent barcode that’s readable by the parcel scanner, such as the smaller eVS barcode, as the mechanism for track and trace, but again I think it’s been a barrier to you...
know small parcel mailers using the Postal Service, and if it was available, I think it would certainly attract more business in that niche. So just something you know I would like to see considered because it hasn't been addressed much in the past.

MR. TAKIS: Thank you. That's a good comment. Any thoughts on that?

MR. O'BRIEN: Wendy, I think you're right. I mean you know what's being talked about here is service standards for all classes of mail. That's what the law is talking about. So you know I think no child left behind here, right? You're right.

MR. TAKIS: Commissioner Goldway, do you have an observation you'd like to make?

MS. GOLDWAY: I have a few thoughts that I am concerned about. If the Regulatory Commission establishes standards or agrees on the standards that the Postal Service presents to us, and then we establish the right measurement and reporting tools for that, but you don't feel that there is an appropriate accountability mechanism, it shouldn't be a fine and it's not possibly a bonus, how do we enforce those standards?

And then I have a question about what I thought was interesting comment that David Levy made.
that it's not only a question of deteriorating service
that creates a de facto higher price, it's the burden
on the mailer to do more that might create a higher
price.

Now some of you are perfectly willing to do
it, and can do it, and it winds up saving you more
money. But you know you clean your address lists or
you sort the mail somewhat differently. It doesn't
cost you any more. It might cost you less. But
smaller mailers will be less likely to be able to
prepare their mail in more sophisticated ways, and if
there are these equivalence of negotiated service
agreements with all of the large mailers on rates,
then we get smaller mailers who have to either do more
or pay more and have deteriorating service.

What's the regulatory mechanism to assure
that there's some fairness overall with all of the
users of the mail? And it doesn't seem apparent to me
in the discussion that we're having.

MR. TAKIS: There are two parts to that
question. Let's take the first part. I believe what
Commissioner Goldway was saying is how do you enforce
these standards if we don't want to use a penalty type
system or a sanction type system or large bonuses?

Any other thoughts on that?
MR. O'BRIEN: I'm a carrot person here okay.

So I'm the bonus guy. I want to pay for performance. So I think that is the mechanism, and I think that's the way we have to go. Commissioner, I just don't think that there's enough teeth in the bill, and I'm not sure what kind of teeth we could give the Commission to exert pressure on the Postal Service beyond you know bonuses or something that's going to hurt the mail you know to penalize them for lack of performance. So I would struggle with a different version other than that. I'm sorry.

MR. TAKIS: Any other thoughts? Ben?

MR. LAMM: Yes. You know so I gave you my position on penalties. I don't think they're of any benefit. So what are the right mechanisms? I think it really comes down to I think Jack Potter said it this morning about transparency, right. He used the term transparency.

Visibility, publicity, transparency. Pick whichever word you like about performance is one of the most powerful motivators. You know for any of us who you know strive for success, there is -- and I use this term and please no offense, right -- but there's a tremendous power and chain, right.

And for folks who have been on the you know Heritage Reporting Corporation

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wrong side of success, visibility to that is as powerful as any kind of stick, right. So you know again not to be punitive through visibility, transparency, et cetera but really I think it is an incredible motivator.

MR. O'BRIEN: I didn't answer the second half of the Commissioner's question, and that is what about the smaller mailer? And you know I think both you and Julie mentioned it earlier in her presentation. When I was talking about standards, I do feel that given these electronic tools that we have, that you can create a diverse basis for measuring service performance. So it just doesn't have to be the Time magazines of the world.

I think you can get a small printer that enters all of their mail in Des Moines, Iowa, and could and should use them as one of the measurement factors. You know our catalog colleague that -- did he leave already? The guy who was from the small catalog? He's not here.

But anyway I think he should be a service standard seed, and electronically you can pick whoever you want you know, and I don't think it has to be discriminatory. I think you can pick large, small, and very diverse seeds.
MR. TAKIS: It’s interesting because, David, you had spoken earlier today about the same type of things that Ben was talking about which is that other incentives other than financial that can affect people. Please, question?

MR. STEPHENS: Yes. I’m Niah Stephens. I’m currently a contractor for the Inspector General. Where does retained earnings come into this calculation? That’s something that the law does allow for the first time. Presumably it’s based conceptually on the Postal Service making its financial goals but could it be adapted to become pressure for meeting service standard goals as well?

MR. TAKIS: Do you want to take that question? I guess let me ask a clarification on that. Are you saying that how retained earnings could act as more of a profit type motivate for the Postal Service to --

MR. STEPHENS: No. If we’re looking for you know carrots and sticks, it seems to me that retaining earnings for the Postal Service is certainly a carrot, and right now I don’t believe there’s a link between that and the subject of what we’re talking about here today. I’m not quite sure of what the Postal Service is going to do with those earnings. I mean it’s not

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going to buy out competitors. It’s not going to
reward stockholders but presumably it wants those for
a purpose.

MR. O’BRIEN: I think that my understanding
of retained earnings is that those are going to allow
the Postal Service to purchase more equipment for the
future. I also think it’s a bit of a rainy day fund
for when you can’t meet the cap, and you needed to
borrow. You know take the money out of your retained
earnings. You don’t have to borrow from Roger.

So I’m not sure you know that that’s a fund
that’s accessible for payment back to a regulator, and
then even if you did that, okay, let’s say the
Commission you know decided you know we’re going to
exert financial penalties on the Postal Service when
they didn’t meet standards. Okay. What do you do
with that money? You know what’s the regulator going
to do with that money?

Do they donate it to charity? What? You
know I don’t know what they do with it. So you know
it’s a little bit of a problem here. So that’s why
I’m on the carrot side.

MR. TAKIS: Bill?

MR. MCCOMB: You know putting my old hat
back on again, you know it’s not just the enforcement

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of the standard. It was always a balance between the fiscal side and the service side, and you know talking about holding back retained earnings, you know that may have an impact at the national level but you know most of that stuff you know flows downhill, and it’s probably going to make it worse rather than better. So you know I don’t know what the answer is but enforcement of a standard is broader than just making it happen.

MR. TAKIS: That’s a good point.

MR. O’BRIEN: Day in and day out.

MR. TAKIS: Because you want to elicit the right type of behavior, and if you’re not incenting the folks that are on the ground to do that. Right.

I understand.

MR. O’BRIEN: Right.

MR. TAKIS: Dan?

MR. EMENS: I was just going to comment that I’m not sure, like Jim, you know exactly what the earmarking, what the statute dictates against retained earnings, but if there is any flexibility in that certainly you know I think there was a comment made earlier is there sufficient funds in the way we compensate the Postal management? That might be an alternative to look at. To enrich that once a month.
MR. TAKIS: Ben?

MR. LAMM: Yes. I just wanted to say first I hope that's a problem that we have, right, is that we have that earnings to figure out what to do with. You know second if we have that and we have service performance issues, if I could go back to transparency, right, my expectation would be how are you spending those funds? It ought to be to address the service deficiencies that you have, and if it's not I'd want to know why.

If you're again in that luxurious position of you know having the retained earnings and not having service level challenges, then I think you know I would expect one of two things, right, you're either making that investment in the future, right, or you're deferring the next potential rate increase, right. You bank it, right. You use that for that rainy day that we talked about.

MR. O'BRIEN: Ditto. Great points. Yes. Excellent.

MR. TAKIS: That's a good point. Very good point. Gene, another question?

MR. DEL POLITO: Yes. There's one party of course in the carrot and the stick argument that is not here today, and it is a very important party and

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that happens to be the Governors of the Postal Service. The statute clearly empowers the Governors to allow up to 12 officers to receive compensation and up to 120 percent of the vice presidents pay for critical positions.

It's my understanding that they may be meeting to make such a decision in May. If the decision is simply to grant the increases willy nilly with no performance criteria tied behind them, then we may find that the carrot that we would have hoped for got tossed into the trash.

The other thing too about in terms of changing the culture, whenever we've talked about holding the Postal Service accountable we typically have always focused our efforts on criticisms that we've raised relative to management, and yet we know that in private corporations when the stockholders are upset with the performance of their corporations they typically make their wrath most strongly felt on the board, and it could very well be that if we refocus where we intend to define our bottom line for accountability to be at the board level then perhaps we'll see the board step up to its responsibilities to make sure that the management that it has hired is indeed accountable and productive in the end.

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MR. TAKIS: Thank you for that observation. Does that prompt any thoughts from the panel?

MR. O'BRIEN: I think they're valid points, and I think the law calls for some fairly stringent criteria for some of those board members. So I think you know being big boys, they should be able to take the heat. So yes, I would support that.

MR. TAKIS: Ian, you got there first.

MR. VOLNER: I'd like to go over the fact about the shame factor because there's an experience in another industry where it worked quite well, and I'd like the panel to enlarge upon it. About 8 or 10 years ago, we discovered that the cable industry was not providing service, and the FCC came up with a pile of rules which are really almost impossible to manage.

I mean you have to answer the phone within X number of minutes. You may not allow X number of calls to drop. If you fail to do a service run within a certain period of time, you have to not charge the consumer. And the cable industry, which I represented at the time, was in a state of hysterics. And I said to the Commission at the time, what are you guys going to do? Are you going to start penalizing us because we're just going to pass it right back through to the consumer, which is the concern?
And the answer was, the shame factor. And it’s worked or mostly. I mean there’s going to be aberrations as Jim has said. The question is how do you make it work here where you have, as Commissioner Goldway has said, a variety of interests? You measure, measure, measure and communicate, communicate, communicate but do you require the Postal Service to publish, at what level of detail, how it is performing? I mean the question is, how do you make that work because it’s a very attractive solution to what is otherwise a thorny problem?

MR. TAKIS: Thoughts on that?

MR. EMENS: Just picking up on Gene’s comments earlier in reference to the Board of Governors and perhaps putting the accountability at appropriate levels, perhaps a panel discussion such as this for the Board to present performance deficiencies and remedial action plans on the forward looking year might be a behavioral modification.

MR. TAKIS: An annual board meeting open for the public to ask questions. Interesting. Alan, a question?

ALAN: Yes. I’m just sort of trying to understand if I heard something correctly. Everyone on the panel I think does some sort of seeding or some...
sort of internal service measurement which would suggest that there’s a need for a more detailed service measurement from the Postal Service for large customers than it would be for just the nationwide service standards so that they understand how Time is doing or how Netflix is doing in Boise, Idaho, as in addition to the national service standard.

And so my question is this: How does a nationwide regulated service standard affect your ability or how would you like it to affect your ability to measure your own corporate performance of the mail that you measure, and secondarily, how could a service standard help you increase the volume of mail that you actually deliver or send to the Postal Service?

MR. TAKIS: Bill, you talked about that earlier when you were talking about regional differences or area differences.

MR. MCCOMB: Right. You know the key is -- at least for us -- understanding you know what those standards are and how they’re built so we match our operation to that, and if in fact you know they change and were to change significantly, you know we would adjust but you know we would ask for more time because we have you know leases involved and so on and so

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forth, if we had to move an operation to be closer or
as somebody said that would be shifting the
transportation to us and so on and so forth.

The other thing on you know a couple of the
other comments that all of a sudden struck me is
enforcement or buy-in might also include the unions,
and that's always been you know kind of a hands-off
thing, but with their ownership along with everything
else it may in fact you know help the whole situation.

MR. TAKIS: That's a good point. Thank you.

Do you have a question over here?

MS. BOONE: Hello. Hi, this is Cinny Boone.

I'm with the DMA Nonprofit Federation, and I just
wanted to commend the panel and the Postal Service for
taking a look at this issue. One type of mailer that
really hasn't been touched on too much today is the
nonprofit mailer, the large and small organizations
who are actually seeing there is really no
predictability for the type of mail pieces that
they're sending right now, and we really need that
baseline defined for the nonprofit organizations
because as much as you are all relying so much on
commercial returns, they are relying so much on the
response rates for many, many causes.

So I just wanted to just mention that and

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commend you and say that we really need that baseline. Right now the typical returns that we’re seeing is about four weeks delay, and that really impacts a lot of their missions.

MR. TAKIS: Jim, comment?

MR. O’BRIEN: Yes. Cinny, you know I think the point you’re touching on is exactly what Commissioner Goldway had discussed, and you know you don’t want to forget about the smallest of the mailers, and you know back to where I started. I really think that standards need to be based upon operational realities.

So if you’re giving a national distribution from Des Moines, Iowa, based upon operational realities we should be able to predict how those products are going to move through the machines of the Postal Service, and when they’re going to get delivered, and so if some of your clients end up being some of the invisible seeds that are out there in this measurement system, and it’s based upon operational reality, we should get that baseline that you’re talking about, and it should be predictable service. It really should.

And you know I go back to you know when I worked at UPS when I was in college. At UPS, we would

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have a requirement every night in our facility to have zero parcels on the floor. At the end of the day, I was the reload supervisor at the end of my UPS career, and I couldn't walk out that door at 10 o'clock at night if there was one parcel in there.

If there was, I'd have to get in a truck and drive it down to downtown Chicago and get it delivered, and so it was that type of stringent behavior that was driven by their internal service standards, and I think we need to have that kind of same rigor.

If you built a service standard throughout your network based upon operational realities, people will react that way, and you'll have predictable service, the Postal Service will know what are the rules that I'm going to be judged by for my bonus, and it's going to be that win-win that we're talking about.

MR. TAKIS: [Inaudible]

MR. LAMM: Yes. I wanted to comment as well. You mentioned the term baseline, and it made me think, and we've talked a little bit throughout the day about what should the appropriate service standard be for different classes? You know where do you set a number? With what level of reliability or
predictability? You know the thing that pops in mind for me, right, and I kind of take two viewpoints on this. One is you know having run some operations with high standards. The second is as a supplier manager, right, and what do I expect of the suppliers that perform an operation or a service on my behalf?

You know I think you have to start by setting the baseline, right. So we heard about one class of mail or type of mail that today is performing to its standard only 50 percent of the time. Okay. We’ve heard about others that are somewhere in the 90s. You know if I’m managing one of those operations and my current number is in the 50s, there’s no point in setting it at 90 and expecting me to be there tomorrow, right. It’s demoralizing. It’s demoralizing for the leadership. It’s demoralizing for the people that are trying to make that system better.

And so what do you need, right? You need to start with a baseline, and you need to have expectations of improvement, right, and if it starts at 50 percent, it starts at 50 percent, and you should see a slope up, right, and you should be transparent about that. You should tell people what that slope is. You should encourage and incent and in some cases
shame when you’re not hitting that slope or that improvement.

You know where do you ultimately end up?

You know as it relates to whether it’s one day, three
day, five days, I’ll let go again some of the
sentiment from this morning. I want to know but I
won’t say I’m indifferent. I want it to be faster but
I just want to know whatever that number is, as it
related to reliability.

I look at my own you know contracts with
third parties with other suppliers, and many of them
you know you expect a 98 percent performance, right.
Whatever that standard is you need to be performing
that 98 percent of the time or better. That allows
for the stuff happens scenario.

It also allows you as a management team to
make tradeoffs and decisions, right. Small ones. Not
ones that disrupt the entire system but I think
earlier there was some fishing around from others
about what should that performance or reliability
standard be? My opinion, for what it’s worth, right
is ultimately it’s 98 percent or better. I think you
start with a baseline. You set expectations for
improvement, and I hope years from now, right, or a
very few years from now we’re talking about you know

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98 percent as the expectation.

MR. TAKIS: Good point. Thank you. We have a question over here.

MR. KEEGAN: I'm Jim Keegan, another of Jim O'Brien's innumerable lawyers.

MR. O'BRIEN: The other guy that's a lot smarter than me.

MR. KEEGAN: I don't want to take a back seat to Ian in disagreeing with my own client in public so two comments on enforcement of service standards. First, with respect to withholding the right to have retained earnings, it seems to me that clearly would be the equivalent of a fine, and the statute would not warrant that except in the case of delivery noncompliance. So I think that simply would not be allowed under the current wording of the bill.

Secondly, and I think much more importantly, I think the reason that the conversation has been so spectacularly unsuccessful in coming up with a way to enforce service standards is simply that it is not possible simultaneously to control prices and the quality of service, especially when you're not granted any ability to control costs. So I think you can go around in a circle endlessly, and you cannot at the same time find any rational way of disciplining all
those things simultaneously.

MR. TAKIS: Okay. Thank you. Any thoughts on that? I think our last question for this panel, please.

MR. STOVER: David Stover, GCA. I have just a question to toss out to which I have no answer, not even an approach to an answer, but we have heard a lot about the desirability of NSAs and customized customer agreements. We have not gone into the question of whether such agreements can or should incorporate specific service standards, and if they can or should, what the effect of those customer specific service standards would be on the nature of the general service standard for the category of mail involved, and on the Postal Service’s ability to meet it, and on the Regulatory Commission’s ability to enforce it.

That's an idea that I think probably should come up in the course of the Commission’s deliberations about service standard setting. I just wanted to launch it.

MR. TAKIS: That's a very good question. Thank you. Any thoughts on that from the panel?

MR. O’BRIEN: Sure. I think that you know what you’re talking about, David, goes right to the heart of what Ruth Goldway was talking about though a
little while ago, and I think if you’re not careful
about something like that you would wind up with the
haves and the have nots, and I’m not sure that for a
Postal Service that’s developed you know as we talked
about earlier today you know for the American public,
you know should we have service standards that are
geared towards haves and have nots?

I can see NSAs that are geared towards
generating more revenue or the most recent taking
costs out of the system. Those to me appear you know
like very legitimate NSAs. I think we may be setting
bad policy if we allow people to start buying service
above and beyond you know the rest of the people in
their class of mail.

MR. TAKIS: Any other thoughts?

MR. MCCOMB: You know in our industry,
there’s only really two players, and you know we’ve
got 80, 85 percent of that, and if we were to do that
-- well first of all, I don’t think we could make it
happen because we’d be stopped. So I think in our
case we wouldn’t even. I mean we’d love to entertain
it but I don’t think it would happen.

MR. EMENS: I tend to agree with Jim’s
comments. You would create a kind of a scenario of
have and have nots which would be very difficult to
manage and take care of that every man if you will,
but it is an interesting concept too. It is something
to think about.

MR. TAKIS: Ben?

MR. LAMM: I guess I have a slightly
different view which is not you know there should be
haves and have nots. I think it was a pretty broad
question. I think maybe you gave an example of the
types of things you might set up in that kind of a NSA
but in general you know my thought on a NSA, whether
it’s for a large mailer, you know a small mailer,
somebody you know mailing out of multiple facilities
across the country or out of their you know second
floor bedroom, you know the NSAs ought to be that test
platform for future services, for future arrangements.

We talked about mindset shifts in a number
of different places. I would suggest in the area of
NSAs there’s also room -- if not a need -- for a
mindset shift, and that is probably to be more risk
tolerant, and what I mean by that is you have to be
willing to test.

David, I think you said earlier in some
cases you have to be willing to fail, right? And then
you have to be willing to learn and to make
improvements, and again that’s not just for big
mailers. You know I would encourage you know if we're having the right dialogues at all levels of business, big or small with the Postal Service and they're listening to our needs -- and I think they do -- then those kinds of test agreements can be made for the small mailer, and I think it becomes a great test case for how you roll that out more broadly.

What's it going to take to do that? It's got to be far less cumbersome, right, to get through these, and I think again that goes back to there has to be a greater tolerance for risk, you know risk in that you're not putting yourself at huge financial risk. It ought to be something that you can back out of if in the end it is not a favorable thing either for the mailer or for the Postal Service. You know in the end there has to be shared risk and reward, right, for the mailer whether big or small and for the Postal Service.

MR. TAKIS: Thank you very much. Well thank you very much, gentlemen. We appreciate your help today on this panel. Everyone, thank you. The other day when we were getting ready for this panel, all the questions about service performance all culminated today. It was wonderful to have you go as last.

So what we're going to do is we're not going

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to take a break but we're going to take just a
two-minute pause while some of the other customers are
going to come back up, some are going to leave. We're
going to have a panel of about I think four people up
here.

(Pause.)

MR. TAKIS: How about transparency, the need
to maintain that. We heard from all different folks,
from mailers to industry folks, to the Department of
the Treasury talking about the need for transparency.

We've heard about the role of the PRC, light
handed regulation versus stiffer type of regulations.
We've heard about that. And finally we talked an
awful lot about service standards and measurement
here. But Steve Sharp grabbed me right after lunch
and he wanted to make sure I asked this question.
This is certainly in mind too.

What have we missed today? What other
things should the Postal Service and the Postal
Regulatory Commission hear from its constituency?
I'll turn that over to you guys first, and then I'll
open it up to the audience, because as both Mr. Blair
and Mr. Potter said earlier today, today's your
chance, and do we need to have more of these? Think
out of the box in terms of what other thoughts that

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you have for the Postal Service and for the PRC. So
James, do you want to start us off?

MR. WEST: First, this has been a very good
forum today. I've seen a lot of good information put
forth, and I hope that it's been useful for the Postal
Service and the PRC. I think I would certainly
welcome the idea of doing this you know more
frequently.

I don't know, quarterly or a couple of times
a year, and especially as we're going through the
period of adjustment to the new operating structure
that's been dictated by the reform legislation. I
think there's been a lot of good topics discussed
today, but I'm not sure that you know we really
realize everything that's going to come out of this
whole process.

MR. TAKIS: Just started the ball rolling.

MR. WEST: I think it started the ball
rolling. I think there might be a lot more things
that we encounter as we go through the process.

MR. TAKIS: How about you, Ben?

MR. LAMM: You know I agree the frequency of
this and maybe specifically it comes in the next steps
as well. You know I hope people are walking away with
this, the PRC and the Postal Service as well, with a
long list of questions, right, and two days from now they’re going to have a longer list of questions. And so the ability for a meaningful group, whether this group, a subset of this group, or a broader group to get together again and again and again with whatever you know number of repetitions to make sure that we get this right, and that we are addressing the big mailer view, the small mailer view, the parcel mailer view, the every view.

You know part of that is incumbent on us, right, and on you for participating, but I would certainly you know look for many more forums to do that, whether in this kind of a setting or an MATC meeting, you know those types of things. So you know for me that’s a big next step. You know I looked back through my notes.

There are very few things that I wanted to say that I did not, but as I look out at the crowd I suspect there are. As you’re talking about what did we not cover, you know I wouldn’t look to the two of us to run down your laundry list. I think it’s time for you to hop up and make sure you’re heard if you have something that wasn’t covered.

MR. TAKIS: Thank you because that’s what I was going to say, the exact same thing. What are
other folks in the audience’s views of what things
that we left out today? What things need to be
addressed going forward? No one wants to say
anything. They’re all questioned out. Gene, any
thoughts from you at all? Sorry to put you on the
spot.

AUDIENCE MEMBER: That’s okay. I’ll help
Gene.

MR. TAKIS: Okay. Please.

AUDIENCE MEMBER: It was already stated what
it is that we’re missing. We’re missing orders.

MR. TAKIS: That’s right. You were supposed
to be here by the way.

AUDIENCE MEMBER: So you know we’ve got the
unions which make up a significant part of this
system, and we need them to engage in the dialogue.
Similarly, we often have difficulty engaging mailers
in the dialogue. So perhaps it’s easier to invite the
union and say, let’s talk, maybe it’s not but we also
need to wonder how do we get other mailers engaged and
other stakeholders of this system engaged so that
later people aren’t regretting that they didn’t have
their turn to speak?

MR. TAKIS: That’s a very good point.

Thanks.
MR. WEST: If I can reply just on that. That definitely crossed my mind, and you know we talked about having other sessions like this similarly. I'd offer to consider having these sessions in other locations, and like possibly tie it into you know not necessarily national Postal reform because I know a lot of mailers like myself don't go to that. But we do go to like the DMA or the catalog conference.

Link it onto that where you have the mailers there together, and you know they're already there, and they're already kind of attuned to the discussion. A lot of the discussions are going to be going on. Then you can get their participation because you know I think you know some MTAC meetings they kind of made it clear. We have a very difficult time getting them involved, don't we, Gene? Yes. So I think if you kind of bring it to them it's going to facilitate their participation a lot better.

MR. TAKIS: Okay. Thank you.

AUDIENCE MEMBER: When I think about the task that the Regulatory Commission and the Postal Service faces, I think there is a lot to be learned from other commissions, other regulatory commissions. FTC was mentioned today. FCC. FERC. There are state
public utility commissions. Many of them have been working for many years, decades perhaps, under similar regulatory schemes, and I think it would be very beneficial to have another session like that where we brought in experts from these other regulatory commissions who could share the things that worked and didn't work.

MR. TAKIS: That's a good observation. As a regulatory conferencer myself there's been a lot of successes over the last decades. There's been a lot of failures too. So we wouldn't the PRC to suffer from the failures that's for sure. Any other thoughts on this?

MR. ANDERSON: Hello. I'm Darryl Anderson. I'm legal counsel for the American Postal Workers Union. I wanted to let you folks know we're here.

MR. TAKIS: Good.

MR. ANDERSON: The American Postal Workers Union is here today not only in my representation but also another attorney representing the American Postal Workers Union is here, a high ranking staff member from the American Postal Workers Union, and our economic consultant on rate matters. So thank you very much for letting us be here.

I think it's been a very, very interesting Heritage Reporting Corporation (202) 628-4888
session, and I'll make my remarks very general because I'm not commissioned by my client to make them any more specific but I can tell you that this is a process that the Postal Workers Union has enormous respect for. We are very proud. American Postal workers are very proud of being Postal workers. Proud of the institution. We think it does a great job. I'm glad to hear that those of you who participated here today agree with that.

And I will say that the Postal workers are committed to service and to service standards. So I think there's a lot that we share.

MR. TAKIS: Good. Thank you. Sir? We turned your mic off. Just kidding.

AUDIENCE MEMBER: I speak loudly enough. It doesn't matter. There is one thing that came to mind as everyone was talking about accountability. Yesterday the Postmaster General and the Deputy Postmaster General had to fly to Chicago to take a look at a mess that was going on in Chicago and swear on a stack of Bibles that things were going to get better, and I think that when we talk about service decrements we need to be mindful that its impact on the general citizen really is probably something that the Postal Service is still going to have to be
responsive to.

We've talked about involving all of the different bodies, the Postal management, the Postal Regulatory Commission, but we haven't said much about the OCA, and it could very well be that one of the roles than an OCA could play in the future is somewhat akin to the role that Postal Watch plays in the UK, and that is it is the watchdog of the quality of service that is rendered to the general populous, and if it played that role effectively it probably could serve as the trip wire for when things were not going the way they were supposed to go in order to be able to provide universal Postal service. So that's just a thought.

MR. TAKIS: Thank you. Any other thoughts form the audience? Next steps at all? I'll throw this question out. Would people generally like to see more of these types of events? Maybe different venues? Different approaches to them?

MR. LAMM: Yes. I think James' suggestion was San Francisco.

MR. TAKIS: Yes.

MR. LAMM: Is that right? Is that what you were suggesting?

MR. WEST: Yes.
MR. LAMM: We come to you.

MR. TAKIS: No more comments from the field?

Okay. Well we've come to the end of a long day, and I appreciate everyone's participation and patience and hard work in the day. I want to make sure everyone understands that in your folders that you received today when you checked in there's a number of different ways to communicate more on these types of issues, in addition to any future summits that the Postal Service and the PRC might choose to have.

There's an email address in your folder that is summit0307@usps.gov, and I'll let you take a look at that in your folders, where the Postal Service is encouraging folks to give feedback on various topics related to today's discussions, and to think about any of the issues that have been raised today, and those will be shared I understand with the Postal Regulatory Commission as well.

And we'd also like to encourage you to regularly visit the PRC website, which is www.prc.gov, because there will be ongoing updates as the Postal Rate Commission has done for many years about its activities and various things that it's doing along the way. And then certainly the Postal Service's website at www.usps.com will also contain updates to

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it as well. So please stay tuned for more
information.

But before I end today I'd like to thank a
few people here that have been very instrumental in
putting together the conference today and to certainly
Steve Kearney and your team, and Steve Sharpton from
the Postal Regulatory Commission. Thank you all very
much, and thank you for having me today. I appreciate
it.

I also want to thank Connie Totten-Oldham
and her team, which there’s many different people here
from the Postal Service working with Connie on putting
together the overall summit today, making sure
everything has gone fairly smoothly, making sure we
had a wonderful lunch, and also making sure the
weather was good today. So we’ll give her the credit
and thanks. Thank you all for your participation.
Have great trips home, and be very safe. Thank you.

(Whereupon, at 4:28 p.m., the meeting in the
above-entitled matter was concluded.)

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REPORTER'S CERTIFICATE

CASE TITLE: Meeting Customer Needs
SUMMIT DATE: March 13, 2007
LOCATION: Potomac, Maryland

I hereby certify that the proceedings and evidence are contained fully and accurately on the tapes and notes reported by me at the summit in the above case before the Postal Regulatory Commission.

Date: March 13, 2007

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