

OFFICIAL TRANSCRIPT OF PROCEEDINGS BEFORE THE POSTAL REGULATORY COMMISSION

SUMMIT MEETING - POSTAL)
CUSTOMER NEEDS IN A CHANGING)
REGULATORY ENVIRONMENT)

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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

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.

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

P R O C E E D I N G S

(9:00 a.m.)

1
2
3 MR. TAKIS: Thank you for all coming here
4 today, and welcome to the U.S. Postal Service and the
5 Postal Regulatory Commission's Summit Meeting on
6 Meeting Customer Needs in a Changing Regulatory
7 Environment. Thank you all for coming today. My name
8 is Bill Takis, and I am a partner with IBM's Global
9 Business Services located here in Washington, D.C.,
10 and I am very pleased to be your moderator for the day
11 today.

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

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

1 will be taking in the future.

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

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

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

1 products.

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

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

16 So let me introduce our first two speakers.
17 Mr. Dan Blair is our first guest, and he was recently
18 appointed by President George W. Bush as the very
19 first Chairman of the Postal Regulatory Commission.
20 Mr. Blair comes to this position with a long history
21 of service to the American people, including extensive
22 experience in the Postal and the Civil Service
23 sectors. Most recently Mr. Blair served as the Deputy
24 Director of the U.S. Office of Personnel Management
25 where he was responsible for many different reform

1 efforts, and he also testified before Congress on
2 issues concerning pensions and health benefit
3 liabilities affecting the Postal Service.

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

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

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

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

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

22 Eleven days ago Jack Potter and I had the
23 chance to speak at a program on Postal reform hosted
24 by the American University School of Public Affairs.
25 Jack identified what I believe are some key concepts

1 that we should remember as we implement Postal reform.
2 First, Congress approved the new legislation to enable
3 the Postal Service to continue to evolve to meet the
4 needs of the American public. By any reasonable
5 measure, the Postal Reform Act of 1970 was indeed a
6 success. That law took politics out of the Post
7 Office and directed it to operate like a business.
8 The Postal Service has done that, and it's improved
9 service while becoming financially sound.

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

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

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

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

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

23 If everyone waits and in fact keeps their
24 powder dry, the opportunity for dialogue will pass.
25 We have a deadline. Congress gave the Commission 18

1 months to enact implementing regulations, and we will
2 meet that deadline. This raises a question I would
3 like you all to think about today. Why 18 months?
4 The House bill allowed 24 months, while the Senate
5 bill gave us 12 months. As a compromise, the
6 Congressional negotiators agreed to 18 months.

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

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

25 Again the question is: Does it make sense

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

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

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

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

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

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

20 Well good morning everyone. It's great to
21 see so many familiar faces. I looked around the room
22 and I said to one of the people, this is like a who's
23 who of the Postal Service. Maybe it's not that.
24 Maybe it's a who's who of the people who participate
25 at the Rate Commission. So welcome to everyone today.

1 I think the fact that we have so many people
2 here shows that you are all interested in what's going
3 on because it's so critical to the future of the
4 Postal Service, the mailing industry and everybody in
5 America because everyone in America receives mail, and
6 I don't think you would be here otherwise. If this
7 wasn't an important event, you wouldn't be here. The
8 fact that you're here shows that there's a willingness
9 on the part of all to work together, to develop
10 solutions that work for everyone.

11 I want to just take a moment to thank Dan
12 Blair, Chairman of the PRC, the other Commissioners,
13 Commissioners Hammond, Goldway and Acton, for being
14 here, and to recognize George Omas, dear friend,
15 because of the fact of the approach that they're
16 taking here. Very open minded. Willing to partner.
17 Willing to listen to everyone because it is a new day.

18 You know the Congress has laid down a path
19 for us but in the process there was a lot of wisdom to
20 what they did. You know not every I is dotted, not
21 every T is crossed because I think it's recognized
22 that the best people to make the decisions about the
23 future of the Postal Service are those that in the
24 business, the Rate Commission, you folks here in the
25 industry, the Postal Service. We need to collaborate,

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1 and I think that's the message of the law.

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

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

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

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

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

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

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

24 We recognize in the Postal Service that you
25 know we have in effect a monopoly on paper products,

1 letter and flat mail, but that monopoly is challenged
2 by the internet. So we need to recognize the monopoly
3 today isn't what it was in 1970, when the old law was
4 put in place. So we do need additional flexibility.
5 Flexibility to work with customers. Very proud of the
6 fact that we had negotiated service agreements and
7 very grateful to the Rate Commission -- and notice I
8 used Rate Commission -- Rate Commission for the work
9 that was done to break through and to get this concept
10 that when a partnership can work to the better of
11 everyone, we really need to embrace that.

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

19 As Dan said, the time for a discussion is
20 now. You know don't look back six months from now and
21 say to yourself, gee, how did they make that decision?
22 Well if you don't step up and you don't participate,
23 then in the future you need to look in the mirror if
24 you're not satisfied with the outcome because nobody
25 had the benefit of your input. And so I look forward

1 to today's session. I think it's going to be a
2 building block for future dialogue.

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

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

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

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

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

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

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

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

19 And third we're going to be hearing from
20 various industry participants around designing
21 flexible and customer responsive regulatory regimes.
22 As Mr. Blair pointed out before, that's going to be a
23 very important part of what the Postal Regulatory
24 Commission is going to be doing over the next several
25 months and into the next few years, and our panel

1 today will be addressing some of those types of
2 issues.

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

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

22 The way we're going to run the panels today,
23 as I said before, is designed to elicit as much
24 audience participation as we can in a group of 300
25 people, and the way that we're going to do that is

1 I'll start off the conversation with a few brief
2 comments in each panel, and I'll keep them very brief,
3 then I'll go through and introduce the panelists, and
4 then ask an introductory question, and allow them to
5 make essentially an opening statement around a very
6 general question.

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

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

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

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

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

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

4 In addition, the Postal Service can change
5 its pricing structure and still create new products
6 and services within the market dominant basket with
7 the PRC having determination to the degree and the
8 process by which this will occur over time.

9 Therefore, the Postal Service will retain flexibility
10 to offer varying products and prices within the market
11 dominant category that reflect the differences in
12 product features and customer demands and usage and
13 needs.

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

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

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

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

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

25 To her left is Mr. Lou Milani. Mr. Milani

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1 is the Senior Director in Publishing Operations and
2 Business Affairs at Consumers Union, the nonprofit
3 publisher of *Consumer Reports*. He has over 52 years
4 of service to Consumers Union, where he's focused on
5 the distribution of CU's information products, a
6 responsibility that has fostered decades of close
7 relationships with the Postal Service.

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

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

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

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1 and he's currently serving as its Vice President.

2 Please join me in welcoming Mr. Steve Laserson.

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

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

25 Looking at it from a CEO's perspective of a

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1 company that mails around 120 million catalogs a year,
2 probably two or 300 million flats and standard
3 letters, you know we can only succeed in our business
4 if we work together. It's all about creating a
5 win-win. I was sitting in my room last night -- and
6 the room is very small, I didn't have much else to do
7 -- trying to condense the speech that my staff had
8 written, and I said, you know at the end it's pretty
9 simple. It's all about creating a win-win.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

1 you.

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

7 MS. BERENBLATT: Well Bank of America mails
8 about a billion dollars worth of postage in the U.S.,
9 and that's 3.3 billion pieces. In Europe and UK and
10 Canada, we mail about 442 million pieces that's about
11 \$133 million, translated to American dollars. So
12 we're big.

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

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

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

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

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

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

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

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

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

1 any meaningful sense.

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

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

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

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

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

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

25 So we decided we had to have a pay website.

1 Well it hasn't hurt the magazine, *Consumer Reports*.
2 *Consumer Reports* has grown. It is now I think it's
3 4.3 million paid subscribers, the magazine. Of course
4 the website is 2.7 million paid subscribers. On the
5 website though over 25 percent of the subscribers to
6 the web end up taking the magazine too. So there's
7 opportunity in websites, and we have to remember that.

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

15 Okay. And we pay postage on about 219
16 million pieces of mail. It's broken down to about 12
17 million on first class, 70 million on periodicals and
18 137 million on standard mail. I have always enjoyed
19 working with the Postal Service for a lot of reasons.
20 I'm financially you know tuned, and for every penny
21 decrease that you can get you know, every penny
22 increase you can get from postage it turns into \$2
23 million to CU's bottom line. The other side of the
24 coin, for every penny more it costs it takes away \$2
25 million from the bottom line.

1 The secret is not so much taking away or
2 adding but efficiency is what you get for the money
3 you spend, and working together with the Postal
4 Service you know we have over the years made our
5 Postal course much more efficient. When I joined CU,
6 you know our subscription base was approximately
7 400,000 subscribers. Today all our products,
8 including *Consumer Reports*, is over eight million
9 subscribers. We could not have done that without the
10 Postal Service.

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

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

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

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

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

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

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

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

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

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

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

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

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

1 But it is not only our direct interests of
2 course that benefit from this. The greeting card
3 industry represents a significant portion of the mail
4 stream. In fact, we estimate that of the in excess of
5 40 billion pieces of single piece first class mail
6 sent each year at least 10 percent is comprised of our
7 industry's products.

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

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

24 I would encourage the Postal Service and the
25 Commission to consider this flexibility in its widest

1 sense and use it to better meet the varying needs of
2 its customer segments and the use indications within
3 each segment. I believe it is incumbent upon the
4 Postal Service to develop a genuine understanding of
5 these needs and apply this understanding to rate
6 setting, rate implementation and service levels.

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

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

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

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

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

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

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

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

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

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

23 MS. BERENBLATT: Into the customer
24 relations, yes.

25 MR. TAKIS: How about other thoughts?

1 Steve, do you have any thoughts on that issue, and how
2 to promote industry growth and have a financially
3 viable Postal Service as you go forward?

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

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

21 In fact, we believe this is probably its
22 most valuable intangible asset, and it's the ability
23 to bring that gratifying mail moment to every
24 citizen's doorstep each year that has allowed
25 advertising mail to be such an effective medium. I

1 would argue that it will continue to be such an
2 effective medium only to the extent that personal
3 communications continue to be a part of the overall
4 mail stream.

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

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

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

25 Many businesses in the direct marketing

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

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

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

22 I have seen in other countries where Post
23 Offices have failed to deliver and had increases to a
24 point where it was more expensive for me to mail the
25 book than to buy the book. The product was suddenly

1 secondary, and the mailing costs for example in Canada
2 is higher than for me printing the books. You know
3 this puts me out of business as simple as that.

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

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

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

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

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

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

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

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

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

16 MR. LASERSON: Seasonal pricing in that
17 sense is something from a citizen mailer standpoint
18 we'd consider pretty dangerous. We know that Christmas
19 time for example is the time when it's very important
20 for folks to keep in touch and maintain contact with a
21 wide network of people, and anything we can do to
22 encourage rather than discourage that wide network I
23 think pays dividends throughout the year. So we have
24 a different perspective from a first class
25 perspective.

1 MR. TAKIS: Jody, do you have a comment?

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

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

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

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

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

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

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

21 But there might be ways and that's why I
22 said you know it's really important that we start
23 working closer together, and the Post Office
24 understands what each group needs. We have different
25 interests here. I think we will be able to find

1 something that is probably a really good compromise
2 and brings us ahead.

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

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

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

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

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

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

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

25 MR. MILANI: I think everyone at this table

1 probably has thoughts on that but no doubt about it.
2 That's why for the last few years, four or five years
3 I guess it has been, it's been nice. It's never easy
4 to take increases in anything but it's been not very
5 hard to live with the Postal Service and their
6 increases in the last five years because they have
7 been you know predictable almost you know.

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

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

25 MR. TAKIS: So you would applaud in the

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

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

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

13 MR. MILANI: Sorry.

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

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

25 I mean it becomes more and more obvious that

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

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

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

22 MR. STOVER: We've got one marketer up
23 there, and I would hope that as we go through this
24 process we will not dwell exclusively on what I would
25 call operational concerns, predictable delivery, a day

1 of the week delivery and so on. What may be missing
2 and what I hope we can fill in during the next 18
3 months is some sort of awareness from the people who
4 are actually driving the marketing decision within
5 their companies.

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

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

1 innovation is also provided to the Postal sector.

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

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

11 MR. TAKIS: Okay.

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

24 If we're going to grow and make money, we
25 need to understand those customers and how they want

1 to relate to us. So I think that there's a
2 significant resistance on the part of banking
3 customers to go completely online, and I think that
4 it's not entirely necessary for us to take that route.
5 It's not a black and white world.

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

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

24 MR. TAKIS: Let me ask a quick follow-up on
25 that. Should the Postal Service then lead the way in

1 this area? Should it respond more to your needs in
2 that area? Where should the Postal Service and the
3 PRC sit on that?

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

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

20 MR. TAKIS: Lou, how about you on this
21 question? Because when you introduced your topic this
22 morning you talked about how Consumers Union uses the
23 web, it uses direct mail and it uses your magazine or
24 your other publications for information. So you have
25 a unique view.

1 MR. MILANI: Well I could say a moment.
2 It's difficult. I can understand you know the
3 marketing end sitting out, but you know when you're
4 shipping things out, that's difficult to say what's
5 the alternative you know about not using the Post
6 Office. But anyway, we do use the web and the Postal
7 Service together. We promote the web by direct mail.
8 We get our subscribers. We found that it works better
9 than promoting it on the web. We do both though.

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

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

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

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

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

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

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

25 Ideally we would like to have both but I

1 think it depends on the outcome of what is going to
2 happen this Postal reform and how close we can work
3 with the Post Office because if we do what we have
4 been doing over the last few years and just keep on
5 raising prices, you know we will mail less and less.
6 This is the reality.

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

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

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

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1 question from over here.

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

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

25 You know I understand that a government body

1 like the Post Office needs some transparency, and I
2 think that we have to sit down and I would suggest we
3 do that between maybe some industry associations and
4 the Commissioners and try to figure out how we can
5 make sure that the system is fair and makes sense for
6 the larger community. I think it can be done.

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

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

19 MS. BERENBLATT: Well I couldn't possibly
20 disagree. I think the primary difference is that
21 financial institutions are regulated by law to put
22 things in the mail. So while Markus is put with the
23 threat of going out of business if things aren't
24 balanced in a business-like way, we probably have a
25 threat of a loss as opposed to going bankrupt.

1 MR. TAKIS: Okay. We have another question
2 in the center.

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

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

19 MR. LASERSON: Well on a related note, you
20 know whatever that time lag is, I'll talk a little bit
21 about the complaint mechanism because I think whatever
22 process is put in place for the complaint mechanism it
23 looks pretty likely that the opportunity for that
24 complaint will come in after rates are put into
25 effect.

1 So for us you know I don't know that there
2 will be a long enough lag to allow for the complaint
3 mechanism. That's why we changed the system but it's
4 very important for us that that complaint system be
5 robust, transparent and effective, and it's really
6 important that smaller mailers, in particular
7 especially as small as household mailers, have the
8 opportunity to get transparency that they'll need to
9 bring forth complaints.

10 MR. TAKIS: Lou, any thoughts on that?

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

20 If we could change that in six weeks that
21 would be great but it'll probably take six months you
22 know. You have to go out there and test packages to
23 see which one works because like he said, the most
24 expensive package is the one that doesn't work you
25 know but at the same time, if you get a 25 percent

1 increase in your main package that you said was
2 dynamite it might not be dynamite after a 25 percent
3 increase in the Postal rates. So timing it should be
4 time as far as in advance as possible. Like I said, I
5 think six months is minimum.

6 MR. TAKIS: Any other thoughts? Markus?

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

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

21 It's possible that the regulations could be
22 implemented in an entirely different timeframe than
23 the rates, and it's also not clear to me what a
24 communication process is around that. Right now we
25 have an extremely formal process to understand what

1 the changes will be, and unfortunately we're back into
2 the weeds of operations here but it's not at all clear
3 to me what the process will be for the Postal Service
4 to notify the industry that there will be changes in
5 terms of mail preparation, and it also isn't clear how
6 customers will be able to communicate back to the
7 Postal Service, and how customers -- whether they're
8 business customers or citizen customers -- will be
9 able to make an impact on what is proposed by the
10 Postal Service unless we have a really good
11 relationship.

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

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

25 MS. BERENBLATT: Absolutely. We need to

1 understand what the process is. I don't know that we
2 know how to think about what the process is as
3 customers. We certainly need a lot of time to make
4 changes to our operations. That's the nature of
5 operations.

6 MR. TAKIS: We have another question. Alan.

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

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

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

22 MR. MILANI: If I understand the question
23 correctly it's what the PRC has to learn. Well I
24 think first of all I think that the Postal Regulatory
25 Commission you know intentions were very you know were

1 good. You know I think what they were trying to do is
2 cost out as best they could the actual costs of
3 delivering a certain type of mail, size you know,
4 class and all that.

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

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

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

1 meetings like this. Yes.

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

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

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

23 We have a lot of employees, and I'm
24 responsible for buying paper, for paying the postage,
25 all of the printing, color separations and right down

1 the line. We mail two to three, sometimes four
2 million catalogs a month, and the price pressure is
3 for us very real. I think there needs to strongly be
4 considered the price elasticity between the first
5 class and the standard mail as far as volume loss.

6 If there's a penny increase in first class,
7 what happens to the volume of mail versus if there's a
8 penny increase in the standard mail, what happens to
9 that volume? I can't speak about other people but I
10 know that in the last 10 years ours has gone down by
11 50 percent.

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

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

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

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

11 Thanks.

12 MR. TAKIS: Thank you. Very interesting.
13 Markus, did you have some response to that?

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

21 I think this goes without saying but I think
22 the focus has to change. The focus has to change just
23 on from reducing cost to also growing revenue, and
24 that's why I made proposals that you know we can talk
25 about like seasonality or days of the week or auction

1 off excess capacity. Why not? You know a printer
2 would do that. Television stations, magazines,
3 everybody. If you have excess capacity, you auction
4 it off.

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

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

22 This is what we would do as a commercial
23 organization, and I think that's why at the end NSAs
24 will not be comparable. I think it's fair, and I
25 think it has to be evaluated on a case-by-case basis,

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1 and then we can avoid these hardships that we
2 currently have. But we have one shoe that has to fit
3 everybody.

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

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

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

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

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

18 MR. RUTHKOSKY: If you could you would.

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

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

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

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

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

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

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

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

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

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

20 There must be some rationale why they left
21 it that way so they can get maybe 1 percent in you
22 know one area. You know discounts for moving it
23 around or something. And moving one area up 3 percent
24 but overall so the average is two and a half percent.
25 I think that question probably should be explained by

1 the Postal Service.

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

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

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

23 MR. LASERSON: Yes. For the consumer it's a
24 little different though because predictability to the
25 consumer if you look historically over the last 30

1 years rates have increased every two and half to three
2 years. So what consumers consider predictable isn't
3 that regular. So if it were to change from every two
4 to three years to every year, that would actually be a
5 shock in a different way I think on the consumer side
6 because what they have become accustomed to.

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

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

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

24 MR. TAKIS: Can you tell us who you are?
25 Thank you.

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

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

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

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

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

13 (Whereupon, a short recess was taken.)

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

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

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

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

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

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

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

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

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

20 So what I'd like to do now is introduce the
21 various panels that we have here, and we're honored to
22 have here today up in Potomac. To my immediate left
23 is Julie Swatek, and Julie is the President and
24 founder of Scrap Your Memories, Inc., which is the
25 parent company of a popular ecommerce site that

1 specializes in vacation, sports and military theme
2 scrapbooking supplies.

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

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

25 To Rick's left we have Mr. Ty Taylor, who's

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1 a Manager, Marketing Transportation and Postal Affairs
2 for JC Penney logistics. In his position he manages
3 the distribution for all retail and catalog direct
4 mail advertising, national reprint programs, as well
5 as catalog distribution. He's also responsible for
6 tracking direct mail events through the Postal network
7 and utilized confirm services extensively to assist JC
8 Penney in receiving timely in-home delivery.

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

13 And to Ty's left, we have Mr. James West,
14 who is a Director at Williams-Sonoma. Mr. West has
15 served on Postal and Government Affairs for
16 Williams-Sonoma since 2004. He joined the company's
17 catalog group more than 30 years ago, growing its
18 circulation to over 380 million catalogs annually in
19 2006. Mr. West is also active in various mailing
20 industry groups, including the MTAC FSS work group.
21 Please join me in welcoming Mr. James West.

22 So just as a reminder to the audience we're
23 going to do the same format. So I'll ask an
24 introductory question of each of the panelists but
25 again we'd like to encourage as many questions as we

1 can from the audience. So please line up when you
2 have the questions.

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

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

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

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

1 prices we can't be in business.

2 I kind of had to chuckle to myself when
3 Louis was talking about his one penny and costing him
4 \$2 million to the bottom line. That's more than my
5 revenue a year. So while although the costs hit them
6 hard, I would say that they probably hit us smaller
7 people a lot harder than they do you because it's a
8 lot larger percentage of our revenue.

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

17 They've made me a custom box that's just
18 special just for me which quite honestly I've been
19 able to because of that I've hired a publicist, and
20 I've been able to cobrand that box with the largest
21 leader in my industry that I'm now going to be able to
22 go to different conventions throughout this year and
23 have access to anywhere from 60 to 80,000 people to
24 talk about my business and my industry and the Post
25 Office and how those people mail those packages.

1 So I would just say that again not really
2 having known much about the Postal Reform Act prior to
3 getting here, I just am so happy to be part of this
4 discussion to make sure that everybody is a win-win as
5 he said earlier going forward.

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

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

21 I was traveling from Richmond, Virginia
22 where I work out of our regional office there, and
23 stopped at a very large USPS customer, and they gave
24 me a tour of their facility, and I think he was
25 expressing to me some of the flexibility and some of

1 the I guess enhancements of even their sales resource
2 that was calling on their account that certainly they
3 had been able to reduce some cost areas but also it
4 seemed like a partnership.

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

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

21 There are really only a couple of drivers of
22 discount programs with the integrated carriers today
23 and that's package characteristics and marketplace
24 conditions, and certainly I think through the Postal
25 reform and the concerns that have been expressed

1 earlier I think the Postal Service is trying to
2 position themselves to be a more customer friendly
3 solution to clients today. So we're seeing that in
4 the marketplace.

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

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

17 You know we feel at JC Penney -- I'm sure
18 many other customers in this room -- don't pay list
19 price when you're going out to other carriers, and
20 that's a big important factor that we'd like to touch
21 base on is not only do we want to get competitive
22 pricing but it might have to be based by customer, and
23 as well you know we feel that this service has to be
24 comparable, not just the cost but we have to get the
25 service that we do feel we deserve and we'll pay for.

1 MR. TAKIS: Thank you, Ty. James, how about
2 you? Williams-Sonoma, your use of the mail stream,
3 and how do you see the Postal reform legislation
4 affecting your business?

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

12 MR. TAKIS: Right.

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

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

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

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

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

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

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

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

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

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

1 key for the Postal Service to build on. Build a
2 structure around really bringing that up to you know
3 kind of a good competitive standard you know.

4 So the category is really that competitive,
5 and that's what it boils down to. You're going to
6 have to be competitive with everybody else in the
7 marketplace.

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

20 MS. SWATEK: You know I've thought a lot
21 about this question, and I've heard a lot of people
22 price, price, price, price, price, and I would have to
23 say that I tend to disagree with that. You know I'm a
24 pure play internet person. I don't have a catalog.
25 I'm not multichannel, and in my world you can choose

1 to be the low cost provider and compete with WalMart
2 and go out of business or you can pick another
3 differentiator.

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

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

23 But there was a particular day a little over
24 a year ago where because there is no tracking and you
25 know capabilities that I had numerous packages lost in

1 one day, and so I was quite aggravated with the Post
2 Office to be quite honest with you, and I sent an
3 email out to my customer database and asked them, okay
4 well I was going to switch to UPS because I was done
5 with the Post Office. I was tired of having packages
6 lost. I was just in a bad mood that day. Don't take
7 it personally.

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

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

1 Office.

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

8 MR. TAKIS: Interesting.

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

21 MR. TAKIS: It's interesting that it's not
22 just the shipper's choice but then your end customer's
23 choice too. Interesting. Rick, how about you? When
24 you're advising your clients on what service they
25 should use, what competitor they should use, what are

1 some of the key attributes that they're thinking about
2 in either increasing their use of U.S. Postal Service
3 products or even just maintaining what they've got,
4 like Julie just answered?

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

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

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

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

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

17 Even though they do even a scanning job, the
18 percentages are low, the numbers are so high that it
19 becomes a fairly significant number. When you're
20 competing against the integrated carriers, you know I
21 think most of them tout that they are the technology
22 leader in their specific industry, and for the purpose
23 of this small package industry and for Priority mail
24 and for the parcel post piece and I think it's going
25 to be critical that they improve on the B to C type

1 from a tracking and tracing and basically this will
2 give the information that Julie needs to tell her
3 clients for even those few days that explode that you
4 don't have that information. It's just critical.

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

7 MR. COLLINS: Service and technology.

8 MR. TAKIS: Technology.

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

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

24 MR. TAYLOR: Yes.

25 MR. WEST: You can to first.

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

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

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

1 for us, and that hinders us operationally.

2 You know and that's just one example.

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

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

20 MR. TAYLOR: Good point. Very good point.

21 MR. TAKIS: Gene, you have a question?

22 MR. DEL POLITO: Yes, I do. Before reform
23 passed when the Postmaster General had to announce
24 where they were going to be going strategically he
25 made mention about the fact that he didn't think that

1 the Postal Service ought to try to out UPS UPS or out
2 FedEx FedEx, and as a matter of fact, the world has
3 changed considerably and we now see that both FedEx
4 and UPS are partners with the Postal Service at least
5 on the transportation side.

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

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

25 In other words, how should the roles be

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

7 MR. TAKIS: That's an excellent question.
8 Rick, do you want to take that question first?

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

25 They see that in their costing model as if

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

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

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

22 MR. WEST: Yes, I can expound upon what Rick
23 just said a little bit because we're using some
24 integrated service for delivery of some of our
25 packages right now. It's probably only 100, 120,000 a

1 year but first off, yes, we have that loss of tracking
2 in the last mile. You mentioned Mail Innovations,
3 which is the partner we have in this, and I'd like to
4 see some sort of partnership between USPS and Mail
5 Innovations to speed up the process.

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

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

20 MR. TAKIS: Ty, do you have --

21 MR. TAYLOR: I agree with what they've said.
22 The only thing I could add is you know we do have a
23 good relationship with our carriers and the Post
24 Office, and they work well together. We do need to
25 come up with something. Our online business two years

1 ago surpassed a billion dollars. This year it's at
2 \$1.3 billion. So it's only going to grow hopefully
3 for us and for you as well. So we'd like to have
4 another option to be able to deal with those packages.

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

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

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

23 I mean you know everybody has been in a
24 brainstorming session where you know somebody has an
25 idea and somebody has that idea, and you know by the

1 time you're done the idea is so much better than
2 anybody by themselves could have come up with. So I
3 think that regulatory wise they need to allow that
4 conversation to keep happening so that you know the
5 innovation can continue and things that never were
6 thought of 20 years ago, the things that are going to
7 be five years from now, nobody's even thought of yet,
8 and we need to allow that to happen.

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

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

13 MS. SWATEK: Thank you.

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

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

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

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

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

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

1 consideration.

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

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

21 MR. TAKIS: Again, that echoes some of the
22 comments in our earlier panel. Ms. Jody Berenblatt
23 talked about that with regards to clarity of that
24 communication and how that goes. So that's a good
25 point. Rick, how about your clients? Do they see

1 that?

2 MR. COLLINS: Yes. I want to comment a
3 little bit about the integrated carriers. I think
4 most of you who use UPS, FedEx, or DHL experienced
5 probably one of the largest, the largest increase in
6 the past 10 years in January, and you know for most
7 companies if any of you are involved in budgets and
8 planning, most of the time it's based on a calendar
9 year and not a fiscal year.

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

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

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

1 some of it's as shared this morning I think with
2 Taylor Gifts was certainly a huge impact to his
3 company as an individual, and so when you look at the
4 implications of that I think that if there is some
5 moderation in the increases over a period of time.

6 I think I understand the Postal Rate
7 Commission, what their desire is, and try to get this
8 to a place of profitability, but in the same token for
9 the unexpected hit on bottom lines many companies will
10 seek alternatives at that point because they have to
11 survive in the marketplace, and so you know even
12 though the integrated carriers this year made large
13 increases, I think the timing of that, I think the
14 timing of the Postal increase and what that means to
15 their bottom line it has to be in incremental sections
16 that can be measurable and they can manage so the
17 expectancy doesn't hit them and their company suffers
18 greatly on the bottom line.

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

23 MS. SWATEK: Well it's a little different
24 for me because the first I ever find out about it is
25 like way after all you guys have discussed it all, and

1 you know when I was listening to the panel earlier
2 talk about they couldn't make it happen I was thankful
3 for my nimbleness as a much smaller company because
4 it's just like one computer I have to go change, and I
5 can make a change in a much smaller, shorter period of
6 time than they can.

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

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

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

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

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

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

1 MR. TAKIS: I understand. I'm sorry.
2 Please. James, you go first.

3 MR. WEST: Just one moment. Two things I'd
4 like to respond in terms of what Julie just said.
5 First, you found out about the increase you know like
6 it seems like after everything was all said and done,
7 and I think that's extremely unfortunate, and there's
8 been a lot of frustration under my people you know
9 that are really involved in the industry, and Gene's
10 done a good job of you know putting what he feels out
11 there, and I agree entirely.

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

23 MR. TAKIS: More communication.

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

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

9 MS. SWATEK: Shopping cart abandonment.
10 Nobody wants to talk about it.

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

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

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

25 MR. TAKIS: Can you introduce yourself?

1 MS. MUTH: I'm Kate Muth with PostCom, and
2 I'm usurping my boss at the moment.

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

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

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

19 MR. TAYLOR: Yes. Guaranteed we would like
20 that. But on the direct mail, basically you know we
21 can't really do anything about that but with the
22 parcels, definitely. We feel that they probably are
23 losing out because they're not able to come in and
24 negotiate a rate with us. It's unfortunate but I
25 think it's the world that we live in today. So if

1 that does change, then I do feel that they might have
2 at least a window of opportunity to come in and speak.

3 MR. TAKIS: James.

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

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

19 MR. TAKIS: Sure.

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

22 MR. TAKIS: Yes.

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

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

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

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

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

23 MR. WEST: How do you do that?

24 MR. TAYLOR: Good products.

25 MS. SWATEK: One thing that I would like to

1 say though to speak to the issue of guarantee,
2 apparently you know I'm also here as like the you know
3 consumer advocate person but you know if you think
4 about somebody's got to be there to get the package,
5 and especially with some of the carriers like if
6 you're not there to sign for the package they won't
7 leave it for you, and the vast majority of people are
8 not home during the day.

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

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

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

4 MR. TAKIS: Good point. Gene?

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

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

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

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

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

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

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

16 MR. COLLINS: I can only speak on the
17 private sector but certainly there is, in my opinion,
18 certainly a high accountability on regards to just
19 take for the guaranteed service refunds. If we don't
20 deliver, we pay, and so there's mechanisms that the
21 carriers even provide to the customers. There's
22 internal software that both for example UPS, FedEx and
23 DHL provide their customers that gives them
24 information about their deliveries, both inbound and
25 outbound, whether it's on time or it's not on time.

1 So there's definitely an accountability tool
2 that's in place. Not every business out there or
3 consumer takes advantage of that but it certainly is a
4 high standard that's been set for the industry as a
5 whole. So I think the private sector certainly has
6 set the bar on expectations for in that particular
7 case guaranteed service refunds or on-time delivery.
8 Even in all products even including ground products.
9 So it's not just express products. It's priority.

10 MR. TAKIS: Ty, how about you?

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

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

20 MR. TAYLOR: It does happen just like any
21 other supplier that we deal with. We call them
22 supplier charge backs. It does happen but like Rick
23 was saying, their percents are so high we'll work with
24 them. It's not just if you didn't deliver it, this
25 one package, then we're going to charge you. If it's

1 a consistent issue, back to consistency, maybe a
2 consistent region or however you might want to split
3 it up, then certainly we would get into monetary
4 penalties but we're going to try to resolve those
5 issues between the companies first.

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

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

24 MS. GOLDWAY: And what I hear you saying is
25 that the standard is not just the standard but meeting

1 the standard has to occur 98 to 99 percent of the time
2 to really meet a competitive marketplace.

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

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

20 MR. TAYLOR: It would almost be a leap of
21 faith for you. You know it would be something that
22 the Postal Service would have to get all the
23 operations in place, all the lanes set up, all the
24 logistics of it, get the people in line, and then say
25 we have to have faith in what we just set up, and then

1 be held accountable just like the other players do.

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

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

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

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

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

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

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

24 MR. STOVER: David Stover again. Greeting
25 Card Association. I wanted to raise a question about

1 the relationship between the competitive and market
2 dominant sectors. Mr. Takis pointed out in his
3 introduction that the competitive services as a group
4 have to make a contribution to institutional cost,
5 individually they have to cover attributable costs,
6 and I would be interested in hearing if the panelists
7 have any views on this question.

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

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

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

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

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

17 MR. COLLINS: Right.

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

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

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

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

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

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

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

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

18 MR. TAYLOR: And you would have people on
19 both sides monitoring the rates. You would be making
20 sure that the Postal Service would charge us the
21 correct rates, and we would be making sure that we
22 were charged the correct rates, and everybody has
23 their rate sheet in front of them, and that's what you
24 live by. But it would be different for me, for James,
25 for Julie.

1 MR. STOVER: It sounds as though one thing
2 that might be being suggested here is that many of
3 these contracts might be put together from modules of
4 service with certain fairly closely defined
5 characteristics where the Postal Service has been able
6 to say, okay, we know what this particular operation
7 will cost, and if you need it this is what we're going
8 to write into your contract.

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

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

1 recovery and contribution?

2 MR. COLLINS: I guess I will say this. I
3 know from each of their contracts they have with the
4 integrated carrier they're all confidentiality clauses
5 in there that protect both the carriers and them
6 sharing information. It's just there for you can't
7 get up and exchange one contract for another and say,
8 I've got a better one to five pound rate than you do.

9 I mean it's customized for that reason but I
10 think, David, going back to your question, there has
11 to be a way that if the Postal Service is going to at
12 some point offer customized agreements on a product,
13 say a Priority product, they're going to have to be
14 able to model that based on a costing side that's both
15 profitable and also at the same token be competitive
16 in the marketplace, and that only comes through
17 understanding package characteristics and having a
18 group that does that in your pricing group.

19 MR. TAYLOR: And at the end of the day,
20 you're not going to agree upon a contract that goes
21 through many different departments with our company as
22 well as the Post Office unless you're comfortable with
23 the rates on both sides. So it will be well agreed
24 upon before Mr. Potter or Mr. Olman or whoever signs
25 the contracts actually put them into play.

1 MR. WEST: And part of the rates would be
2 everybody's respective responsibilities for reporting
3 the cost and everything that's going into it. So
4 everything is agreed to right up front.

5 MR. TAYLOR: The reportings within the --

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

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

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

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

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

4 MR. TAKIS: Very good point.

5 MR. TAYLOR: Well they are both sides of
6 accountability.

7 MS. SWATEK: Right.

8 MR. TAYLOR: We have to deliver the volume,
9 and you have to deliver what -- not you but the Postal
10 Service.

11 MS. SWATEK: Yes.

12 MR. TAYLOR: So it's two-sided.

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

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

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

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

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

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

25 And actually I don't know if you've tried it

1 out lately or looked at it. The Postal Service is
2 reporting really high scores for parcel select. I
3 think running around 97 percent. So you may want to
4 reconsider using parcel select. If you haven't looked
5 in a few years, I think that would be a good way to
6 go.

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

14 The Postal Service I guess because of the
15 small volumes of parcel post that have to be carried
16 around the country is having a lot of trouble meeting
17 its announced targets, its service standards, which
18 run about two to nine days I think. Do you have a
19 feel for whether the Postal Service should simply
20 redefine its standards and say, you know we used to
21 tell you three days between these two points, but
22 really it's going to be more like five days?

23 We used to tell you nine days, but
24 realistically it's more like 12 days. Should they go
25 in that direction, be realistic and state what sound

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

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

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

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

21 MR. TAKIS: Ty, your thoughts?

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

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

4 MR. TAKIS: Julie, your thoughts on that?

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

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

22 MR. TAKIS: Rick, any last thoughts on that?
23 You do? Okay. Great.

24 MR. COLLINS: I just think you have to be
25 realistic and tell the consumer. You know it's

1 interesting in sales. Sales is all about trust.
2 People believe in what you say is true, and if you're
3 trying to sell USPS to consumers, you've got to tell
4 them what the reality of it is, and then seek to make
5 improvements.

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

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

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A F T E R N O O N S E S S I O N

(1:20 p.m.)

1
2
3 MR. TAKIS: Okay. We're going to go ahead
4 and get started. I hope everyone enjoyed lunch as
5 much as I did. One thing I wanted to mention to you I
6 heard some feedback about the panels over lunch, and
7 one question that came my way is why isn't the Postal
8 Service asking a lot of questions or the Postal Rate
9 Commission has now been asking a few questions, but I
10 believe we talked to Steve and others over the lunch
11 break and said, they really want to hear from you.

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

19 So this next panel is on the regulatory
20 issues facing the Postal Service and the Postal
21 Regulatory Commission, and as a group the Postal
22 Service, the Postal Regulatory Commission and the
23 mailing community are going to be working together
24 over the next several months -- as you've heard from
25 Dan Blair and Jack Potter earlier today -- to develop

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1 the final regulatory processes that will govern the
2 Postal Service into the future.

3 In a meeting such as this summit and the
4 proposed rulemaking process that we heard about
5 earlier today and other forums that are going to allow
6 the Postal Regulatory Commission and the Postal
7 Service to develop a framework that meets the overall
8 needs of everyone in the entire mailing community.
9 However, the new legislation -- as we talked about
10 before -- contains many different provisions on how
11 that regulatory framework is going to work, and in
12 particular the forethoughts that I wanted to tee up
13 here today is that the PRC will have the authority to
14 review prices and service performance for
15 noncompliance with provisions in the law and request
16 responses to action from the Postal Service which is
17 an interesting requirement.

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

23 The law also requires quarterly financial
24 reporting containing information required by the SEC,
25 the Securities and Exchange Commission, and any

1 interested persons will have the opportunity to file
2 complaints with the PRC -- we've heard a little bit
3 about that earlier today -- if they believe that the
4 Postal Service is not following the new regulatory
5 provisions, and the PRC has the authority to fine the
6 Postal Service if valid complaints are not remedied.

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

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

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

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

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

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

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

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

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

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

22 And to Ian's left we have Professor Gregory
23 Sidak, who is a visiting Professor of Law at
24 Georgetown University. He's the founding editor of
25 The Journal of Competition Law and Economics, and his

1 work focuses in on antitrust policy, the regulation of
2 network industries, intellectual property, and
3 constitutional issues regarding economic regulation.

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

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

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

1 table have seen a number of instances of major
2 regulatory reform in the past, The Telecom Act of
3 1996, the Staggers Rail Act of 1980.

4 I don't think I've ever seen one that
5 delegates as much of the final decision to the
6 Commission to set the rules as this one. The law does
7 set some outer bounds. Congress clearly did not
8 intend to deregulate market dominant products
9 completely, and it appears that Congress did not
10 intend that the CPI index based price cap would be the
11 only constraint on market dominant products. If that
12 were the case, you wouldn't have factors and
13 objectives in the Act. You wouldn't have the
14 complaint mechanism. You wouldn't have the annual
15 review mechanism.

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

25 Within this broad range Congress clearly

1 intended to give an awful lot of leeway to the
2 Commission to set the rules, and the truth is that if
3 the Commission does a good job of writing its decision
4 it can do an awful lot of range of things that would
5 pass review.

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

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

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

25 But let me give you an example. One easy

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1 way to save money in the short-run would be for the
2 Postal Service to cut its staffing at facilities
3 during Christmas and other peak periods. Service
4 would go downhill. That would save the Postal Service
5 a lot of money in the short-run but the service being
6 provided would be different in quality, and it really
7 wouldn't be the same thing. It would be like offering
8 -- to use an old cliché -- Chevrolet service at an
9 Oldsmobile price, and that really is a disguised rate
10 increase, and the index needs to be adjusted or have
11 some mechanism to take into account changes in quality
12 of what the Postal Service provides.

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

1 shrinks by two ounces.

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

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

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

23 Some of those gains are going to have to go
24 to the Postal Service managers in the form of bonuses,
25 to the Postal Service's workers, and to the Postal

1 Service itself, maybe even to update the furniture in
2 475 L'Enfant Plaza. If you want to have an incentive,
3 the Postal Service has got to keep some of the loot.
4 There's no choice about that.

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

12 I'm just going to raise one issue here to
13 think about that I think is an area of performance
14 that's important enough to continue regulating for
15 below index rates, and that's the promotion of
16 competition. You might say well why am I talking
17 about that? These are market dominant classes.
18 Indeed for letter mail it's a crime to compete in many
19 cases so what are you talking about competition for?

20 Well even for the market dominant captive
21 classes of mail there is still competition for
22 upstream functions like transportation, sorting,
23 acceptance, payment of postage. The one area where
24 there is legal monopoly and arguably natural monopoly
25 is just in the delivery segment, and experience

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

6 And as experience telecom companies in the
7 1980s felt they were lean and mean, and the railroad
8 industry thought in the 1980s it was lean and mean,
9 and the trucking industry before 1980, and if you
10 asked anyone they would tell you the same thing that
11 I'm sure the Postal Service people would tell you that
12 they really have extracted all the low hanging fruit
13 out of the system, and the big cost savings are gone,
14 and they're really pretty much like a committed
15 business.

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

1 recommended decision, the efficient component pricing
2 rule.

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

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

22 MR. TAKIS: Roger, I'm going to ask you a
23 little bit different question because you represent a
24 little bit different constituency here, and that's
25 obviously the view of a major stakeholder in this

1 whole system, and that's the U.S. Treasury. When you
2 take a look at the new legislation, what do you see as
3 the potential opportunities from that perspective?

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

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

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

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

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

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

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

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

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

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

16 Then with respect to self-financing, you
17 would expect the Department of the Treasury
18 representative to talk about that. This was a very
19 important one of five principles that was articulated
20 that was very important to us. I was told by
21 Undersecretary at the time, Peter Fisher, our
22 Undersecretary who attended a meeting early on in the
23 White House with President Bush, and the mention of
24 the very sizable unfunded liabilities connected with
25 retiree health of employees of the Postal Service,

1 nearly \$60 billion at the time, that the President had
2 a wincing reaction.

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

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

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

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

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

24 And lastly, the fifth principle that we
25 articulated was flexibility, and flexibility is

1 connected with to some extent the commercialization or
2 corporatization of the Postal Service's operation. I
3 don't doubt for a moment that there's not incredibly
4 savvy business professionals who are running the
5 Postal Service today. That doesn't even enter my mind
6 as a question mark.

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

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

25 I remember Undersecretary Fisher saying when

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

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

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

23 MR. VOLNER: President Reagan once said that
24 where you stand depends upon where you sit, and David
25 and I have been at this on somewhat different

1 perspectives in a number of agencies. So let me start
2 by expressing some mild disagreement with what David
3 said.

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

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

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

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

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

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

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

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

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

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

20 And the Commission took awhile to figure it
21 out, and they said, whoops. We were overly
22 prescriptive, and they came up with essentially a
23 series of alternatives that the cable operators could
24 use, and almost all of the cable operators have gone
25 to an annual uptick, and I'm not holding out cable as

1 a perfect model of what you should look at because
2 there are separate problems there that fortunately do
3 not exist here.

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

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

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

1 flexibility the Postal Service has.

2 By the same token, the Commission has a
3 terribly important job, and it may be the most
4 difficult that this statute and its ambiguities
5 creates. The Postal Service will violate the statute
6 at some point and in some way as was pointed out.
7 Well there are two points to it.

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

18 But that is the most difficult piece of this
19 exercise. As was commented on earlier this morning,
20 the complaint process is there. I hope it is used
21 sparingly, and I hope the Commission makes clear in
22 its sketch that you've got a heavy burden before you
23 can file a complaint and go through even the only
24 90-day ordeal that the complaint process provides.

25 But what happens when you find that there's

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

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

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

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

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

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

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

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

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

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

20 MR. SIDAK: Sure. Thank you. I sat down
21 and I read through the new Act which taught me a lot.
22 I didn't realize number one how ambitious it is, how
23 complex it is, and I think how potentially disruptive
24 this statute is. Now having said that I think it's a
25 better written statute than say the 1996 Telecom Act,

1 and I think that it probably will be implemented more
2 smoothly than that Act was, but I think it's important
3 to keep in mind that when you write a law that is such
4 a paradigm shift as the others on the panel have
5 mentioned, there will be unintended consequences.

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

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

18 I wouldn't be surprised to see a similar
19 kind of increased workload and regulatory output as a
20 consequence of this new Postal legislation. Something
21 else that of course happened in the telecom industry
22 is that there was a tremendous boom followed by a
23 tremendous bust. So it's important to bear in mind
24 that when you have this paradigm shift in a
25 traditional regulated network industry there can be

1 very dramatic competitive realignments with
2 significant financial implications.

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

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

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

25 With respect to some of the more technical

1 regulatory issues, I think that one of the biggest
2 tasks facing the PRC will be working out how costs
3 will be attributed and how institutional costs, the
4 overhead costs of the Postal Service will be
5 allocated. Fortunately there is already a lot of
6 experience at the PRC on these issues but there's
7 plenty of experience with other regulatory agencies in
8 other network industries, and there's also a very
9 large body of academic writing on this going back 30,
10 40 years.

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

21 With respect to competition policy issues, I
22 think that this new statute is really fascinating. I
23 think that this is one of the wildcards in the
24 statute. It's always been a big issue in the telecom
25 industry, how regulation dovetails with antitrust.

1 Remember the breakup of the Bell system was not a
2 regulatory action. It was an antitrust case.

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

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

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

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

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

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

24 MR. TAKIS: Thank you, Mr. Sidak. Is there
25 a question there? No. Just standing to the side.

1 Well I have a question, and I would pose it to David.
2 If you could respond to some of Ian's comments. In
3 particular, Ian was prescriptive to the PRC around
4 what it should be learning from other regulated
5 industries. I was wondering if you could say a few
6 words about that as well.

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

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

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

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

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

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

21 The railroads and their shippers learned to
22 deal with each other in different ways. Railroads'
23 costs per unit have fallen. Railroads' profits have
24 risen. It's worked well. In contrast, contracting or
25 NSAs in the Postal world, the progress has been very

1 halting. Five years since NSAs were first allowed we
2 have five of them as opposed to 90 percent of the
3 volume, and I think part of the problem is the
4 Commission doesn't trust the Postal Service to profit
5 making deals.

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

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

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

21 MR. SACKLER: Art Sackler for the National
22 Postal Policy Council. I think there's great food for
23 thought on this panel on a whole long list of issues
24 but my question is primarily for Ian. One of the most
25 important things that is coming out of the statute is

1 the establishment of service standards. That's been
2 talked about basically on and off all day.

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

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

17 There plainly has to be sanctions for
18 failure to meet delivery standards otherwise you face
19 the problem that David addressed at the outset which
20 is will they cheat? Yes, if they think they can get
21 away with it. What's the easiest way to cheat? Well
22 the easiest way to cheat is to curtail service. When
23 you've got a market dominant category, a curtailment
24 of service can really be very serious except that the
25 Commission also needs to keep in mind that for many,

1 many, many of the users the market dominance is
2 somewhat overstated in the sense that they are
3 multichannel marketers.

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

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

23 The problem of service standards can be to
24 some extent resolved in the NSA context because as one
25 of the panelists said, you know it's not that

1 difficult guys. If I fail to do my end of the
2 bargain, then I get penalized. If you fail to do your
3 end of the bargain, you the Postal Service, then you
4 get penalized, and we work that out through the NSA
5 form itself.

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

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

23 MR. TAKIS: David, you had a response?

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

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

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

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

25 MR. TAKIS: I think we also heard earlier

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

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

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

22 MR. SIDAK: I'll reserve my time.

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

25 MR. DEL POLITO: Yes. We heard everybody

1 talk about the need for a culture change, and I
2 noticed that the panel began to start talking about
3 NSAs and seemed to relish a little bit in beating up
4 both the Postal Service and the Postal Rate Commission
5 in terms of their conservatism. I would hope we would
6 keep in mind that that was a manifestation of the
7 Postal Reorganization Act, and I guess the question
8 that really comes to mind is: Do we genuinely believe
9 that under the new law we're going to be able to see
10 people go through the culture change that's necessary
11 within the short period of time to understand that as
12 Ian would say we don't want to put stale wine in new
13 bottles?

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

22 And then finally, it's really nice to talk
23 about sanctions. But the fact of the matter is, is
24 we're not sanctioning a private company. We're not
25 sanctioning a company that can go bankrupt. We're

1 talking about assigning a sanction to an entity that
2 in fact belongs to the U.S. Government, has a mandate
3 to continue to operate, and has a way in which it can
4 continue to operate in terms of the revenue that it
5 gets from its market dominant customers. So I
6 wouldn't put too much faith in the idea of sanctions
7 as an effective way of controlling behavior.

8 MR. TAKIS: Any responses to that?

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

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

24 I think that you can get the Postal Service
25 to recognize that its customers, its so-called market

1 dominant customers have alternatives or many of them
2 do, and one of the things that has driven me nuts for
3 years and is still driving me nuts is that when you
4 look at the way the Postal Service does its
5 measurements of price sensitivity, it's very, very
6 complicated, very elaborative, undoubtedly
7 horrendously expensive elasticity studies. Its own
8 price elasticity.

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

20 Finally on the business of cost attribution,
21 the Commission does technically have the
22 responsibility for establishing the rules. The
23 statute is reasonably clear about that. The statute
24 is also a little bit inconsistent because the Postal
25 Service is the one who has to develop the SEC rules,

1 and what I surely do not want to see -- because we've
2 been living with them for too many years -- is what
3 amounts to three sets of books, the books that the
4 Postal Service presents to the Postal Rate Commission,
5 the Postal Rate Commission's own set of cost and
6 revenue analyses, and then the books that we never get
7 to see, the books the Postal Service really uses to
8 develop its business planning.

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

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

24 MR. TAKIS: Please, Professor Sidak.

25 MR. SIDAK: I wanted to follow-up on

1 something that Ian said. In the telecom experience,
2 after 1996, one of the big tasks assigned to the
3 Federal Communications Commission was to go about
4 setting the prices or setting the framework for
5 calculating the prices of unbundled network elements.
6 So this was the shift from retail price regulation to
7 wholesale price regulation.

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

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

22 Another point that I wanted to make relates
23 to this issue of whether sanctions work. This reminds
24 me of the debate in antitrust law over structural
25 remedies versus behavioral remedies. Do you break up

1 Microsoft or do you have a long list of things that
2 they must do or must not do? The new Postal statute
3 has both behavioral and structural elements to it. If
4 the actions that might give rise to sanctions -- I
5 should say if the sanctions that could be imposed
6 under the statute are seen to be toothless, then that
7 will put more pressure for the structural aspects of
8 the law to be given weight.

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

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

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

24 MR. KODAT: Yes. I'd just like to add with
25 respect to the culture change anybody who really knows

1 me well understands that you can't teach a big old dog
2 new tricks but when it comes to this context in this
3 bill I think that I'm definitely a half empty person.
4 Sorry. A half full person in thinking that there's a
5 culture change. Anybody from the Department of the
6 Treasury will say to you that the world goes around
7 with finance, and I know that as we worked on this
8 bill there were a lot of prescriptions that were
9 suggested, partly from the President's Commission.

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

16 But there are also other prescriptions that
17 were made by the President's Commission that were
18 sound as well but didn't make their way into the bill
19 that connected with perhaps one could say costs and
20 managing of costs. I'm thinking of the Bratt
21 Commission proposal by the President's Commission on
22 how to perhaps more efficiently, effectively and
23 rapidly allow the Postal Service freedom and
24 flexibility to change its network processing
25 structures, and we know that there are sizable amounts

1 of money that could be saved in that process.

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

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

20 It's a culture change in that area. It's a
21 culture change in terms of its prefunding of these
22 retiree health obligations, and that requirement is
23 going to require discipline, and so I believe that
24 because of these elements and others, the Postal
25 Service's leadership looking at the CPI rate cap each

1 year is going to be with that much more of motivation,
2 seeking to continue to build on its already strong
3 track record, but continue to build on it and increase
4 its ability to manage its business more efficiently,
5 effectively, productivity to increase, and the use of
6 its most important resource of course are these human
7 resources is its team of labor.

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

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

23 MR. TAKIS: Thank you. We have time for one
24 more question, and you've been waiting very patiently.
25 I appreciate it. Thank you.

1 MS. RUSH: I'm Tonda Rush. I represent
2 National Newspaper Association, mailers of periodicals
3 -- and that is where the Commission usually sees me --
4 but also heavy mailers in the enhanced carrier route
5 mail stream where our clients spend far more money and
6 frankly where most of the growth in our industry is.

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

17 With deregulation of the telephones, what we
18 got was cheaper long distance rates which led to
19 telemarketing, and eventually the consumers rose up
20 and reregulated it in the form of the do not call
21 lists. My question for any of the panelists that want
22 to address it is where in the calculus of the Postal
23 Service in growing volume and in the mailers and in
24 the Rate Commission should the parallels between do
25 not call and the growth of the advertising mail stream

1 be taken into account if at all?

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

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

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

24 And Gene Del Polito is in the room, and he
25 can say a thousand times more on the subject than I

1 can. I think I'll stop right here.

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

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

22 Our list hygiene, our proclivity to send
23 multiple copies of the same piece to someone who's
24 been dead for 15 years, our proclivity not to pay
25 attention to the fact that eight-year-old children

1 should not be getting -- forgive me -- credit card
2 applications, doesn't help the situation but that is
3 not the job of the Federal Regulatory Commission.

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

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

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

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

20 MR. VOLNER: Well let me take a shot at it
21 because Bill warned us that this question was going to
22 come up. As to transparency, it seems to me that I've
23 already spoken to it. I want to see one set of books.
24 I recognize that there are some things that the Postal
25 Service should not made to make public, and I think

1 the statute provides a very cumbersome way of dealing
2 with that but it can work.

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

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

23 As to predictability, that's a hard question
24 for the following respects, and I think the answer is
25 this: I would like to see predictability in the sense

1 that the rates go up at a fixed point in time that is
2 known in advance. Given the flexibility the statute
3 provides, if you think you're going to be able to
4 calculate to the last tenth of a cent what your rate
5 increase is going to be, I think you're dreaming.

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

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

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

22 MR. SIDAK: I just had one thing to add.
23 One thing that I think might increase the confidence
24 that we have in flexible rates that pertained to
25 market dominant products is if we know that in the

1 competitive products if the Postal Service is in fact
2 earning the maximum contribution that it can to cover
3 the institutional costs of the everything, I don't
4 think that the objective is to maximize volume. The
5 objective should be to maximize net revenue.

6 That is the difference between revenues and
7 costs, and the value to consumers of market dominant
8 products from the Postal Service's provision of
9 competitive products is that the competitive products
10 generate some contribution to covering those overhead
11 costs. If we're clear in the way that the Commission
12 interprets the cost allocation provisions in the Act
13 that pertain to competitive products, that the Postal
14 Service is supposed to act like a profit maximizer in
15 competitive markets. I think it would give us more
16 confidence with respect to the rates in market
17 dominated products.

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

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

1 or full information about everything.

2 Greg's last point is a good example. In
3 1980, Congress amended the railroad statute to require
4 consideration in setting rates for market dominant
5 traffic, consideration of evidence that the railroad
6 was maximizing its contribution from the highly
7 competitive, relatively low mark-up traffic. And for
8 a year or so after that when we did railroad cases for
9 allegedly captive movements, we would put in multiple
10 volume binders that killed trees and enriched
11 printers, with elaborate explanation of how all of our
12 competitive traffic was squeezing the last possible
13 penny out of the buffalo nickel.

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

21 It could either second guess and micromanage
22 every single decision that the railroad did about
23 pricing its competitive traffic or it would have to
24 give the railroad some business judgment deference,
25 and it was ultimately the latter that the Interstate

1 Commerce Commission chose.

2 You know the Postal Regulatory Commission
3 faces the same choice. It could do an elaborate
4 analysis of every single rate for competitive traffic
5 to prove that the Postal Service was leaving money on
6 the table, and I suppose at the end of the day it
7 would have some confidence in its own mind at least
8 that the contribution was maximized but is that what
9 we want in a statute that at least one of its purposes
10 was supposed to produce a lighter regulation in
11 sectors where competition could work?

12 MR. TAKIS: Greg? Last thought.

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

22 MR. LEVY: Let me respond to that. That is
23 a standard point and a strong one. The only response
24 I would make is I think that the incentives of
25 management are more complex than that, and that when

1 they don't cover their costs, Postal Service
2 management incurs a lot of different kinds of
3 psychological or political penalties beyond simply the
4 risk of getting fired by their shareholders.

5 They have to come before the people in this
6 room. They have to be cross-examined. They have to
7 justify themselves to the Regulators. It's an
8 unpleasant and costly process. It's one that has a
9 political cost. If we don't believe that those kind
10 of sanctions are sufficient to control the Postal
11 Service, to at least give it some incentive to engage
12 in an economically rational standpoint, then this
13 whole index mechanism doesn't make any sense because
14 there are no shareholders for that either.

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

18 (Whereupon, a short recess was taken.)

19 MR. TAKIS: As I indicated previously this
20 morning, we're going to then have a wrap-up session
21 where we've invited some of the folks that have agreed
22 to stay back up on the stage and talk about next steps
23 and wrap-up issues. So our final panel today is on a
24 topic that's already been talked about quite a bit.
25 So we're looking forward to a lot of discussion around

1 service performance measurement and overall standards.

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

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

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

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

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

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

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

1 join me in welcoming Mr. Bill McComb.

2 To Bill's left is Dan Emens. Dan is the
3 Vice President of Marketing Operations with Chase Card
4 Services. He originally joined Bank One in August of
5 2003 which subsequently merged with JP Morgan Chase in
6 2005. Mr. Emens manages several operational areas
7 supporting marketing campaign execution and delivery
8 for several lines of business within the bank, these
9 include both customer acquisition based programs, and
10 in addition Mr. Emens represents the Bank's interest
11 on Postal matters and has responsibility for
12 management of the Bank's negotiated service agreement.

13 Dan is also a member of the Board of
14 Directors of the Association of Postal Commerce,
15 PostCom, and currently Treasurer of the Association.
16 His career in direct marketing industry spans over 20
17 years and includes letter shop operations, print and
18 customer services, data processing, and sales
19 management. Throughout his career he's worked closely
20 with Postal operations, managing direct mail campaigns
21 for the commercial, retail, and the financial sectors.
22 Please join me in welcoming Mr. Dan Emens.

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

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

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

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

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

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

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

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

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

1 same way that the population is spread.

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

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

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

23 Earlier today I spoke with Charlie Bravo,
24 and one of the things that we discussed were I was
25 just congratulating him on the Intelligent Mail tools,

1 and I think you know talking about where we're going
2 in the future, I think this is a critical success
3 factor for us right now, having built those tools.

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

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

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

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

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

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

16 MR. TAKIS: Bill, how about you?

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

25 We offer a subscription service for DVD

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

11 We now have 44 distribution centers
12 throughout the country and many more on the drawing
13 board. We think in the San Francisco bay area we'll
14 probably top out at about 20 percent of all
15 households, which will be shortly, and if you
16 extrapolate that out in terms of where we go, open a
17 distribution center and move customers from a
18 three-day service to a one-day service, the growth
19 patterns are exactly the same as what we saw and have
20 seen in the bay area. So we're projecting by 2010,
21 2012 that we'll have about 20 million subscribers at
22 that point.

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

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

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

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

1 cost us more money or so on and so forth.

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

12 MR. TAKIS: Thanks, Bill. Appreciate it.
13 Dan, how about you? Can you tell us a little bit
14 about your view of service performance and measurement
15 in the new law?

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

22 Chase is a very large mailer. Like some of
23 my fellow financials, we do about three and a half
24 billion pieces a year in predominantly letter mail
25 categories in both standard and first, and spend a

1 large sum on postage. Mail is a critical or an
2 integral part of our marketing strategy. So we have a
3 very strong interest in the financial viability of the
4 Postal Service and the mail stream going forward.

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

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

19 The Post Office and the PRC has recently
20 engaged I think with the mailing community, and I've
21 very happy to see that in the formation of an MATC
22 work group focused on discussion around delivery
23 performance standards and reestablishing those. I
24 would like to focus a little on some kind of
25 overarching thoughts that I think we should all

1 consider as we go forward in this process, and I think
2 really I want to focus on the measurement side of it.

3 I think it's been mentioned earlier in some
4 of the panel discussions that whatever tools and
5 methods we use they need to be objective, they need to
6 be free of interference and interpretation, and they
7 need to be robust, and they need to truly cover an
8 end-to-end view. There are many points of gap today
9 in which we do not measure certain process steps or
10 induction points into the network, and unfortunately
11 those are time to us as mailers and to our customers.

12 Certainly the sample size needs to be
13 representative of the whole, and it needs to be of
14 sufficient size, and that varies amongst the various
15 classes of mail that we have today. In terms of
16 reporting, the level of aggregation becomes a critical
17 element. I've always been a firm believer give me the
18 detail, I'll roll it up accordingly to what my needs
19 are. So I'd like to see a disaggregation of the data
20 down to a detailed level, and let me roll it up at my
21 discretion. That gives me the most useful
22 information.

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

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

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

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

25 One of the suggestions that has come up

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

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

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

16 MR. TAKIS: Absolutely.

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

21 MR. TAKIS: Thank you.

22 MR. LAMM: Certainly a lot of the things
23 that I have in my notes here have been said throughout
24 the day. I'm going to echo two themes that you've
25 heard predictably. I will talk about predictability

1 and collaboration. Before I do, a little bit about
2 Capital One. Like some of my other panelists here,
3 large mailer, about two and a half billion pieces per
4 year, also a mix of standard and first class, multiple
5 shapes and sizes, but primarily letters.

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

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

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

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

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

24 MR. TAKIS: Thank you, Ben, appreciate it.
25 Well I wanted to open up the question in regards to

1 some of the points that we've heard earlier today. I
2 was going to start out with you, Jim, and talk a
3 little bit about some of the discussions around
4 sanctions that we heard earlier today. I know you've
5 got some thoughts about that. We talked a little bit
6 about them during a break. So if you could talk a
7 little bit about that, that'd be great.

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

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

21 So what good does that do? You're raising
22 the rates for your mailers. So that's not an
23 appropriate sanction, and when I look at my own
24 corporation okay how do they sanction me? How do they
25 incent performance? Well it's a bonus, right?

1 If you meet all your goals and the
2 corporation meets its goals, you make more money, and
3 that's what we talked about at PostCom years ago is
4 you know there's got to be a way, and my colleagues at
5 the Postal Service here may throw sticks at me or
6 something I don't know but there really needs to be a
7 way to say, all right.

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

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

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

24 MR. TAKIS: Ask and you will endeavor.

25 MR. O'BRIEN: Yes, exactly. But I think

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

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

5 MR. VOLNER: I'll just pick it up without --
6 and I like actually the views of all the panelists.
7 Jim has talked about using the bonus technique as a
8 way of either encouraging or penalizing the Postal
9 Service management. The problem is there's not enough
10 money is there, Jim, in the bonus system because of
11 the way the statute is constructed to make it
12 worthwhile.

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

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

23 MR. O'BRIEN: Yes. To disagree with my
24 lawyer, I think that maybe that could create a
25 downward spiral. I don't necessarily agree with

1 saying you know you don't get the full cap, but where
2 I do think you're on the mark, Ian, is that if you do
3 ask for the full cap but you're taking costs out of
4 the system and you don't really need to hit the full
5 cap, there's some margin there, I'd be willing to say
6 throw that margin at the folks that earned it you
7 know.

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

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

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

1 be built upon.

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

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

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

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

22 MR. EMENS: Yes. I just wanted to add
23 certainly to what Jim said. You know I think that's a
24 component part of a motivational technique. I think
25 we should also look at really improving the public

1 display of those results, and the accountability to
2 explain why, and to dig down into the details to
3 understand you know where are the issues that need to
4 be focused on and then you know hold the Postal
5 Service accountable to work and put forth action plans
6 in remedy.

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

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

18 So again if those standards aren't met, I've
19 got to tell you you know in the case of a different
20 supplier or frankly any other supplier, those kind of
21 penalties and sanctions they work, right. They're not
22 meant to punitive. They're meant to correct an
23 action. As has been said before in the case of this
24 relationship with the Postal Service, I only see it as
25 harmful, right. I don't want the money, and in fact I

1 don't want to end up harming the very service that I
2 need, right, or that I want to only improve.

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

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

22 MR. TAKIS: Okay. Thank you. So we're at
23 this stage now where the Postal Service, the Postal
24 Regulatory Commission and the mailing industry need to
25 develop service standards. What do you all feel is

1 the best way to do that? How would you all like to
2 participate in it? How would other people in the
3 audience like to participate in it, and we'll get to
4 your questions?

5 MR. O'BRIEN: Sure.

6 MR. TAKIS: Jim.

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

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

22 I don't think that works anymore. I really
23 feel that the standards need to reflect the
24 operational realities of the Postal Service, and what
25 I mean by that is you know we align the standard with

1 a couple of things. How is the mail prepared? Where
2 is it entered? And did it meet the critical entry
3 time?

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

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

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

1 you say that it was their problem?

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

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

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

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

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

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

19 MR. EMENS: Just a comment. I absolutely
20 agree with Jim's comments about we need to reflect the
21 operational realities but at the same token I think
22 you know with Intelligent Mail and the four-state
23 barcode coming on board and confirm, we have an
24 opportunity to utilize a tool that preexists within
25 the Postal operational side to broaden the base of

1 what we measure, and to really get a detail that would
2 help guide the Postal Service and focus on areas that
3 need to be addressed.

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

10 MR. TAKIS: Question, please.

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

20 Then when you look at CPI capped rates, do
21 you then suddenly have a different service and not
22 give them that CPI because you really have only cut
23 cost through diminishing service? So I want to take a
24 look at service standards in a way of a systematic
25 loss not a hurricane Katrina, not a snowstorm or

1 things of that sort.

2 MR. TAKIS: Your question is also about how
3 to factor in the cost of meeting those service
4 standards as well, right? To make sure I understand
5 you.

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

12 MR. TAKIS: Jim?

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

20 MR. CERASALE: Right.

21 MR. O'BRIEN: So you've gone from six to
22 five. That's not acceptable. Right? I mean
23 everybody in the room would say that's not acceptable,
24 and I think you know to your point, Jerry, I think we
25 need you know people a lot smarter than me -- you

1 known folks like Ian and Tim Keegan and guys like that
2 -- to think of how do we build this into the process
3 going forward and submit comments to the Regulatory
4 Commission to say, here's how you guard against that
5 because you're exactly right.

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

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

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

25 And I know a number of you here on the panel

1 and many of you in the room have run operations,
2 right. I want you to think how many times folks have
3 said to you, you know hey go ahead and increase your
4 budget according to CPU, CPI or something else, right?
5 If you have, more power to you. But that's a very
6 unlikely event.

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

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

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

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

4 What ways do you all think the mailers can
5 work together with the Postal Service to produce the
6 most efficient, the most cost effective, and the
7 highest performing network that you can get? Again
8 balancing off those tradeoffs between the two. Bill,
9 do you have any thoughts on that?

10 MR. MCCOMB: Well you know I think Jim hit
11 on it quite a bit is you know there's a bunch of tools
12 out there that shift or have the potential to shift
13 the measurement to a more passive mode, and I think
14 one, making that work -- because it's failed miserably
15 in the past -- and then understanding what it's
16 telling both the Postal Service, the mailers in terms
17 of success or failure but more why so there can be a
18 solution found for that I think is one big step.

19 And then understanding. You know like I
20 said before, you know I have a lot of data that
21 suggests below average standard in areas of the
22 country, we are losing customers left and right, and
23 understanding what that impact is on the Postal
24 Service and why is a matter that's not well addressed
25 at this point but I think that --

1 MR. TAKIS: What's the best way to
2 facilitate that type of conversation because it seems
3 that that is a joint concern of you and your customer
4 base as well as the Postal Service?

5 MR. MCCOMB: Right.

6 MR. TAKIS: If your customers aren't buying
7 the movies, then they're not shipping the movies.

8 MR. MCCOMB: Well from our standpoint is
9 we've created like a quarterly business review, and we
10 go through this stuff. But you know it's kind of like
11 somebody said before. Putting your finger in the dike
12 you know you'll patch the one hole but then it'll
13 break someplace else, and you need to figure out how
14 systematically, you know standardization, better
15 methodologies to attack those problems.

16 MR. TAKIS: Dan, do you have any thoughts on
17 that because you were talking about it earlier?

18 MR. EMENS: Just listening to a lot of the
19 conversations through the course of today and
20 certainly this conversation, you know I think the
21 mantra here is communicate, communicate, communicate,
22 over communicate, and do it regularly, with a high
23 degree of frequency, frankness, openness. You know
24 nothing is sacred.

25 We need to share the metrics that we have on

1 each side you know and work jointly and
2 collaboratively towards looking at you know what are
3 the issues, facing up to them, and then you know
4 trying to put action plans to address them in place,
5 recognizing that there is a cost potential impact, and
6 we need to balance that.

7 You know ideally you know what do I look for
8 as a customer? The best possible service that I can
9 get at the most efficient costs.

10 MR. TAKIS: Right. Jim?

11 MR. O'BRIEN: Just one thing to tie back
12 into operations again. A number of years ago, Mark
13 McCreary and I went and visited a couple of Postal
14 facilities out in the midwest, and I was presenting
15 this concept of something we called node based
16 presort, and it was to take a look at you know how do
17 you process mail within your facility, and you know
18 can we prepare our mail to perfectly fit the way your
19 processing it in that facility?

20 And I think you know in the case of flats
21 right now we're going to be entering into a world of
22 FSS, and if we can develop schemes that those machines
23 are going to run and prepare our mail to fit those
24 schemes, we're going to get very consistent service
25 and very low costs. So I don't think that the two are

1 mutually exclusive.

2 MR. TAKIS: So working together with the
3 Postal Service to do that.

4 MR. O'BRIEN: Big time.

5 MR. TAKIS: Ben, you had a thought?

6 MR. LAMM: Yes. I heard Dan's comment. You
7 know communicate, communicate, communicate, and I have
8 a slightly different thought as it relates to this
9 issue, right, about how we improve, partner to improve
10 service. It's probably measure, measure, measure.
11 You know I'm surprised through the day that this
12 hasn't been said. It was something that was beaten
13 into me for many years from many bosses and mentors,
14 and that is you can't manage what you don't measure,
15 and I think in this case you know I'm back to measure,
16 measure, measure.

17 I have an expectation for a system wide
18 measurement tool but quite honestly I would expect to
19 go beyond that and do my own measurements, right,
20 whether it be through seed mail, through something
21 else that maybe is more specific to the types of mail
22 that I'm sending or to the type of customer that I'm
23 having an interaction with but I do have an
24 expectation for -- and I think the reform law calls
25 for that base set of measurements.

1 And I would echo what was said earlier that
2 it needs to be driven more broadly than it is today
3 into all the classes and subclasses such that we have
4 a reliable, unbiased measurement system.

5 MR. TAKIS: Okay. Thank you. Question over
6 here?

7 MS. SMITH: One thing I wanted to comment on
8 because I haven't heard much spoken about it. I'm
9 Wendy Smith.

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

11 MS. SMITH: Wendy Smith, Publishers Clearing
12 House.

13 MR. TAKIS: Thank you.

14 MS. SMITH: Having to do with service
15 standards on standard parcels. Contrary to many
16 people's belief, in our business most of our sales is
17 in merchandise, and most of it is in the standard
18 parcel segment, and just as track and trace is a
19 baseline for Parcel Select, I really feel it should be
20 a free service baseline for standard parcels as well.

21 Granted from a technology standpoint mailers
22 USPS would have to work to get an intelligent barcode
23 that's readable by the parcel scanner, such as the
24 smaller eVS barcode, as the mechanism for track and
25 trace, but again I think it's been a barrier to you

1 know small parcel mailers using the Postal Service,
2 and if it was available, I think it would certainly
3 attract more business in that niche. So just
4 something you know I would like to see considered
5 because it hasn't been addressed much in the past.

6 MR. TAKIS: Thank you. That's a good
7 comment. Any thoughts on that?

8 MR. O'BRIEN: Wendy, I think you're right.
9 I mean you know what's being talked about here is
10 service standards for all classes of mail. That's
11 what the law is talking about. So you know I think no
12 child left behind here, right? You're right.

13 MR. TAKIS: Commissioner Goldway, do you
14 have an observation you'd like to make?

15 MS. GOLDWAY: I have a few thoughts that I
16 am concerned about. If the Regulatory Commission
17 establishes standards or agrees on the standards that
18 the Postal Service presents to us, and then we
19 establish the right measurement and reporting tools
20 for that, but you don't feel that there is an
21 appropriate accountability mechanism, it shouldn't be
22 a fine and it's not possibly a bonus, how do we
23 enforce those standards?

24 And then I have a question about what I
25 thought was interesting comment that David Levy made

1 that it's not only a question of deteriorating service
2 that creates a de facto higher price, it's the burden
3 on the mailer to do more that might create a higher
4 price.

5 Now some of you are perfectly willing to do
6 it, and can do it, and it winds up saving you more
7 money. But you know you clean your address lists or
8 you sort the mail somewhat differently. It doesn't
9 cost you any more. It might cost you less. But
10 smaller mailers will be less likely to be able to
11 prepare their mail in more sophisticated ways, and if
12 there are these equivalence of negotiated service
13 agreements with all of the large mailers on rates,
14 then we get smaller mailers who have to either do more
15 or pay more and have deteriorating service.

16 What's the regulatory mechanism to assure
17 that there's some fairness overall with all of the
18 users of the mail? And it doesn't seem apparent to me
19 in the discussion that we're having.

20 MR. TAKIS: There are two parts to that
21 question. Let's take the first part. I believe what
22 Commissioner Goldway was saying is how do you enforce
23 these standards if we don't want to use a penalty type
24 system or a sanction type system or large bonuses?
25 Any other thoughts on that?

1 MR. O'BRIEN: I'm a carrot person here okay.
2 So I'm the bonus guy. I want to pay for performance.
3 So I think that is the mechanism, and I think that's
4 the way we have to go. Commissioner, I just don't
5 think that there's enough teeth in the bill, and I'm
6 not sure what kind of teeth we could give the
7 Commission to exert pressure on the Postal Service
8 beyond you know bonuses or something that's going to
9 hurt the mail you know to penalize them for lack of
10 performance. So I would struggle with a different
11 version other than that. I'm sorry.

12 MR. TAKIS: Any other thoughts? Ben?

13 MR. LAMM: Yes. You know so I gave you my
14 position on penalties. I don't think they're of any
15 benefit. So what are the right mechanisms? I think
16 it really comes down to I think Jack Potter said it
17 this morning about transparency, right. He used the
18 term transparency.

19 Visibility, publicity, transparency. Pick
20 whichever word you like about performance is one of
21 the most powerful motivators. You know for any of us
22 who you know strive for success, there is -- and I use
23 this term and please no offense, right -- but there's
24 a tremendous power and chain, right.

25 And for folks who have been on the you know

1 wrong side of success, visibility to that is as
2 powerful as any kind of stick, right. So you know
3 again not to be punitive through visibility,
4 transparency, et cetera but really I think it is an
5 incredible motivator.

6 MR. O'BRIEN: I didn't answer the second
7 half of the Commissioner's question, and that is what
8 about the smaller mailer? And you know I think both
9 you and Julie mentioned it earlier in her
10 presentation. When I was talking about standards, I
11 do feel that given these electronic tools that we
12 have, that you can create a diverse basis for
13 measuring service performance. So it just doesn't
14 have to be the Time magazines of the world.

15 I think you can get a small printer that
16 enters all of their mail in Des Moines, Iowa, and
17 could and should use them as one of the measurement
18 factors. You know our catalog colleague that -- did
19 he leave already? The guy who was from the small
20 catalog? He's not here.

21 But anyway I think he should be a service
22 standard seed, and electronically you can pick whoever
23 you want you know, and I don't think it has to be
24 discriminatory. I think you can pick large, small,
25 and very diverse seeds.

1 MR. TAKIS: It's interesting because, David,
2 you had spoken earlier today about the same type of
3 things that Ben was talking about which is that other
4 incentives other than financial that can affect
5 people. Please, question?

6 MR. STEPHENS: Yes. I'm Niah Stephens. I'm
7 currently a contractor for the Inspector General.
8 Where does retained earnings come into this
9 calculation? That's something that the law does allow
10 for the first time. Presumably it's based
11 conceptually on the Postal Service making its
12 financial goals but could it be adapted to become
13 pressure for meeting service standard goals as well?

14 MR. TAKIS: Do you want to take that
15 question? I guess let me ask a clarification on that.
16 Are you saying that how retained earnings could act as
17 more of a profit type motivate for the Postal Service
18 to --

19 MR. STEPHENS: No. If we're looking for you
20 know carrots and sticks, it seems to me that retaining
21 earnings for the Postal Service is certainly a carrot,
22 and right now I don't believe there's a link between
23 that and the subject of what we're talking about here
24 today. I'm not quite sure of what the Postal Service
25 is going to do with those earnings. I mean it's not

1 going to buy out competitors. It's not going to
2 reward stockholders but presumably it wants those for
3 a purpose.

4 MR. O'BRIEN: I think that my understanding
5 of retained earnings is that those are going to allow
6 the Postal Service to purchase more equipment for the
7 future. I also think it's a bit of a rainy day fund
8 for when you can't meet the cap, and you needed to
9 borrow. You know take the money out of your retained
10 earnings. You don't have to borrow from Roger.

11 So I'm not sure you know that that's a fund
12 that's accessible for payment back to a regulator, and
13 then even if you did that, okay, let's say the
14 Commission you know decided you know we're going to
15 exert financial penalties on the Postal Service when
16 they didn't meet standards. Okay. What do you do
17 with that money? You know what's the regulator going
18 to do with that money?

19 Do they donate it to charity? What? You
20 know I don't know what they do with it. So you know
21 it's a little bit of a problem here. So that's why
22 I'm on the carrot side.

23 MR. TAKIS: Bill?

24 MR. MCCOMB: You know putting my old hat
25 back on again, you know it's not just the enforcement

1 of the standard. It was always a balance between the
2 fiscal side and the service side, and you know talking
3 about holding back retained earnings, you know that
4 may have an impact at the national level but you know
5 most of that stuff you know flows downhill, and it's
6 probably going to make it worse rather than better.
7 So you know I don't know what the answer is but
8 enforcement of a standard is broader than just making
9 it happen.

10 MR. TAKIS: That's a good point.

11 MR. O'BRIEN: Day in and day out.

12 MR. TAKIS: Because you want to elicit the
13 right type of behavior, and if you're not incenting
14 the folks that are on the ground to do that. Right.
15 I understand.

16 MR. O'BRIEN: Right.

17 MR. TAKIS: Dan?

18 MR. EMENS: I was just going to comment that
19 I'm not sure, like Jim, you know exactly what the
20 earmarking, what the statute dictates against retained
21 earnings, but if there is any flexibility in that
22 certainly you know I think there was a comment made
23 earlier is there sufficient funds in the way we
24 compensate the Postal management? That might be an
25 alternative to look at. To enrich that once a month.

1 MR. TAKIS: Ben?

2 MR. LAMM: Yes. I just wanted to say first
3 I hope that's a problem that we have, right, is that
4 we have that earnings to figure out what to do with.
5 You know second if we have that and we have service
6 performance issues, if I could go back to
7 transparency, right, my expectation would be how are
8 you spending those funds? It ought to be to address
9 the service deficiencies that you have, and if it's
10 not I'd want to know why.

11 If you're again in that luxurious position
12 of you know having the retained earnings and not
13 having service level challenges, then I think you know
14 I would expect one of two things, right, you're either
15 making that investment in the future, right, or you're
16 deferring the next potential rate increase, right.
17 You bank it, right. You use that for that rainy day
18 that we talked about.

19 MR. O'BRIEN: Ditto. Great points. Yes.
20 Excellent.

21 MR. TAKIS: That's a good point. Very good
22 point. Gene, another question?

23 MR. DEL POLITO: Yes. There's one party of
24 course in the carrot and the stick argument that is
25 not here today, and it is a very important party and

1 that happens to be the Governors of the Postal
2 Service. The statute clearly empowers the Governors
3 to allow up to 12 officers to receive compensation and
4 up to 120 percent of the vice presidents pay for
5 critical positions.

6 It's my understanding that they may be
7 meeting to make such a decision in May. If the
8 decision is simply to grant the increases willy nilly
9 with no performance criteria tied behind them, then we
10 may find that the carrot that we would have hoped for
11 got tossed into the trash.

12 The other thing too about in terms of
13 changing the culture, whenever we've talked about
14 holding the Postal Service accountable we typically
15 have always focused our efforts on criticisms that
16 we've raised relative to management, and yet we know
17 that in private corporations when the stockholders are
18 upset with the performance of their corporations they
19 typically make their wrath most strongly felt on the
20 board, and it could very well be that if we refocus
21 where we intend to define our bottom line for
22 accountability to be at the board level then perhaps
23 we'll see the board step up to its responsibilities to
24 make sure that the management that it has hired is
25 indeed accountable and productive in the end.

1 MR. TAKIS: Thank you for that observation.
2 Does that prompt any thoughts from the panel?

3 MR. O'BRIEN: I think they're valid points,
4 and I think the law calls for some fairly stringent
5 criteria for some of those board members. So I think
6 you know being big boys, they should be able to take
7 the heat. So yes, I would support that.

8 MR. TAKIS: Ian, you got there first.

9 MR. VOLNER: I'd like to go over the fact
10 about the shame factor because there's an experience
11 in another industry where it worked quite well, and
12 I'd like the panel to enlarge upon it. About 8 or 10
13 years ago, we discovered that the cable industry was
14 not providing service, and the FCC came up with a pile
15 of rules which are really almost impossible to manage.

16 I mean you have to answer the phone within X
17 number of minutes. You may not allow X number of
18 calls to drop. If you fail to do a service run within
19 a certain period of time, you have to not charge the
20 consumer. And the cable industry, which I represented
21 at the time, was in a state of hysterics. And I said
22 to the Commission at the time, what are you guys going
23 to do? Are you going to start penalizing us because
24 we're just going to pass it right back through to the
25 consumer, which is the concern?

1 And the answer was, the shame factor. And
2 it's worked or mostly. I mean there's going to be
3 aberrations as Jim has said. The question is how do
4 you make it work here where you have, as Commissioner
5 Goldway has said, a variety of interests? You
6 measure, measure, measure and communicate,
7 communicate, communicate but do you require the Postal
8 Service to publish, at what level of detail, how it is
9 performing? I mean the question is, how do you make
10 that work because it's a very attractive solution to
11 what is otherwise a thorny problem?

12 MR. TAKIS: Thoughts on that?

13 MR. EMENS: Just picking up on Gene's
14 comments earlier in reference to the Board of
15 Governors and perhaps putting the accountability at
16 appropriate levels, perhaps a panel discussion such as
17 this for the Board to present performance deficiencies
18 and remedial action plans on the forward looking year
19 might be a behavioral modification.

20 MR. TAKIS: An annual board meeting open for
21 the public to ask questions. Interesting. Alan, a
22 question?

23 ALAN: Yes. I'm just sort of trying to
24 understand if I heard something correctly. Everyone
25 on the panel I think does some sort of seeding or some

1 sort of internal service measurement which would
2 suggest that there's a need for a more detailed
3 service measurement from the Postal Service for large
4 customers than it would be for just the nationwide
5 service standards so that they understand how Time is
6 doing or how Netflix is doing in Boise, Idaho, as in
7 addition to the national service standard.

8 And so my question is this: How does a
9 nationwide regulated service standard affect your
10 ability or how would you like it to affect your
11 ability to measure your own corporate performance of
12 the mail that you measure, and secondarily, how could
13 a service standard help you increase the volume of
14 mail that you actually deliver or send to the Postal
15 Service?

16 MR. TAKIS: Bill, you talked about that
17 earlier when you were talking about regional
18 differences or area differences.

19 MR. MCCOMB: Right. You know the key is --
20 at least for us -- understanding you know what those
21 standards are and how they're built so we match our
22 operation to that, and if in fact you know they change
23 and were to change significantly, you know we would
24 adjust but you know we would ask for more time because
25 we have you know leases involved and so on and so

1 forth, if we had to move an operation to be closer or
2 as somebody said that would be shifting the
3 transportation to us and so on and so forth.

4 The other thing on you know a couple of the
5 other comments that all of a sudden struck me is
6 enforcement or buy-in might also include the unions,
7 and that's always been you know kind of a hands-off
8 thing, but with their ownership along with everything
9 else it may in fact you know help the whole situation.

10 MR. TAKIS: That's a good point. Thank you.
11 Do you have a question over here?

12 MS. BOONE: Hello. Hi, this is Cinny Boone.
13 I'm with the DMA Nonprofit Federation, and I just
14 wanted to commend the panel and the Postal Service for
15 taking a look at this issue. One type of mailer that
16 really hasn't been touched on too much today is the
17 nonprofit mailer, the large and small organizations
18 who are actually seeing there is really no
19 predictability for the type of mail pieces that
20 they're sending right now, and we really need that
21 baseline defined for the nonprofit organizations
22 because as much as you're all relying so much on
23 commercial returns, they're relying so much on the
24 response rates for many, many causes.

25 So I just wanted to just mention that and

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1 commend you and say that we really need that baseline.
2 Right now the typical returns that we're seeing is
3 about four weeks delay, and that really impacts a lot
4 of their missions.

5 MR. TAKIS: Jim, comment?

6 MR. O'BRIEN: Yes. Cinny, you know I think
7 the point you're touching on is exactly what
8 Commissioner Goldway had discussed, and you know you
9 don't want to forget about the smallest of the
10 mailers, and you know back to where I started. I
11 really think that standards need to be based upon
12 operational realities.

13 So if you're giving a national distribution
14 from Des Moines, Iowa, based upon operational
15 realities we should be able to predict how those
16 products are going to move through the machines of the
17 Postal Service, and when they're going to get
18 delivered, and so if some of your clients end up being
19 some of the invisible seeds that are out there in this
20 measurement system, and it's based upon operational
21 reality, we should get that baseline that you're
22 talking about, and it should be predictable service.
23 It really should.

24 And you know I go back to you know when I
25 worked at UPS when I was in college. At UPS, we would

1 have a requirement every night in our facility to have
2 zero parcels on the floor. At the end of the day, I
3 was the reload supervisor at the end of my UPS career,
4 and I couldn't walk out that door at 10 o'clock at
5 night if there was one parcel in there.

6 If there was, I'd have to get in a truck and
7 drive it down to downtown Chicago and get it
8 delivered, and so it was that type of stringent
9 behavior that was driven by their internal service
10 standards, and I think we need to have that kind of
11 same rigor.

12 If you built a service standard throughout
13 your network based upon operational realities, people
14 will react that way, and you'll have predictable
15 service, the Postal Service will know what are the
16 rules that I'm going to be judged by for my bonus, and
17 it's going to be that win-win that we're talking
18 about.

19 MR. TAKIS: You had --

20 MR. LAMM: Yes. I wanted to comment as
21 well. You mentioned the term baseline, and it made me
22 think, and we've talked a little bit throughout the
23 day about what should the appropriate service standard
24 be for different classes? You know where do you set a
25 number? With what level of reliability or

1 predictability? You know the thing that pops in mind
2 for me, right, and I kind of take two viewpoints on
3 this. One is you know having run some operations with
4 high standards. The second is as a supplier manager,
5 right, and what do I expect of the suppliers that
6 perform an operation or a service on my behalf?

7 You know I think you have to start by
8 setting the baseline, right. So we heard about one
9 class of mail or type of mail that today is performing
10 to its standard only 50 percent of the time. Okay.
11 We've heard about others that are somewhere in the
12 90s. You know if I'm managing one of those operations
13 and my current number is in the 50s, there's no point
14 in setting it at 90 and expecting me to be there
15 tomorrow, right. It's demoralizing. It's
16 demoralizing for the leadership. It's demoralizing
17 for the people that are trying to make that system
18 better.

19 And so what do you need, right? You need to
20 start with a baseline, and you need to have
21 expectations of improvement, right, and if it starts
22 at 50 percent, it starts at 50 percent, and you should
23 see a slope up, right, and you should be transparent
24 about that. You should tell people what that slope
25 is. You should encourage and incent and in some cases

1 shame when you're not hitting that slope or that
2 improvement.

3 You know where do you ultimately end up?
4 You know as it relates to whether it's one day, three
5 day, five days, I'll let go again some of the
6 sentiment from this morning. I want to know but I
7 won't say I'm indifferent. I want it to be faster but
8 I just want to know whatever that number is, as it
9 related to reliability.

10 I look at my own you know contracts with
11 third parties with other suppliers, and many of them
12 you know you expect a 98 percent performance, right.
13 Whatever that standard is you need to be performing
14 that 98 percent of the time or better. That allows
15 for the stuff happens scenario.

16 It also allows you as a management team to
17 make tradeoffs and decisions, right. Small ones. Not
18 ones that disrupt the entire system but I think
19 earlier there was some fishing around from others
20 about what should that performance or reliability
21 standard be? My opinion, for what it's worth, right
22 is ultimately it's 98 percent or better. I think you
23 start with a baseline. You set expectations for
24 improvement, and I hope years from now, right, or a
25 very few years from now we're talking about you know

1 98 percent as the expectation.

2 MR. TAKIS: Good point. Thank you. We have
3 a question over here.

4 MR. KEEGAN: I'm Jim Keegan, another of Jim
5 O'Brien's innumerable lawyers.

6 MR. O'BRIEN: The other guy that's a lot
7 smarter than me.

8 MR. KEEGAN: I don't want to take a back
9 seat to Ian in disagreeing with my own client in
10 public so two comments on enforcement of service
11 standards. First, with respect to withholding the
12 right to have retained earnings, it seems to me that
13 clearly would be the equivalent of a fine, and the
14 statute would not warrant that except in the case of
15 delivery noncompliance. So I think that simply would
16 not be allowed under the current wording of the bill.

17 Secondly, and I think much more importantly,
18 I think the reason that the conversation has been so
19 spectacularly unsuccessful in coming up with a way to
20 enforce service standards is simply that it is not
21 possible simultaneously to control prices and the
22 quality of service, especially when you're not granted
23 any ability to control costs. So I think you can go
24 around in a circle endlessly, and you cannot at the
25 same time find any rational way of disciplining all

1 those things simultaneously.

2 MR. TAKIS: Okay. Thank you. Any thoughts
3 on that? I think our last question for this panel,
4 please.

5 MR. STOVER: David Stover, GCA. I have just
6 a question to toss out to which I have no answer, not
7 even an approach to an answer, but we have heard a lot
8 about the desirability of NSAs and customized customer
9 agreements. We have not gone into the question of
10 whether such agreements can or should incorporate
11 specific service standards, and if they can or should,
12 what the effect of those customer specific service
13 standards would be on the nature of the general
14 service standard for the category of mail involved,
15 and on the Postal Service's ability to meet it, and on
16 the Regulatory Commission's ability to enforce it.

17 That's an idea that I think probably should
18 come up in the course of the Commission's
19 deliberations about service standard setting. I just
20 wanted to launch it.

21 MR. TAKIS: That's a very good question.
22 Thank you. Any thoughts on that from the panel?

23 MR. O'BRIEN: Sure. I think that you know
24 what you're talking about, David, goes right to the
25 heart of what Ruth Goldway was talking about though a

1 little while ago, and I think if you're not careful
2 about something like that you would wind up with the
3 haves and the have nots, and I'm not sure that for a
4 Postal Service that's developed you know as we talked
5 about earlier today you know for the American public,
6 you know should we have service standards that are
7 geared towards haves and have nots?

8 I can see NSAs that are geared towards
9 generating more revenue or the most recent taking
10 costs out of the system. Those to me appear you know
11 like very legitimate NSAs. I think we may be setting
12 bad policy if we allow people to start buying service
13 above and beyond you know the rest of the people in
14 their class of mail.

15 MR. TAKIS: Any other thoughts?

16 MR. MCCOMB: You know in our industry,
17 there's only really two players, and you know we've
18 got 80, 85 percent of that, and if we were to do that
19 -- well first of all, I don't think we could make it
20 happen because we'd be stopped. So I think in our
21 case we wouldn't even. I mean we'd love to entertain
22 it but I don't think it would happen.

23 MR. EMENS: I tend to agree with Jim's
24 comments. You would create a kind of a scenario of
25 have and have nots which would be very difficult to

1 manage and take care of that every man if you will,
2 but it is an interesting concept too. It is something
3 to think about.

4 MR. TAKIS: Ben?

5 MR. LAMM: I guess I have a slightly
6 different view which is not you know there should be
7 haves and have nots. I think it was a pretty broad
8 question. I think maybe you gave an example of the
9 kinds of things you might set up in that kind of a NSA
10 but in general you know my thought on a NSA, whether
11 it's for a large mailer, you know a small mailer,
12 somebody you know mailing out of multiple facilities
13 across the country or out of their you know second
14 floor bedroom, you know the NSAs ought to be that test
15 platform for future services, for future arrangements.

16 We talked about mindset shifts in a number
17 of different places. I would suggest in the area of
18 NSAs there's also room -- if not a need -- for a
19 mindset shift, and that is probably to be more risk
20 tolerant, and what I mean by that is you have to be
21 willing to test.

22 David, I think you said earlier in some
23 cases you have to be willing to fail, right? And then
24 you have to be willing to learn and to make
25 improvements, and again that's not just for big

1 mailers. You know I would encourage you know if we're
2 having the right dialogues at all levels of business,
3 big or small with the Postal Service and they're
4 listening to our needs -- and I think they do -- then
5 those kinds of test agreements can be made for the
6 small mailer, and I think it becomes a great test case
7 for how you roll that out more broadly.

8 What's it going to take to do that? It's
9 got to be far less cumbersome, right, to get through
10 these, and I think again that goes back to there has
11 to be a greater tolerance for risk, you know risk in
12 that you're not putting yourself at huge financial
13 risk. It ought to be something that you can back out
14 of if in the end it is not a favorable thing either
15 for the mailer or for the Postal Service. You know in
16 the end there has to be shared risk and reward, right,
17 for the mailer whether big or small and for the Postal
18 Service.

19 MR. TAKIS: Thank you very much. Well thank
20 you very much, gentlemen. We appreciate your help
21 today on this panel. Everyone, thank you. The other
22 day when we were getting ready for this panel, all the
23 questions about service performance all culminated
24 today. It was wonderful to have you go as last.

25 So what we're going to do is we're not going

1 to take a break but we're going to take just a
2 two-minute pause while some of the other customers are
3 going to come back up, some are going to leave. We're
4 going to have a panel of about I think four people up
5 here.

6 (Pause.)

7 MR. TAKIS: How about transparency, the need
8 to maintain that. We heard from all different folks,
9 from mailers to industry folks, to the Department of
10 the Treasury talking about the need for transparency.

11 We've heard about the role of the PRC, light
12 handed regulation versus stiffer type of regulations.
13 We've heard about that. And finally we talked an
14 awful lot about service standards and measurement
15 here. But Steve Sharp grabbed me right after lunch
16 and he wanted to make sure I asked this question.
17 This is certainly in mind too.

18 What have we missed today? What other
19 things should the Postal Service and the Postal
20 Regulatory Commission hear from its constituency?
21 I'll turn that over to you guys first, and then I'll
22 open it up to the audience, because as both Mr. Blair
23 and Mr. Potter said earlier today, today's your
24 chance, and do we need to have more of these? Think
25 out of the box in terms of what other thoughts that

1 you have for the Postal Service and for the PRC. So
2 James, do you want to start us off?

3 MR. WEST: First, this has been a very good
4 forum today. I've seen a lot of good information put
5 forth, and I hope that it's been useful for the Postal
6 Service and the PRC. I think I would certainly
7 welcome the idea of doing this you know more
8 frequently.

9 I don't know, quarterly or a couple of times
10 a year, and especially as we're going through the
11 period of adjustment to the new operating structure
12 that's been dictated by the reform legislation. I
13 think there's been a lot of good topics discussed
14 today, but I'm not sure that you know we really
15 realize everything that's going to come out of this
16 whole process.

17 MR. TAKIS: Just started the ball rolling.

18 MR. WEST: I think it started the ball
19 rolling. I think there might be a lot more things
20 that we encounter as we go through the process.

21 MR. TAKIS: How about you, Ben?

22 MR. LAMM: You know I agree the frequency of
23 this and maybe specifically it comes in the next steps
24 as well. You know I hope people are walking away with
25 this, the PRC and the Postal Service as well, with a

1 long list of questions, right, and two days from now
2 they're going to have a longer list of questions. And
3 so the ability for a meaningful group, whether this
4 group, a subset of this group, or a broader group to
5 get together again and again and again with whatever
6 you know number of repetitions to make sure that we
7 get this right, and that we are addressing the big
8 mailer view, the small mailer view, the parcel mailer
9 view, the every view.

10 You know part of that is incumbent on us,
11 right, and on you for participating, but I would
12 certainly you know look for many more forums to do
13 that, whether in this kind of a setting or an MATC
14 meeting, you know those types of things. So you know
15 for me that's a big next step. You know I looked back
16 through my notes.

17 There are very few things that I wanted to
18 say that I did not, but as I look out at the crowd I
19 suspect there are. As you're talking about what did
20 we not cover, you know I wouldn't look to the two of
21 us to run down your laundry list. I think it's time
22 for you to hop up and make sure you're heard if you
23 have something that wasn't covered.

24 MR. TAKIS: Thank you because that's what I
25 was going to say, the exact same thing. What are

1 other folks in the audience's views of what things
2 that we left out today? What things need to be
3 addressed going forward? No one wants to say
4 anything. They're all questioned out. Gene, any
5 thoughts from you at all? Sorry to put you on the
6 spot.

7 AUDIENCE MEMBER: That's okay. I'll help
8 Gene.

9 MR. TAKIS: Okay. Please.

10 AUDIENCE MEMBER: It was already stated what
11 it is that we're missing. We're missing orders.

12 MR. TAKIS: That's right. You were supposed
13 to be here by the way.

14 AUDIENCE MEMBER: So you know we've got the
15 unions which make up a significant part of this
16 system, and we need them to engage in the dialogue.
17 Similarly, we often have difficulty engaging mailers
18 in the dialogue. So perhaps it's easier to invite the
19 union and say, let's talk, maybe it's not but we also
20 need to wonder how do we get other mailers engaged and
21 other stakeholders of this system engaged so that
22 later people aren't regretting that they didn't have
23 their turn to speak?

24 MR. TAKIS: That's a very good point.
25 Thanks.

1 MR. WEST: If I can reply just on that.
2 That definitely crossed my mind, and you know we
3 talked about having other sessions like this
4 similarly. I'd offer to consider having these
5 sessions in other locations, and like possibly tie it
6 into you know not necessarily national Postal reform
7 because I know a lot of mailers like myself don't go
8 to that. But we do go to like the DMA or the catalog
9 conference.

10 Link it onto that where you have the mailers
11 there together, and you know they're already there,
12 and they're already kind of attuned to the discussion.
13 A lot of the discussions are going to be going on.
14 Then you can get their participation because you know
15 I think you know some MTAC meetings they kind of made
16 it clear. We have a very difficult time getting them
17 involved, don't we, Gene? Yes. So I think if you
18 kind of bring it to them it's going to facilitate
19 their participation a lot better.

20 MR. TAKIS: Okay. Thank you.

21 AUDIENCE MEMBER: When I think about the
22 task that the Regulatory Commission and the Postal
23 Service faces, I think there is a lot to be learned
24 from other commissions, other regulatory commissions.
25 FTC was mentioned today. FCC. FERC. There are state

1 public utility commissions. Many of them have been
2 working for many years, decades perhaps, under similar
3 regulatory schemes, and I think it would be very
4 beneficial to have another session like that where we
5 brought in experts from these other regulatory
6 commissions who could share the things that worked and
7 didn't work.

8 MR. TAKIS: That's a good observation. As a
9 regulatory conferencer myself there's been a lot of
10 successes over the last decades. There's been a lot
11 of failures too. So we wouldn't the PRC to suffer
12 from the failures that's for sure. Any other thoughts
13 on this?

14 MR. ANDERSON: Hello. I'm Darryl Anderson.
15 I'm legal counsel for the American Postal Workers
16 Union. I wanted to let you folks know we're here.

17 MR. TAKIS: Good.

18 MR. ANDERSON: The American Postal Workers
19 Union is here today not only in my representation but
20 also another attorney representing the American Postal
21 Workers Union is here, a high ranking staff member
22 from the American Postal Workers Union, and our
23 economic consultant on rate matters. So thank you
24 very much for letting us be here.

25 I think it's been a very, very interesting

1 session, and I'll make my remarks very general because
2 I'm not commissioned by my client to make them any
3 more specific but I can tell you that this is a
4 process that the Postal Workers Union has enormous
5 respect for. We are very proud. American Postal
6 workers are very proud of being Postal workers. Proud
7 of the institution. We think it does a great job.
8 I'm glad to hear that those of you who participated
9 here today agree with that.

10 And I will say that the Postal workers are
11 committed to service and to service standards. So I
12 think there's a lot that we share.

13 MR. TAKIS: Good. Thank you. Sir? We
14 turned your mic off. Just kidding.

15 AUDIENCE MEMBER: I speak loudly enough. It
16 doesn't matter. There is one thing that came to mind
17 as everyone was talking about accountability.
18 Yesterday the Postmaster General and the Deputy
19 Postmaster General had to fly to Chicago to take a
20 look at a mess that was going on in Chicago and swear
21 on a stack of Bibles that things were going to get
22 better, and I think that when we talk about service
23 decrements we need to be mindful that its impact on
24 the general citizen really is probably something that
25 the Postal Service is still going to have to be

1 responsive to.

2 We've talked about involving all of the
3 different bodies, the Postal management, the Postal
4 Regulatory Commission, but we haven't said much about
5 the OCA, and it could very well be that one of the
6 roles than an OCA could play in the future is somewhat
7 akin to the role that Postal Watch plays in the UK,
8 and that is it is the watchdog of the quality of
9 service that is rendered to the general populous, and
10 if it played that role effectively it probably could
11 serve as the trip wire for when things were not going
12 the way they were supposed to go in order to be able
13 to provide universal Postal service. So that's just a
14 thought.

15 MR. TAKIS: Thank you. Any other thoughts
16 form the audience? Next steps at all? I'll throw
17 this question out. Would people generally like to see
18 more of these types of events? Maybe different
19 venues? Different approaches to them?

20 MR. LAMM: Yes. I think James' suggestion
21 was San Francisco.

22 MR. TAKIS: Yes.

23 MR. LAMM: Is that right? Is that what you
24 were suggesting?

25 MR. WEST: Yes.

1 MR. LAMM: We come to you.

2 MR. TAKIS: No more comments from the field?
3 Okay. Well we've come to the end of a long day, and I
4 appreciate everyone's participation and patience and
5 hard work in the day. I want to make sure everyone
6 understands that in your folders that you received
7 today when you checked in there's a number of
8 different ways to communicate more on these types of
9 issues, in addition to any future summits that the
10 Postal Service and the PRC might choose to have.

11 There's an email address in your folder that
12 is summit0307@usps.gov, and I'll let you take a look
13 at that in your folders, where the Postal Service is
14 encouraging folks to give feedback on various topics
15 related to today's discussions, and to think about any
16 of the issues that have been raised today, and those
17 will be shared I understand with the Postal Regulatory
18 Commission as well.

19 And we'd also like to encourage you to
20 regularly visit the PRC website, which is www.prc.gov,
21 because there will be ongoing updates as the Postal
22 Rate Commission has done for many years about its
23 activities and various things that it's doing along
24 the way. And then certainly the Postal Service's
25 website at www.usps.com will also contain updates to

1 it as well. So please stay tuned for more
2 information.

3 But before I end today I'd like to thank a
4 few people here that have been very instrumental in
5 putting together the conference today and to certainly
6 Steve Kearney and your team, and Steve Sharpton from
7 the Postal Regulatory Commission. Thank you all very
8 much, and thank you for having me today. I appreciate
9 it.

10 I also want to thank Connie Totten-Oldham
11 and her team, which there's many different people here
12 from the Postal Service working with Connie on putting
13 together the overall summit today, making sure
14 everything has gone fairly smoothly, making sure we
15 had a wonderful lunch, and also making sure the
16 weather was good today. So we'll give her the credit
17 and thanks. Thank you all for your participation.
18 Have great trips home, and be very safe. Thank you.

19 (Whereupon, at 4:28 p.m., the meeting in the
20 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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