

USPS-T-5

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

CONFIRM

Docket No. MC2002-1

DIRECT TESTIMONY
OF
JAMES M. KIEFER
ON BEHALF OF
UNITED STATES POSTAL SERVICE

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- Attachment A Projected Demand For Confirm[®]
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- Attachment C Proposed Confirm[®] Classification and Pricing Details
- Attachment D Financial Summary for Confirm[®]

1

AUTOBIOGRAPHICAL SKETCH

2 My name is James M. Kiefer. I am an Economist in Pricing and
3 Classification, United States Postal Service. Since joining the Postal Service in
4 1998, I have worked on issues related to Package Services, Special Services,
5 nonletter-size Business Reply Mail, and other pricing issues.

6 Prior to joining the Postal Service I worked for the Vermont Department of
7 Public Service, first as Power Cost Analyst, and later as Planning
8 Econometrician, where I investigated utility costs, rates, load forecasts and
9 long-term plans. I also developed long range electric generation expansion plans
10 for the State, performed economic impact studies, and contributed to a long-term
11 energy use plan for Vermont. I have testified as an expert witness before the
12 Vermont Public Service Board on many occasions on economic issues involving
13 cost of power, generation expansion plans, least cost integrated planning, load
14 forecasts, and electric utility rates.

15 Before working in Vermont, I was a Principal Analyst with the Congressional
16 Budget Office. Past work experience also includes work with the U.S.
17 Department of Commerce and work in production management in private
18 industry.

19 I earned a BA in Chemistry from the Johns Hopkins University, an MBA from
20 Rutgers University, and an MA degree in International Relations from the Nitze
21 School of Advanced International Studies. I then returned to Johns Hopkins in
22 Baltimore to study Economics where I earned further graduate degrees in 1983
23 and 1986.

24 I have provided testimony before the Postal Rate Commission previously in
25 Docket No. MC99-1, Docket No. MC99-2, Docket No. R2000-1 and Docket No.
26 R2001-1.

1 **I. PURPOSE OF TESTIMONY**

2 My testimony presents the Postal Service's pricing and classification
3 proposals for Confirm[®]. My testimony describes the design of the new fee and
4 classification changes, and discusses the financial impacts of my proposals. My
5 testimony also shows how the proposed classification and fee changes are
6 consistent with the classification and pricing criteria set forth in the Postal
7 Reorganization Act.

8 In developing my testimony I have relied on the testimony and work of
9 several other witnesses. These witnesses are identified in my testimony.
10 Detailed citations are given in the attachments. There are no workpapers or
11 library references directly associated with this testimony.

1 **II. SUMMARY OF CLASSIFICATION AND PRICING PROPOSALS**

2 My testimony proposes the establishment of a new classification and
3 accompanying fees for Confirm[®] service. The proposal calls for Confirm[®] service
4 to be offered in a three-tiered subscription format, with the component
5 subscriptions named Silver, Gold and Platinum. Silver subscriptions would last
6 for three months and entitle the subscriber to one ID Code and 15 million scans.
7 The proposed subscription fee is \$2,000.

8 Gold subscriptions are for a term of one year and entitle the subscriber to
9 one ID Code and 50 million scans. The proposed subscription fee is \$4,500.

10 Platinum subscriptions are for a term of one year and entitle the
11 subscriber to three ID Codes and unlimited scans. The proposed fee is \$10,000.

12 I also propose to allow subscribers to purchase¹ additional ID Codes for
13 \$500 per three months, or \$2,000 per year. Silver subscribers would be allowed
14 to purchase additional scans, in blocks of two million scans, for \$500; Gold
15 subscribers would be allowed to purchase additional scans, in blocks of 6 million
16 scans, for \$750.

¹ For purposes of this discussion, “purchase” as used here and throughout this testimony, denotes the acquisition of a good or service, but not a contractual transfer of title.

1 III. RATIONALE FOR CLASSIFICATION AND PRICING PROPOSALS

2 A. Pricing Issues

3 Confirm[®] is a product that presents several challenges to the traditional
4 approach used by the Postal Service and the Commission when pricing services.
5 Like many other electronic products, Confirm's costs are mostly fixed. In
6 contrast, the per-usage costs are extraordinarily small, so small that they
7 approach zero. In addition to these technical issues, Confirm[®] presents some
8 novel and interesting policy concerns that need to be addressed when pricing the
9 product. Confirm[®] is a service that benefits not only postal customers who use it,
10 but also the Postal Service by providing a novel view of its operations that may
11 lead to important performance measurement benefits. While the customer's
12 benefits begin to accrue at almost any level of usage, the Postal Service's
13 greatest benefits flow from widespread usage of the product. This attribute
14 justifies a pricing stance that promotes product usage.

15

16 B. Potential Pricing Approaches

17 As Confirm[®] was being developed, the Postal Service considered two
18 distinct approaches to pricing the product. These approaches, described below,
19 can be referred to as transaction based pricing and subscription based pricing.

20

21 *Transaction Based Pricing*

22 This is the familiar approach underlying most of the Postal Service's
23 pricing. Customers pay a set charge for every unit of product or service they
24 purchase. The unit charge covers all costs of providing the product, both fixed
25 and marginal, as well as makes a contribution toward the Postal Service's
26 institutional costs.

1 With most postal products, the marginal costs of additional mail pieces
2 constitute a large portion of the totality of cost causally related to that product.
3 As mentioned earlier, Confirm[®] is different in this respect. Once the Confirm[®]
4 hardware and software are in place, the cost of additional scans is extremely
5 small. A transaction based price would accordingly exceed the true marginal
6 cost by a large factor. This would be economically inefficient pricing, and would
7 likely produce several undesirable outcomes:

- 8 • It would lead some potential customers to restrict usage by barcoding only
9 some mailings or by just “seeding” barcoded pieces within a larger mailing.
10 Limiting the number of barcoded pieces both diminishes the value of the
11 information received by the customer and, more critically, impairs use of the
12 Confirm[®] product for measuring operational performance.
- 13 • It would also increase administrative costs since each transaction would have
14 to be tracked and billed.
- 15 • It would increase the difficulty of projecting Confirm[®] revenues, since they
16 would fluctuate depending on customers’ potentially volatile needs.

17 18 *Subscription Based Pricing*

19 The simple alternative to pricing Confirm[®] by the number of scans is a
20 subscription price. Under this approach, customers would pay a fixed fee to use
21 Confirm[®] for a specified period of time. During the subscription period they could
22 use the service without paying for each transaction. Pricing by subscription has
23 several attractive features:
24

- 25 • It would encourage Confirm[®] subscribers to place barcodes on all their mail
26 rather than limiting usage to occasional mailings, or seeding barcodes within
27 mailings.

- 1 • It is easier to administer than transaction based pricing, since the Postal
2 Service would have to bill for a limited number of subscriptions, rather than
3 tracking and billing all transactions.
- 4 • It would make Confirm[®] revenue forecasting easier, since the number of
5 subscriptions would likely be more stable than the number of barcoded pieces
6 mailed.

7

8 Along with these advantages, pricing by subscription also presents several
9 challenges that, while not insurmountable, require that they be addressed with
10 care to preserve the full benefits of the subscription approach. These issues will
11 be explored more fully in the Rate Design section.

12 After giving consideration to these two approaches, the Postal Service
13 decided that subscription based pricing would better meet the goals established
14 for the Confirm[®] product (see the testimony of witness Bakshi—USPS-T-1—for a
15 detailed discussion of the goals of Confirm[®]), and subscription pricing was the
16 model tested in the Confirm[®] market research.

17

18 **C. Rate Design**

19 While using subscription based pricing may better reflect the cost
20 causation for Confirm[®], it does raise several other issues. These are the level of
21 the subscription price, and what services would be offered for the basic
22 subscription price. Related to the second issue is whether to offer different kinds
23 of subscriptions and service enhancements with different fees for each.

24

1 **1. Level of Subscription Price**

2 If the Postal Service were to adopt a “one size fits all” approach to
3 subscription pricing, the price needed to cover costs might be too high and
4 ultimately discourage some potential customers from using Confirm[®]. For
5 example, some potential customers might mail only once a year, and would not
6 find an annual Confirm[®] subscription cost effective. On the other hand, if the
7 subscription price were set too low—a “mass-marketing approach”—it might
8 entice many small users to sign up for the service. In this case Confirm[®]'s
9 administrative system might find itself overburdened providing customer support
10 services for small customers at a cost greater than the revenue these customers
11 generate.

12 To address these concerns, it is reasonable to set the subscription price
13 high enough to discourage casual users, but to offer service alternatives that
14 encourage serious, but occasional, users to participate. This pricing stance is
15 consistent with Confirm[®]'s business goal of focusing on the Postal Service's core
16 business market, as described in the testimony of witness Bakshi.

17

18 **2. Standard Service Offerings**

19 To balance the competing objectives of making Confirm[®] attractive to the
20 occasional or trial while generating sufficient revenue to cover Confirm[®]'s total
21 costs, the Postal Service is proposing to offer Confirm[®] in a three-tiered structure.
22 Attachment C to my testimony describes these three tiers—Silver, Gold and
23 Platinum—as well as the service levels offered in each tier. By offering one
24 product with a limited level of service, the Silver subscription, the Postal Service
25 can set the subscription fee at a level that encourages, rather than discourages,
26 customers who only have a limited, or occasional, need for Confirm[®].

1 The Gold subscription offers a basic set of service features that is
2 expected to meet the needs of most of the target customer group. For customers
3 who require a premium level of service, the Postal Service is proposing the
4 Platinum subscription. This subscription offers the highest level of service, with
5 extra ID Codes and unlimited scans. These customers can be charged a
6 premium subscription fee, reflecting the higher level of service offered by the
7 Platinum subscription.

8

9 **3. Service Expansion Features**

10 The Postal Service is aware that some potential customers may find that
11 they outgrow their initial service levels and, therefore, would like to expand to one
12 or more service features without graduating to the next tier. For example, a
13 customer who was interested in sending out a large, one-time mailing might find
14 that the Silver subscription would be the most cost effective choice, except that
15 the number of scans offered in the basic Silver subscription, 15 million, was too
16 few to adequately service the mailing. Rather than requiring this mailer to
17 upgrade to a Gold subscription, the Postal Service is proposing to allow the
18 customer to purchase service expansions. Customers in each tier would be able
19 to purchase additional scans or additional ID Codes.²

20 Not only would this unbundling of service features permit customers to
21 tailor Confirm[®] to meet their own requirements in a cost-effective manner, it also
22 would help to keep subscription fees down. Rather than build higher levels of
23 service into the standard subscription tiers, and collect higher subscription fees
24 from all customers, the Postal Service believes that only those customers who
25 need the expanded service should pay. Incorporating service feature unbundling

² Subscribers to the Platinum service already receive unlimited scans, so their service expansion options are limited to purchasing additional ID Codes.

1 into the rate design will help to keep subscription prices low and encourage wider
2 use of Confirm[®].

3 Moreover, the Postal Service expects that some Gold subscription
4 customers will find that, due to unforeseen circumstances, their need for scans
5 and/or ID Codes has increased significantly in the middle of the yearlong
6 subscription term. If the increased need were large enough it would be
7 uneconomical to purchase these service enhancements in a piecemeal fashion.
8 Rather, the Postal Service proposes to allow Gold subscribers may accordingly
9 upgrade their subscriptions to Platinum, retroactive to the beginning of the Gold
10 subscription term by paying the difference in the subscription fees. This feature
11 will give customers the added flexibility to respond economically to changed
12 business conditions.

13

14 **D. Proposed Pricing**

15 To gauge mailer response to the three-tiered subscription proposal, the
16 Postal Service retained National Analysts to perform a market study. This study
17 and its results are described in detail in the testimony of witness Rothschild
18 (USPS-T-4). The market study investigated potential customer response at two
19 price levels: a high price point and a low price point. In the study, potential
20 customers indicated the number of Silver, Gold, and Platinum subscriptions they
21 would purchase, as well as the number of blocks of additional scans and the
22 number of additional ID Codes they would purchase at each of the two price
23 points. Customers who indicated that they would purchase Confirm[®]
24 subscriptions and additional scans or ID Codes were also asked to indicate the
25 likelihood that they would make each purchase. National Analysts used these
26 “likelihood of purchase” responses to adjust the number of subscriptions or
27 service enhancements reported in the survey for the probability of purchase.

1 At the request of Postal Service management, witness Rothschild
2 quantified how many subscriptions and service enhancements would be
3 purchased by only those customers whose probability of purchase was 80% or
4 higher. The Postal Service believes that the projections of subscriptions and
5 service enhancement purchases derived using this 80% probability cutoff
6 represents a reasonable, conservative and appropriate forecast of demand for
7 the new Confirm[®] service. Both witness Nieto (USPS-T-3) and I have adopted
8 this forecast for the purposes of developing the cost and revenue projections we
9 are filing in this case.

10 Attachment A to my testimony presents a summary of the demand
11 forecast. For each price point the attachment shows the number of subscriptions
12 and service enhancements, adjusted for probability of purchase, for those
13 potential customers whose probability of purchase was at least 80%. Comparing
14 the customer response at the two price points makes it immediately apparent that
15 the demand for Confirm[®] is highly price elastic.

16 Attachment B shows the projected revenue produced from pricing
17 Confirm[®] at both the high and low price points, using the forecasted volumes
18 from Attachment A. Pricing Confirm[®] at the high price points yields projected
19 annual revenue of \$5.3 million. Offering Confirm[®] at the low price points
20 produces projected annual revenue of \$9.2 million. The fact that lower prices
21 generate much higher revenue is further evidence of the high price elasticity of
22 demand.

23 I propose that the Commission recommend Confirm[®] as a new product
24 classification, with each tier and expanded service option priced using the low
25 price points tested in the market research. Attachment C summarizes my
26 classification and pricing proposals.

1 My proposed pricing reflects one slight deviation from the low-point
2 pricing. Instead of pricing additional scans for Gold subscriptions at \$1,500 for
3 12 million scans, I am proposing a price of \$750 for 6 million scans. Offering
4 additional scans in smaller blocks will give subscribers added flexibility when
5 using Confirm[®]. This slight pricing change could conceivably lead either to more
6 or fewer additional scans sold than projected in Attachment A. I believe the net
7 effect of this change will not cause Confirm[®] revenues to deviate substantially
8 from the revenues I show in Attachment B. In any event, any likely deviation is
9 well justified, in my judgment, by the enhanced attractiveness the added flexibility
10 brings to Confirm[®].

11

12 **E. Revenue Impact and Cost Coverage**

13 Under my proposed rates I project that Confirm[®] will produce revenue of
14 \$9.2 million per year. Witness Nieto estimates that the incremental costs for
15 Confirm[®] will be approximately \$5.0 million in FY 2003. My pricing proposal
16 produces a cost coverage of 182% in 2003 over these incremental costs.

17 The pricing I have proposed adequately covers Confirm's costs and
18 makes a reasonable contribution toward the Postal Service's institutional costs
19 (see Attachment D for a financial summary of my Confirm[®] proposals). The
20 Confirm[®] cost coverage for FY 2003, 182%, is within the range of the Postal
21 Service's FY 2003 cost coverages for First-Class letters and Standard Mail mail
22 pieces proposed in Docket No. R2001-1.³

23 My proposed cost coverage for Confirm[®] is slightly above the coverage for
24 all domestic mail proposed by the Postal Service in the recent Docket No.

³ The cost coverage for First-Class letters is 191% and for ECR/Nonprofit ECR Standard Mail is 205%, both calculated using the Postal Service's incremental cost estimates. The comparable coverage for Regular and Nonprofit Standard Mail is 142%.

1 R2001-1 omnibus rate case (180% over volume variable costs).⁴ I believe my
2 proposal is reasonable, particularly so when several important factors are taken
3 into consideration.⁵

- 4 • Confirm[®] is a new product and neither its usage nor costs can be
5 projected with the highest degree of certainty. For this reason it is
6 reasonable to build an extra “safety margin” into the rates to ensure
7 that the product covers its costs and does not impose any net burden
8 on the Postal Service.
- 9 • If adoption of Confirm[®] turns out to be slower than anticipated, program
10 management might find it advisable to enhance the promotion
11 campaign for Confirm[®]. Having a cushion built into Confirm[®]'s net
12 revenues would permit management to increase advertising
13 expenditures if needed to meet program goals without concerns that
14 additional promotions might cause Confirm[®] to fail to cover its costs.

15
16 My proposal to price Confirm[®] at the low price points tested in the market
17 research produces a win-win situation. The lower prices for subscriptions extend
18 the opportunity for a wider range of mailers to enjoy the benefits from using
19 Confirm[®]. Lower prices for additional scans will encourage mailers to use
20 Confirm[®] on more mail pieces, again benefiting mailers, while better helping the
21 Postal Service to achieve its monitoring goals. In addition to these tangible
22 benefits for both mailers and the Postal Service, the lower prices generate higher

⁴ On April 8, 2002, the Postal Service Governors adopted the Recommended Decision of the PRC on rates and fees proposed in Docket No. R2001-1. Due to a settlement reached in that proceeding, the approved rates and fees differed slightly—but not materially—from those initially proposed by the Postal Service, however, the overall cost coverage remained the same.

⁵ My testimony here, however, should not be interpreted to suggest that these factors necessarily *require* a cost coverage above or near the system-wide average. Instead, these factors show why such a cost coverage is not unreasonable under circumstances in which the market research

1 revenue, thereby enhancing the financial security of the product and providing a
2 greater contribution toward the Postal Service's institutional costs.

3

4 **F. DMCS and Fee Schedule Changes**

5 The proposed language for DMCS Section 991 and Fee Schedule 991
6 appear as Attachments A and B to the Postal Service's Request. The description
7 of Confirm[®] itself is fairly straightforward. The nature of Confirm[®], however, does
8 not lend itself to a detailed description of prerequisite classifications or specified
9 Special Services. Although Confirm[®] PLANET barcodes can be attached to any
10 mail piece, scans of those barcodes will occur (and scan data will be retrievable
11 by customers) only if a given mail piece is processed on letter or flat automation
12 sorting equipment.

13 Since a mailer can readily apply a PLANET Code to all barcoded pieces,
14 precluding a customer from using PLANET Codes on mail pieces that the Postal
15 Service would not ordinarily sort on equipment that allows the PLANET barcode
16 to be read would be wasted effort. Such a customer might reasonably want to
17 use Confirm[®] to know when and where a piece did get read, should that happen.
18 Accordingly, beyond the shape-based limitations on Confirm[®] pieces, there is no
19 reasonable means of identifying mail that should never have a PLANET barcode,
20 nor is there a need to identify such pieces since there is no fee associated with
21 individual pieces bearing a PLANET Code.

22 When it considered which mail Confirm[®] would likely be used to track, the
23 Postal Service was unable to eliminate any subclasses within the First-Class
24 Mail, Standard Mail and Periodicals classification schedules. Moreover, if the
25 Postal Service were to attempt to exclude certain subclasses from Confirm[®], and

indicates that a cost coverage of the magnitude I propose does not appear to imperil the basic financial viability of the service.

1 a Confirm[®] customer were nonetheless to apply PLANET Codes to mail pieces in
2 excluded subclasses, there would be no way for the Postal Service to prevent the
3 customer from receiving scan data if sortation occurred on automated equipment.

4 The Availability subsection of proposed DMCS 991 does identify the
5 prerequisites for use of Confirm[®], which amount to payment of a subscription fee,
6 assignment of one or more ID codes, and technically compliant mail pieces.

7 The Postal Service has identified no operational or other basis for
8 precluding the use of any particular special service together with Confirm[®]. It
9 seems more prudent to permit customers to choose those options they prefer,
10 incidental to their participation in Confirm[®]. Accordingly, DMCS subsection
11 991.41 states that Confirm[®] neither precludes nor requires any other special
12 services.

13

1 **IV. CLASSIFICATION CRITERIA**

2 Section 3623(c) of USC Title 39 requires the Commission to make its
3 recommended decision on establishing a new classification in accordance with
4 the following factors:

- 5 (1) the establishment and maintenance of a fair and equitable classification
6 system for all mail;
- 7 (2) the relative value to the people of the kinds of mail matter entered into the
8 postal system and the desirability and justification for special
9 classifications and services of mail;
- 10 (3) the importance of providing classifications with extremely high degrees of
11 reliability and speed of delivery;
- 12 (4) the importance of providing classifications which do not require an
13 extremely high degree of reliability and speed of delivery;
- 14 (5) the desirability of special classifications from the point of view of both the
15 user and of the Postal Service; and
- 16 (6) such other factors as the Commission may deem appropriate.

17

18 As is the usual practice, I will refer to these factors in the discussion below
19 as classification Criteria 1 to 6.

20

21 *Discussion*

22 Confirm[®] offers a valuable service enhancement to the users of First-
23 Class Mail, Standard Mail, and Periodicals. Destination Confirm[®] enables
24 business mailers to know with reasonable assurance when their customers will
25 receive their mail. Origin Confirm[®] allows mailers to know when their customers
26 have sent in payments, orders, or donations, so that they can allocate staff
27 appropriately to process this incoming mail. Confirm[®] increases the predictability

1 of mail flows to business mailers, and enables them to manage direct mail
2 campaigns more effectively, and to respond more cost-effectively to customer
3 responses. Confirm[®] also can provide valuable information to the Postal Service
4 by allowing it to monitor mail flows in real time and observe where and how mail
5 processing bottlenecks occur. These features make Confirm[®] both valuable and
6 desirable to both the Postal Service and its customers (Criteria 2 and 5).

7 Confirm[®] is offered to customers who mail First-Class Mail and
8 Periodicals. These mail classifications generally are given priority in processing
9 to ensure that they are delivered speedily and reliably. By enabling mailers to
10 predict the delivery dates for their mail better, Confirm[®] enhances the reliability of
11 these types of mail and makes them more effective for marketing purposes.
12 Confirm[®] also increases a business' ability to manage incoming reply mail more
13 cost-effectively. These features add important value to users of First-Class Mail
14 and Periodicals (Criterion 3).

15 Confirm[®] is also offered to customers who mail Standard Mail, which
16 receives a lower level of service than First-Class Mail. Many mailers use
17 Standard Mail for direct marketing or, in the case of nonprofit mailers, to solicit
18 contributions for charitable causes. Because of its lower service level, it can be
19 more difficult to predict the time between mailing and delivery for Standard Mail
20 than for First-Class Mail. Confirm[®] allows Standard Mail users to predict when
21 their materials will arrive in their customers' homes and time their activities to
22 enhance the effectiveness of their follow-up efforts. This capability offers
23 important value to users of Standard Mail (Criterion 4).

24 The proposal to establish Confirm[®] as a classification reflects a balanced
25 consideration of all relevant criteria. Confirm[®] meets the needs of customers by
26 providing a valuable service enhancement to users of several mail classes. It
27 also enables the Postal Service to better monitor mail flows and processing

- 1 performance. It provides these benefits without adversely affecting the public,
- 2 businesses, the Postal Service, or other mail classes. In sum, the proposal is fair
- 3 and equitable (Criterion 1).

1 **V. PRICING CRITERIA**

2 Section 3622(b) of USC Title 39 requires the Commission to make its
3 recommended decision on changes in rates and fees in accordance with the
4 following factors:

- 5 (1) the establishment and maintenance of a fair and equitable schedule;
- 6 (2) the value of the mail service actually provided each class or type of mail
7 service to both the sender and the recipient, including but not limited to the
8 collection, mode of transportation, and priority of delivery;
- 9 (3) the requirement that each class of mail or type of mail service bear the
10 direct and indirect postal costs attributable to that class or type plus that
11 portion of all other costs of the Postal Service reasonably assignable to
12 such class or type;
- 13 (4) the effect of rate increases upon the general public, business mail users,
14 and enterprises in the private sector of the economy engaged in the
15 delivery of mail matter other than letters;
- 16 (5) the available alternative means of sending and receiving letters and other
17 mail matter at reasonable costs;
- 18 (6) the degree of preparation of mail for delivery into the postal system
19 performed by the mailer and its effect upon reducing costs to the Postal
20 Service;
- 21 (7) simplicity of structure for the entire schedule and simple, identifiable
22 relationships between the rates or fees charged the various classes of
23 mail for postal services;
- 24 (8) the educational, cultural, scientific, and informational value to the recipient
25 of mail matter; and
- 26 (9) such other factors as the Commission deems appropriate.
- 27

1 As is the usual practice, I will refer to these factors in the following
2 discussion as pricing Criteria 1 to 9.

3

4 *Discussion*

5 Confirm[®] service offers important value to users of First-Class Mail,
6 Standard Mail, and Periodicals. As discussed in the Classification Criteria
7 section, Confirm[®] allows a degree of mail tracking and improved delivery
8 predictability that otherwise would not exist for these mail classifications.
9 Confirm[®] provides large business mailers with a cost-effective way to gain
10 valuable information that will enable them to use mail more efficiently in their
11 operations (Criterion 2).

12 Attachment D shows that the proposed fees for Confirm[®] cover all
13 program costs and make a significant and reasonable contribution toward the
14 Postal Service's institutional costs. The proposed cost coverage is 182%
15 compared to 180% for domestic mail as a whole. This coverage is reasonable
16 considering the value of the enhancements Confirm[®] offers to users of First-
17 Class Mail, Standard Mail, and Periodicals (Criteria 3 and 2).

18 The use of Confirm[®] by business mailers will be transparent to the general
19 public and the public will experience no increase in the rates they pay. Only
20 those business mailers who choose to subscribe to Confirm[®] will pay for the
21 service, and our market research indicates that those who sign up believe that
22 they will receive benefits that fully compensate them for the proposed level of
23 fees. Establishment of Confirm[®] should also not unduly affect postal competitors.
24 Some private sector businesses do provide delivery services for nonletter mail—
25 such as advertising brochures—by using delivery mechanisms like newspaper
26 inserts, door-to-door delivery, etc. With these alternate delivery channels,
27 mailers can often identify the date that their materials will be delivered with a

1 reasonable degree of certainty. Confirm[®] simply adds conceptually similar
2 capability to Postal Service mail and in no way gives the Postal Service an unfair
3 advantage in the marketplace for the delivery of such materials (Criteria 4 and 5).

4 Several alternatives also exist for letter mail that might use Confirm[®]
5 service. Business mailers and their customers can communicate orders, bills,
6 payments, statements of account, solicitations, and similar letter mail using fax
7 and Internet communications like e-mail. Confirm[®], by enhancing the use of
8 hard-copy letter mail, allows hard-copy mail to compete more effectively against
9 electronic alternatives, and helps to resist potential erosion of letter mail volumes
10 to these electronic channels (Criterion 5).

11 Furthermore, Confirm[®] does not alter or affect the degree of preparation
12 required for eligibility for worksharing discounts, or the size of the discounts
13 themselves. Customers who wish to participate in the Confirm[®] program will be
14 required to prepare mail in certain ways, such as applying PLANET codes as
15 specified by the Postal Service. These preparation requirements are discussed
16 in general in witness Bakshi's testimony, and are presupposed in the cost
17 estimates developed by witness Nieto and in my pricing proposals (Criterion 6).

18 Introduction of a new product always adds some degree of complexity to
19 the mail classification schedule. In the case of Confirm[®], the added complexity is
20 warranted for several reasons. First, the customers for Confirm[®] are large,
21 sophisticated business mailers who are accustomed to dealing with complex
22 postal rate schedules and regulations. Adding a new classification and
23 associated fees should not constitute a significant burden for them. Second, the
24 overall pricing structure for Confirm[®] is relatively simple in comparison to its
25 benefits. On the whole, the Confirm[®] pricing structure achieves a reasonable
26 balance between simplicity and the goal of having identifiable relationships
27 between fees and the level of services offered (Criterion 7).

1 Confirm[®], unlike the pieces of mail it can be used to track, has no intrinsic
2 content that is customarily acknowledged to have ECSI value. Hence Criterion 8
3 does not affect Confirm[®]'s proposed cost coverage.

4 My proposed fees for Confirm[®] reflect a balanced consideration of all
5 relevant criteria. Confirm[®] provides a valuable enhancement to users of certain
6 mail classifications at a price that covers all expected costs and makes a
7 reasonable contribution to the Postal Service's institutional costs. The proposed
8 pricing will not affect rates seen by the general public and does not impose any
9 significant additional complexity on potential customers. Confirm[®] will enhance
10 the attractiveness of the Postal Service's core mail products while having no
11 undue adverse impact on other mail classes or on private sector delivery
12 services. In sum, my proposed pricing is fair and equitable (Criterion 1).