

USPS-T-2

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

CONFIRM

Docket No. MC2002-1

DIRECT TESTIMONY
OF
JOE LUBENOW
ON BEHALF OF
UNITED STATES POSTAL SERVICE

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1 Direct Testimony
2 Of
3 Joe Lubenow
4

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6 **Autobiographical Sketch**

7 My name is Joe Lubenow. I currently serve as the elected industry chair
8 of the Mailers Technical Advisory Committee (MTAC), a position I have held
9 since January 2001. During the period 1999-2000, I served as vice-chair of
10 MTAC, and prior to that I chaired the MTAC Engineering and Technology
11 subcommittee from 1995-1998. During that time I sponsored the MTAC work
12 group on the PLANET Code that has continued to this day. Also, I am the
13 industry co-chair of the MTAC Presort Optimization work group. Finally, in the
14 USPS product redesign effort, I serve on the Steering Committee and am co-
15 chair of the Address Quality work group.

16 Professionally, I am President of Lubenow and Associates, a firm
17 specializing in international address standardization and presort optimization.
18 Previously, I was Vice President of Postal Affairs for Experian (1998-2001). I
19 held a similar position for Metromail (1995-1998), formerly an R.R. Donnelley and
20 Sons company and thereafter an independent company.

21 I am on the Executive Committee of PostCom, and chair its Postal
22 Operations subcommittee. Moreover, I chair the Addressing/Distribution
23 Committee of IDEAlliance (formerly the Graphic Communications Association)
24 and lead its Address Data Interchange Specification (ADIS) project. I represent
25 PostCom on the Universal Postal Union (UPU) Direct Mail Advisory Board

1 (DMAB), serve on the DMAB Steering Committee, and chair its Address
2 Management Task Force.

3 I have previously appeared before the Commission as an industry witness
4 in MC95-1, where I submitted testimony in support of the USPS proposals
5 related to address quality. I also appeared as a witness for PostCom and the
6 Mail Advertising Service Association (MASA) in Omnibus Rate Case R2000-1,
7 where I testified on issues related to address quality.

8 I hold a B.A. from Lawrence University and an M.A. in philosophy from the
9 University of Chicago. I am married with three children and live in Chicago.

10

11

1 **I. Purpose of my Testimony**

2 The testimony is intended to show how the Confirm[®] program has changed
3 the pre-existing environment, to support the proposal of the Postal Service with
4 regard to the Confirm[®] program, to further explain the many benefits of the program
5 for both the mailing industry and the Postal Service, to provide some background on
6 the evolution of the ways in which mailers have used the program to date, and to
7 suggest some further benefits that may be attainable in the future. There are no
8 workpapers or library references directly associated with this testimony.

9

10 **II. Before the Confirm[®] Program: The Black Box Theory**

11 In my view, the Postal Service has long functioned as a “black box” to
12 mailers, who have become accustomed to the experience of entering their mail at
13 one end, and then waiting to see when it came out the other, without much ability to
14 know what was happening in between. For most of the history of the Postal Service,
15 there was no other possible alternative. The technology did not exist to track mail
16 pieces, aside from exceptional cases that involved high-value items, utilized labor-
17 intensive processes, and were available only for fees many times greater than
18 ordinary postage rates. But more recently, it has become both technically and
19 economically feasible to change this situation.

20 There is much to be gained if the Postal Service can become a “glass box”,
21 with its operations visible at a number of points, both to those responsible for those
22 operations, and to the customers who submit the mail pieces. For mail pieces that
23 are processed on automated equipment, the development of barcodes for sorting

1 the mail also allows the possibility that those same barcodes, or similar barcodes,
2 can be used to identify the mail. Often this can be done primarily with a passive
3 approach, in which the equipment reads the tracking codes as a byproduct of sorting
4 the mail. This is one way in which the Postal Service can become more like a
5 “glass box”. This openness is beneficial to mailers and postal managers alike, and
6 is well suited for an institution that seeks to maintain public trust and confidence in
7 its ability to perform well under all circumstances. Indeed, the advantages of the
8 “glass box” paradigm show up not only in times of difficulty, but also in normal times,
9 particularly for mailers who value consistency and reliability in mail service, which
10 the great majority do.

11 To that end, the Postal Service, working with the mailers represented on the
12 Mailers Technical Advisory Committee, set out to provide a means to track ordinary
13 mail pieces on their journey through the postal system. After a period of
14 experimentation, the outcome was the introduction of Confirm[®]. Confirm[®] provides
15 customers with electronic data concerning both outgoing and incoming mail pieces.
16 The system collects and summarizes information captured by mail processing
17 equipment and transmits that information to the customer using electronic
18 communications.

19 It is important to understand that the Confirm[®] program enhances the value of
20 mail as a means of communication. If a firm uses television advertising, it knows
21 exactly when the message will be delivered. If it uses newspaper advertising, the
22 delivery of the message is also subject to control within a matter of hours. But mail
23 delivery, especially in Standard Mail, which after all is advertisement, has a greater

1 degree of variability. Mailers have long understood that this is the case, and have
2 known that the rates they pay are partly based on the value of the service they
3 receive for a particular mail class. Nonetheless, this variability detracts from the
4 value of the service, and mailers have always sought to anticipate it where possible,
5 and to compensate for it through means under their control such as drop shipping
6 and meeting critical entry times. Being able to follow the course of the mail through
7 the system provides a new opportunity to measure this variability, to gain knowledge
8 of it, to adjust to it, and over time to reduce it, without blurring the identity of mail
9 classes or diminishing the distinctive features or service expectations of any mail
10 class. This is quite an accomplishment.

11

12 **III. Proposal of the Postal Service**

13 Postal Service pricing witness Kiefer (USPS-T-5) makes several points with
14 regard to the pricing of Confirm[®] that are worthy of emphasis and deserve additional
15 support.

16 Witness Kiefer comments in his testimony that the per-unit costs of Confirm[®]
17 are “extraordinarily small”. This is the basic fact underlying the relatively moderate
18 subscription prices that are proposed, with a cost coverage that leaves room for
19 error in estimating the market for the services.

20 One reason for this can be traced back to the ingenuity of the Postal Service
21 engineers who invented the PLANET Code on which Confirm[®] is based. They used
22 the same two-state symbology as the POSTNET code. The POSTNET code
23 represents digits from zero to nine with two tall bars and three short bars, while the

1 PLANET code represents the same digits with three tall bars and two short bars.
2 Since most mailers and service providers already had experience printing the
3 POSTNET code, this means that the PLANET Code is easy to print.

4 Human beings may or may not see much of a difference between the
5 PLANET and POSTNET codes, but postal automation equipment can distinguish
6 them easily and reliably. This is because the barcode readers and other postal
7 automation equipment were already configured to read POSTNET, and had a
8 sufficient margin of safety that two barcodes could be read in the same amount of
9 time that it takes to read one. In terms of their interest in tracking and the
10 extensiveness of their use, mailers may be divided into three groups. The first group
11 will want to make extensive and regular use of the PLANET Code in order to track
12 virtually all of their mail pieces. Then there are others that only want to use the
13 PLANET Code as a sampling technique, often in conjunction with seeding some of
14 the mail pieces. This second group will use the PLANET Code regularly but
15 selectively. Yet another segment of the mailing population only wants to know
16 where their mail is during times of difficulty. But, many such difficulties, such as
17 weather-related issues and the events of last September 11th, cannot be predicted in
18 advance, hence this third group may behave in a manner similar to either of the first
19 two groups.

20 For a time there was an industry debate, with some mailers taking the
21 position that the PLANET Code should be a free service, while others felt there
22 should be a charge for it. Those favoring a free service argued that the Postal
23 Service was the major beneficiary of the PLANET Code, and should want as many

1 mailers as possible to use it. What price could attract more users than no charge at
2 all? Others thought that fairness required that users pay for PLANET Codes, so as
3 to avoid even a slight impact on the rates of non-Confirm[®] users. In my role as
4 industry chair of MTAC, I advocated that the Postal Service should charge for the
5 PLANET Code.

6 There were three major reasons for my position. The first is that it seemed
7 unproductive to have some mailers opposing a key part of the USPS information
8 platform based on their own desire not to take advantage of it.

9 Second, from the point of view of users, there is a need to be able to count on
10 a certain level of service. In the early days of the program, PLANET Code scans
11 sometimes came through intermittently. When one is the beneficiary of a free
12 service, of what use is it to complain that the service is not yet perfected? On the
13 other hand, as a rate payer, one is in a better position to ask for fulfillment of the
14 service level to which the Postal Service has committed itself. Achieving this service
15 level is actually in the interest of all parties, since the Postal Service also needs the
16 data to be reliable and consistent.

17 Thirdly, one feature of the structure of the Postal Service, which may be
18 considered as an advantage or a disadvantage depending on one's point of view, is
19 that over a period of time certain types of services become institutionalized, and
20 once that has occurred, it is hard to eliminate them. For the Postal Service to move
21 toward the "glass box" paradigm, it is necessary to "cement" the key pillars of the
22 information platform, and the Confirm[®] program is one of those pillars. Witness
23 Kiefer also recognizes that the Postal Service is a beneficiary from the Confirm[®]

1 program. He further adds that unlike mailers, whose level of benefit is directly
2 proportional to the degree of use, the Postal Service benefits most from intensive
3 use, and not as much from sporadic use by mailers. He concludes that the Postal
4 Service is better served by a subscription based pricing model as opposed to a
5 transaction based pricing model.

6 This line of argument has much merit. In the MTAC work group, we pointed
7 out that, if Internet fees were assessed per mouse click, in many households a form
8 of rationing would be practiced. On the other hand, with a monthly subscription fee,
9 the users will consume more of the service. As with other parts of the information
10 platform, such as electronic communication between the mailers and the Postal
11 Service, the benefit to the Service is increased as the participation rates reach and
12 surpass a critical mass. For example, if some mailers inform the Service of
13 upcoming large mailing events, this allows for some degree of planning. But, if the
14 largest mailers all gave advance notice of upcoming mailing events, then workload
15 could be predicted, staffing adjusted, equipment utilization optimized, and
16 productivity increased. Therefore, it only makes sense to encourage high
17 participation rates through an attractive pricing policy.

18

19 **IV. Benefits of the Program**

20 The Confirm[®] program can be subdivided for purposes of discussion into two
21 distinct products, Destination Confirm[®] and Origin Confirm[®].

22 Destination Confirm[®] involves placing PLANET Codes on outbound mail
23 pieces and also requires that the mailer “start the clock” by providing a means for

1 automated identification of the time of entry of the mailing into the system. It has
2 several major uses. Mailers of Standard Mail or Periodicals who use drop shipping
3 are often trying to meet some goals in terms of the pattern of delivery of the mail
4 pieces. Often this means getting the mail pieces delivered if possible on a desired
5 day, or within a “window” of three to five days, but sometimes it means staggering
6 the delivery to smooth out call center staffing or the flow of orders. The Postal
7 Service provides delivery guidelines to help the mailer determine how to do this in a
8 general way. But, by using Destination Confirm[®], more precise data are available,
9 and by making some assumptions about the remaining time to delivery after the final
10 scan is received on a mail piece, delivery dates can be estimated fairly accurately,
11 and the drop shipping plan can be fine tuned for future mailings.

12 For mailings that must be coordinated with telemarketing efforts, knowing the
13 probable day of delivery can make a major difference. The telemarketer cannot,
14 after all, follow up on a mailing that has not yet been delivered. But calling the
15 recipient too many days after delivery risks the mail piece having been forgotten or
16 discarded. Synchronization of the call with the delivery provides a direct economic
17 benefit to these programs.

18 Origin Confirm[®] excels at supporting cash flow management and allows faster
19 processing of purchases and information requests. It uses a business or courtesy
20 reply piece with a PLANET Code to inform a recipient that a mail piece will be
21 coming before it arrives. The mail piece could be a subscription renewal, an
22 authorization for a mortgage payment, or a request for information. Since there is no
23 need for a mailer identifier because the piece can be differentiated by the POSTNET

1 code, there are at least nine digits available to the mailer to uniquely identify the
2 transaction.

3 Suppose that a series of dunning notices is to be sent out at intervals until a
4 payment is made. Knowing that the payment is on the way could prevent sending
5 out an additional notice, which provides for better customer relations as well as
6 saving money. True, there is one less mail piece for the Postal Service in this
7 situation, but the greater efficiency in using the mail is more important in the long run
8 than the temporary benefit from a superfluous mailing that serves no economic
9 purpose.

10 How can the Postal Service benefit from the Confirm[®] program? The mail
11 pieces submitted by mailers provide the USPS with an opportunity to accumulate
12 data on how quickly mail flows from point to point throughout the system. A matrix
13 could fairly easily be developed allowing internal comparisons and determination of
14 relative efficiencies and where bottlenecks are occurring.

15 Now that the Postal Service obtains “start the clock” data from Confirm[®] users
16 (discussed in more detail in section V of my testimony), where appropriate, when
17 mailers make an appointment with a plant manager to discuss the service they have
18 been receiving, the manager has at least the same information that is available to
19 the mailer. Before this recent development, mailers knew when the mail was
20 entered; however, that information was not readily available to the plant manager.
21 The new information parity clearly creates a situation that is more conducive to
22 cooperation and resolving issues.

23

1 **V. Background on How Mailers Have Used Confirm[®]**

2 An important consideration for a mailer who is considering using Confirm[®] is
3 that the service normally requires the placement of two barcodes on the same mail
4 piece. While mailers have encountered some difficulties meeting this requirement,
5 they have not been insurmountable.

6 Some mailers print the PLANET Code on the mail piece before the address
7 block is imaged. Others modify the address block to accommodate the additional
8 space needed for the PLANET Code.

9 Additionally, mailers are using “smart seeds”, which are additional mail
10 pieces, often one piece per letter mail tray, that are the only pieces in the mailing
11 that bear PLANET Codes. These pieces can be added to the mailing by the mailer,
12 or by a service provider on behalf of the mailer.

13 The Postal Service has recently been able to expand the PLANET Code to
14 fourteen digits, requiring 72 bars, as opposed to the current twelve digits, which take
15 62 bars. This is about an additional half an inch in width, so not all mailers may want
16 to use the extra two digits, particularly if they are using a constant PLANET Code.
17 But, for those who do, there is actually a fifty percent increase in mailer information
18 that is provided. The reason for this is that the mailer code assigned by the Postal
19 Service consumes five digits, the service identifier takes two digits, and the check
20 digit is one digit, so that with twelve digits currently, only four are available for the
21 unrestricted use of the mailer. With fourteen digits, six are available for the mailer.

22 What can the mailer do with these digits? Recall that the mailer receives the
23 POSTNET code back along with the PLANET code for the recorded observations.

1 In many applications, it is a priority to uniquely identify the mail piece. Often, the
2 POSTNET code alone can do this, particularly when the eleven-digit Delivery Point
3 Barcode (twelve digits with the check digit) is used. Exceptions include addresses
4 that are not complete and correct, carrying a default ZIP+4 code or even just a five
5 digit ZIP code, or mailings including multiple pieces to the same household. In these
6 situations a tiebreaker is needed, and one or two digits of the PLANET Code can be
7 used for this purpose.

8 The mailer digits can also be used to identify separate mailings, or separate
9 segments of mailings, subdivided either by production variables such as date of
10 entry, entry point or container number, or by marketing variables such as list code or
11 offer code. With multiple competing uses for the mailer digits, it is clear that having
12 six mailer digits in place of four offers additional flexibility. Some mailers will
13 purchase multiple user identifiers so as to gain the ability for further differentiation
14 and conserve the mailer digits for other purposes.

15 The Postal Service is able to provide multiple PLANET Code observations
16 back on a single mail piece. Certain mailers are interested primarily in the first
17 observation, because it is the earliest opportunity to know that a mail piece has been
18 processed. With appropriate use of the mailer digits of the PLANET Code, it may be
19 possible to infer that the container in which the mail piece was entered has been
20 processed, or even that the truck on which it arrived has been unloaded. Other
21 mailers are interested primarily in the last observation, because it is the nearest to
22 delivery. Depending on how close to the delivery office this observation occurs, and
23 what operation code is included with the data, the mailer may predict with

1 reasonable accuracy when delivery is likely to occur. Some mailers are even
2 interested in the intermediate observations, because they show how the mail piece
3 works its way through the postal system. For example, a mailer who is in a position
4 to choose between BMC, SCF, and perhaps DDU drop shipping based on costs and
5 service performance could use the intermediate observations to find out whether
6 faster delivery might be possible by increased use of drop shipping.

7 On October 1, 2001, the production version of the Confirm[®] system was
8 launched. The Advance Shipping Notice (ASN) was required, though a transition
9 period was provided for mailers to comply with the new requirement. This is how the
10 Postal Service obtains the “start the clock” data mentioned earlier. It is essential for
11 the Postal Service to have “start the clock” data, if it is to acquire the same
12 information that the mailers already have concerning the date and time of entry of
13 the mail into the system.

14 What does the evolving PLANET Code marketplace look like? For this
15 purpose, keep in mind that the mailer, mail preparer, the mail producer, and the
16 logistics service provider may all be distinct entities, or multiple roles may be
17 performed by the same company. The mail preparer is often responsible for
18 assigning PLANET Codes, but this can be done after the fact during mail production
19 as well. The ASN file can be provided by the mail preparer, but, if it is a complex
20 task due to multiple entry points, it may be submitted by the mail producer or the
21 logistics service provider. There are specialty service firms that will handle the
22 PLANET Code application and subsequent reporting, even though they may not play
23 any other role in mail preparation or mail production. These firms may or may not

1 also offer seeding of mail pieces with designated recipients who verify actual
2 delivery after the fact. Some mailers will use the PLANET Code without delivery
3 seeding, while others will keep using delivery seeding without the PLANET Code,
4 and still others will combine both techniques. Some companies will provide external
5 data to create added value within the reporting function. As with other new postal
6 functions, new firms may enter the market to meet the demand, and existing firms
7 may offer new services for the same reason.

8

9 **VI. Potential Future Direction**

10 Just recently, the International Post Corporation conducted the first tests of
11 mail tracking of ordinary letter mail using mail piece barcodes. This was done using
12 barcoded ID tagging on the back of the letters rather than mailer applied PLANET
13 Code, but it is the principle that is important. Through adoption of common barcode
14 symbologies on a worldwide basis, the day is not too far off when an international
15 program with benefits similar to Confirm[®] can become feasible. By establishing the
16 Confirm[®] program on a firm financial foundation through the proposals now being
17 considered, the USPS will gain important experience that will help it to continue to
18 play a leading role in improving the value of mail as a worldwide means of
19 communication.

20

21