

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

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EXPERIMENTAL PREMIUM  
FORWARDING SERVICE

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Docket No. MC2005-1

DIRECT TESTIMONY  
OF  
ABDULKADIR M. ABDIRAHMAN  
ON BEHALF OF THE  
UNITED STATES POSTAL SERVICE

## TABLE OF CONTENTS

|   |    |
|---|----|
| AUTOBIOGRAPHICAL SKETCH.....                                      | ii |
| I. PURPOSE OF TESTIMONY.....                                      | 1  |
| II. GUIDE TO SUPPORTING DOCUMENTS .....                           | 1  |
| III. BACKGROUND .....   | 1  |
| IV. PREMIUM FORWARDING SERVICE (PFS) COSTING<br>METHODOLOGY ..... | 2  |
| A. SET-UP COSTS .....   | 2  |
| B. PER-SHIPMENT COSTS .....                                       | 3  |
| V. CONCLUSION.....  | 5  |
| VI. APPENDIX: PREMIUM FORWARDING SERVICE COST ANALYSIS            |    |

1 **AUTOBIOGRAPHICAL SKETCH**

2 My name is Abdulkadir M. Abdirahman. In Docket No. R2001-1, I testified  
3 before the Postal Rate Commission on the costing of the Special Services. I  
4 have been an economist for the Special Studies Division of Corporate Financial  
5 Planning since 2001. I began working for the Postal Service in 1989 as a letter  
6 carrier and later became a distribution and retail window clerk. In that capacity, I  
7 was responsible for explaining and selling to postal customers a variety of postal  
8 products including the different kinds of Special Services that the Postal Service  
9 offers.

10 In the private sector, I worked as an economic consultant for Amal  
11 Express International, an export and import firm based in Dubai, United Arab  
12 Emirates. In that capacity, I conducted market feasibility cost studies and  
13 developed labor cost estimates concerning livestock exports. I have also  
14 performed consulting work for the United Nations on issues related to  
15 peacekeeping deployments in Africa.

16 I earned a Bachelor's Degree in Management from National Louis  
17 University in Evanston, Illinois in 1990 and a Masters Degree in International  
18 Transactions with a concentration in International Economics in 1996 from  
19 George Mason University in Fairfax, Virginia.

1 **I. PURPOSE OF TESTIMONY**

2 The purpose of this testimony is to provide witness Koroma (USPS-T-4)  
3 with cost data to support the Premium Forwarding Service (PFS) pricing  
4 structure.

5  
6 **II. GUIDE TO SUPPORTING DOCUMENTS**

7 In addition to this testimony, I have provided an appendix which presents  
8 my detailed cost analyses and spreadsheets. I do not otherwise have any  
9 workpapers.

10 I have relied upon the following Docket No. R2001-1 library reference in  
11 preparing my cost analyses: USPS LR-J-69, Cost Model Supporting USPS-T-42.

12 **III. BACKGROUND**

13 PFS is a reshipment service proposed by the Postal Service that would be  
14 offered to customers who travel from their primary addresses for periods ranging  
15 from two weeks to one year. PFS provides for the weekly reshipment of  
16 customers' mail, via Priority Mail<sup>®</sup>, from their primary addresses to temporary  
17 ones. Substantially all classes of mail would be reshipped this way; however,  
18 mail requiring a signature or scan upon delivery, and some packages, would be  
19 reshipped separately, as described in witness Cobb's testimony (USPS-T-1).

20 PFS customers may not make any simultaneous use of any traditional forwarding  
21 option (temporary or permanent). Witness Cobb describes how PFS works in  
22 greater detail.

23

1 **IV. PFS COSTING METHODOLOGY**

2 I developed cost estimates based upon witness Cobb's product definition.  
3 All of the costs for PFS are volume variable. The cost analysis presented in this  
4 testimony estimates the average unit cost of the proposed product. Costs are  
5 separated into two cost categories: set-up costs and per-shipment costs. The  
6 methodology used for each cost category is described in more detail below.

7

8 **A. Set-up Costs**

9 Set-up costs are the one-time costs associated with a single customer's  
10 enrollment and registration for PFS. Such costs include the processing of the  
11 PFS customer application, the collection of postage and fees, and the  
12 recordation of customer information into the PFS Master Log. The PFS costing  
13 model assumes that most of the set-up functions will be performed by a clerk,  
14 and so clerk costs are used.

15 When a customer completes a PFS application and presents it to her local  
16 delivery United States Post Office<sup>®</sup>, a clerk would process the application by  
17 checking for accuracy and completeness, verifying the identity of the applicant,  
18 confirming the start and end dates of PFS, and ensuring that the customer has  
19 no active forwarding order in effect. The processing of an application would be  
20 similar to the processing of a Post Office box application, given that the same  
21 nature and quantity of information is required. Thus, the transaction time for  
22 processing a Post Office box application serves as an excellent proxy.

1           After verifying an application, the clerk would collect all fees plus postage  
2 since a customer prepays for the entire PFS service period. The clerk would  
3 explain the composition of the required sum and collect it. This process would be  
4 similar to the collection of postage due at a call window; therefore, the collection  
5 of postage due at a call window serves as a good proxy for the PFS prepayment  
6 cost.

7           The final step in the set-up process is the recordation of customer  
8 information into the PFS Master Log. The clerk would enter each customer's  
9 reshipping information into a Master Log, which would list all of that office's PFS  
10 customers. The cost of a clerk processing Change-of-Address cards was used  
11 as a proxy for the cost of processing the Master Log, given that the amount of  
12 information entered in both processes is similar.

13           The total set-up costs, consisting of the sum of the three proxies identified  
14 above, are estimated to be \$5.01 for each PFS customer. Page 2 of the  
15 appendix shows this calculation in detail, and also identifies the sources behind  
16 each of the proxy cost numbers.

17

18           **B. Per-Shipment Costs**

19           Per-shipment costs are the costs associated with mail separation,  
20 repackaging, and dispatch. The PFS costing model conservatively assumes that  
21 most of the per-shipment-related activities are performed by the carrier. While a  
22 clerk may perform some of the in-office functions associated with the preparation

1 of PFS mail for shipment, the higher labor rates for carriers are used for all  
2 activities.

3 Per-shipment costs begin with mail separation. Generally, PFS activities  
4 will be performed at the delivery unit serving the customer's permanent address  
5 by the customer's carrier, or designated clerk. Throughout the week, during the  
6 casing process, the carrier would separate the PFS customer's mail and hold it  
7 until it is reshipped. The cost of separating the mail of a customer when mail is  
8 being held or forwarded was used as a proxy for the mail separation cost of PFS  
9 mail because the activities will be similar.

10 Once per week, the carrier would gather the PFS customer's held mail,  
11 place it into and label a Priority Mail box, and enter it into the outgoing Priority  
12 Mail stream. The carrier would then update the PFS Tracking Log. The PFS  
13 Tracking Log is used to inform the carrier of the receipt of a PFS application and  
14 the initiation of PFS service, to ensure that reshipments are processed and  
15 mailed every Wednesday, and to collect information pertinent to the PFS  
16 experiment. During field observations of the current, informal reshipment  
17 services, that were conducted at small, medium, and large delivery units, I found  
18 that the time required to perform these tasks is about two minutes.

19 As described in witness Cobb's testimony, the Postal Service would  
20 provide and complete the necessary PFS address labels, which will be  
21 maintained with the PFS applications at a designated location in the delivery unit.  
22 The cost of a carrier filling out one section of a Change-of Address card was

1 used as a proxy for the cost of completing the PFS label, given that the quantity  
2 and nature of information would be comparable.

3 The per-shipment costs, calculated by using the proxies and observations  
4 described above, are estimated to be \$2.76, not including the postage associated  
5 with Priority Mail pieces. Please see the appendix, page 3.

6

7 **V. Conclusion**

8 I have estimated the costs for providing Premium Forwarding Service. I  
9 understand that witness Koroma (USPS-T-4) proposes two fees, one for enrolling  
10 a customer and the other for each PFS shipment. My cost estimates indicate  
11 that the former costs \$5.01, and the latter \$2.76. Cost elements and their  
12 sources are documented in the appendix to this testimony.

## Premium Forwarding Service Cost Analysis Page 1

### Summary of PFS Estimated Costs

| Premium Forwarding Cost Estimates |    |      |
|-----------------------------------|----|------|
| Set-Up Cost:                      | \$ | 5.01 |
| Per-Shipment Cost:                | \$ | 2.76 |

## Premium Forwarding Service Cost Analysis Page 2

### One Time Set-Up Cost

#### Calculation of Unit Cost of Setting up Premium Forwarding Service

|                |  |
|----------------|--|
| \$ 3.46        | Labor Cost: Window Acceptance of Premium Forwarding Service Applications |
| 0.02           | Labor Cost: Clerk Collecting Fees and Postage                            |
| <u>1.53</u>    | Labor Cost: Back Office Set Up   |
| <b>\$ 5.01</b> | <b>Total Unit Cost Set Up Cost</b>                                       |

#### Labor Cost: Window Acceptances of Customer Request for Premium Forwarding Service Application

|                |  |
|----------------|--|
| 0.05           | Labor Time (hours) <sup>1</sup>                  |
| \$ 34.07       | Wage Rate for Window Service Clerk <sup>2</sup>  |
| 1.09           | Overheard Cost Factor <sup>3</sup>               |
| 1.22           | Waiting Time Factor <sup>4</sup>                 |
| <u>1.46</u>    | Piggyback Factor for Window Service <sup>5</sup> |
| <b>\$ 3.46</b> |  |

#### Labor Cost: Clerk Collecting Fees and Postage

|                |   |
|----------------|---|
| <b>\$ 0.02</b> | Collection of Postage Due at Call Window was used as Proxy <sup>6</sup> |
|----------------|---|

#### Labor Cost: Back Office Set Up

|                |  |
|----------------|--|
| <b>\$ 1.53</b> | PFS Back Office Setup <sup>7</sup> (cost of processing Change-of-Address card used as proxy) |
|----------------|--|

#### Notes:

<sup>1</sup> See 1997 Window Transaction Time Study, USPS LR-H-167, p. 160 (=188.32 sec. / 60 / 60) Box Rental

<sup>2</sup> Wage Rate Input Sheet (Page 4 of this Appendix)

<sup>3</sup> Docket No. R2001-1, USPS-T-11, WP B3 W/3.2.1

<sup>4</sup> Docket No R2001-1, USPS-T-11, WP B3 W/3.2.1

<sup>5</sup> Docket No. R2001-1, USPS-T-15, Attachment 10

<sup>6</sup> LR-J-69 Table 5.2.5.4 N8

<sup>7</sup> LR-J-69 Table 5.2.1.1 Row2. Clerk is allowed two minutes

## Premium Forwarding Service Cost Analysis Page 3

### Per Shipment Cost

\$ 0.19 Labor Cost: Mail Separation  
1.75 Labor Cost: Repackaging  
0.76 Labor Cost: Carrier filling out the label  
0.05 Label Cost  
**\$ 2.76 Total Per Shipment Cost**

#### Labor Cost: Mail Separation

\$ 0.03 Cost of Carrier Preparation of Forwarded and Hold Mail used as Proxy<sup>1</sup>  
X 6 Days a week  
**\$ 0.19 Total**

#### Labor Cost: Repackaging

0.03 Labor Time (hours)<sup>2</sup>  
\$ 35.94 Wage Rate for Carrier<sup>3</sup>  
1.46 Piggyback Factor for Window Service w/o PO Boxes<sup>4</sup>  
**\$ 1.75**

**\$ 0.76 Labor Cost: Carrier filling out the label<sup>5</sup>**

#### Material Costs

**\$ 0.05** Label Cost<sup>6</sup>

#### Notes:

<sup>1</sup> LR-J-69 Table 5.1.1

<sup>2</sup> Special Study-Field Observation

<sup>3</sup> Wage Rate Sheet (page 4 of this Appendix)

<sup>4</sup> Docket No. R2001-1, USPS-T-15, Attachment 10

<sup>5</sup> LR-J-69 Table 5.2.1.1 Row 2 Carrier is allowed 1 minute per piece for filling out one section of the label.

<sup>6</sup> USPS Packaging ( Headquarters)

# Premium Forwarding Service Cost Analysis Page 4

## Wage Rate Input Sheet

|                          |                |             |             |             | USPS<br>Escalation |
|--------------------------|----------------|-------------|-------------|-------------|--------------------|
|                          | Base Salary 02 | Inflated 03 | Inflated 04 | Inflated 05 | Factor             |
| <b>Clerk Wage Rate</b>   | \$ 30.29       | \$ 31.50    | \$ 32.76    | \$ 34.07    | 4.0%               |
| <b>Carrier Wage Rate</b> | \$ 31.95       | \$ 33.23    | \$ 34.56    | \$ 35.94    | 4.0%               |

Source: USPS annual average labor rates