

**BEFORE THE  
POSTAL RATE COMMISSION  
WASHINGTON, DC 20268-0001**

**RATE AND SERVICES CHANGES TO  
IMPLEMENT FUNCTIONALLY EQUIVALENT  
NEGOTIATED SERVICE AGREEMENT WITH  
BANK ONE CORPORATION**

**Docket No. MC2004-3**

**DIRECT TESTIMONY  
OF  
BRAD RAPPAPORT  
ON BEHALF OF  
BANK ONE CORPORATION**

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1    **AUTOBIOGRAPHICAL SKETCH**

2           My name is Brad Rappaport. I am Vice President-Marketing Operations for Bank  
3    One Card Services, a division of Bank One Corporation. In this position, I have been  
4    responsible for, among other things, the annual direct mail marketing postage budget of  
5    approximately \$200 million as well as our relationship with the Postal Service and direct  
6    mail production vendors. I have held this position for five years.

7           From 1997 to 1999 I was Vice President-Client Services for Equifax Card  
8    Solutions, a leading provider of credit card software and processing services in the United  
9    States. I managed and directed client relationships for U.S. full service credit union  
10   processing businesses.

11          From 1996 to 1997, I was Vice President and General Manager, Client Services,  
12   for First Data Corporation, a world leader in credit card processing. I managed client  
13   relationships and had responsibilities for two major oil company credit card programs.  
14   Prior to that, from 1979, I held various positions at Mobil Oil Corporation in sales,  
15   marketing, planning, and operations.

16          In 1979, I received a Bachelors Degree in Business Administration, *cum laude*,  
17   with a major in Management from the University of Massachusetts.

1 **I. PURPOSE OF TESTIMONY**

2 Headquartered in Chicago, Bank One Corporation is the nation's sixth-largest  
3 bank holding company, with assets of \$320 billion. As of January, 2004, Bank One is:

- 4 • the third-largest credit card issuer in the United States, with nearly 52 million  
5 cards in circulation and \$74 billion in managed receivables
- 6 • a leader in retail and small business banking, serving nearly 7 million retail  
7 households and 500,000 small businesses
- 8 • a leading investment management company, with \$188 billion in assets under  
9 management, including more than \$15 billion of invested insurance assets.

10

11 Bank One and the United States Postal Service have entered into a mutually-  
12 beneficial arrangement for a Negotiated Service Agreement (“NSA”). We believe that  
13 this NSA is functionally equivalent to the Capital One NSA now in effect. Like the  
14 Capital One NSA, this NSA will reduce the Postal Service’s costs in handling  
15 undeliverable mail and will provide Bank One incentives to continue to mail large  
16 volumes of solicitation mail and even to switch some solicitation mail from Standard  
17 Mail to First-Class Mail.

18 The purpose of my testimony is first to describe Bank One’s solicitation mail and  
19 customer mail. Second, I will provide and explain Bank One’s forecasts of First-Class  
20 Mail volumes without the NSA (“Before Rates” volumes) and with the NSA (“After  
21 Rates” volumes) for calendar years 2004, 2005, and 2006, referred to herein as Year 1,  
22 Year 2, and Year 3, respectively, of the NSA. Finally, I will discuss Bank One’s return  
23 rates for First-Class Mail.

1 **II. BANK ONE MAIL TYPES**

2 **A. Solicitation Mail**

3 Bank One's mail may be generally divided into two kinds of mail: solicitation  
4 mail, which is usually sent by Standard Mail, and customer mail, which is sent as First-  
5 Class Mail.

6 Bank One mails a significant volume of solicitations to encourage existing  
7 customers to use their credit cards more often and to use other products offered by Bank  
8 One. We also send solicitations designed to acquire new customers. Bank One is a direct  
9 competitor of Capital One. In contrast to Capital One, which mails a significant amount  
10 of its solicitations by First-Class Mail, Bank One typically uses Standard Mail for about  
11 90 percent of its approximately one billion solicitations each year.

12 Compared to Standard Mail, First-Class Mail is generally of greater value because  
13 of the forwarding and return service provided at no additional postage and the higher  
14 response rates from customers. However, in the past, because of the general difference in  
15 rates for First-Class Mail and Standard Mail, this increased value has usually not justified  
16 a greater reliance on First-Class Mail for Bank One's solicitations. To determine whether  
17 to mail a solicitation as First-Class Mail or Standard Mail, Bank One tests for and then  
18 analyzes whether the incremental response (referred to as "lift" in the industry) from  
19 sending solicitations as First-Class Mail rather than Standard Mail justifies paying the  
20 higher First-Class Mail rate. Bank One has generally found that the lift does not justify  
21 the approximately ten cents in additional postage associated with First-Class Mail.

1 However, as might be expected, reducing the cost premium for First-Class Mail by 2.5 to  
2 5 cents per piece would justify the use of First-Class Mail in place of Standard Mail for a  
3 certain number of solicitations, causing Bank One to shift those solicitations from  
4 Standard Mail to First-Class Mail.

5 **B. Customer Mail**

6 Like all financial institutions, Bank One uses First-Class Mail to communicate  
7 with existing customers. Communications include, *inter alia*, statements for both credit  
8 card and bank accounts, letters responding to customer inquiries, and mailings of new or  
9 replacement credit cards. We have much less choice in the class of mail used for  
10 customer mail than for solicitation mail, and we generally determine the class of mail to  
11 use for customer mail based on the requirements of postal regulations rather than  
12 economics.

13 **III. FIRST-CLASS MAIL VOLUME HISTORY**

14 Bank One's mail volumes have been relatively stable over the last three years:  
15 Customer mail grew modestly from 479 million pieces in 2001 to 508 million pieces in  
16 2002 and then declined to 500 million pieces in 2003. Customer mail in 2003 was  
17 4.4 percent higher than in 2001. Solicitation mail volumes have also been relatively  
18 stable, declining from 104 million pieces in 2001 to 92 million pieces in 2002, and then  
19 increasing to 96 million pieces in 2003. Table 1 summarizes the historical First-Class  
20 Mail volumes for customer mail and solicitation mail.

1

**Table 1: Historical First-Class Mail Volumes**

<b><u>Mail Type</u></b>	<b><u>2001</u></b>	<b><u>2002</u></b>	<b><u>2003</u></b>
<b>Solicitation</b>	103,919,999	91,767,846	95,532,124
Letters	79,215,956	38,870,004	59,703,685
Flats	24,704,043	52,897,842	35,828,439
<b>Customer</b>	479,134,992	508,411,769	500,423,407
<b>Total</b>	583,054,991	600,179,615	595,955,531

2 **IV. FIRST-CLASS MAIL VOLUME FORECASTS**

3 Tables 2, 3, and 4 compare Bank One’s Before and After Rates for Year 1, Year  
4 2, and Year 3 of the Agreement:

5 **Table 2: Year 1 Before and After Rates First-Class Mail Volume**  
6 **(Millions of Pieces)**

<b><u>Mail Type</u></b>	<b><u>Before Rates</u></b>	<b><u>After Rates</u></b>
<b>Solicitation</b>	64.430	83.485
Letters	29.387	48.442
Flats	35.043	35.043
<b>Customer</b>	506.650	506.650
<b>Total</b>	571.080	590.135

7 Detail may not add to total given independent rounding.

1  
2

**Table 3: Year 2 Before and After Rates First-Class Mail Volume**  
**(Millions of Pieces)**

<b><u>Mail Type</u></b>	<b><u>Before Rates</u></b>	<b><u>After Rates</u></b>
<b>Solicitation</b>	64.430	163.485
Letters	29.387	128.442
Flats	35.043	35.043
<b>Customer</b>	506.650	506.650
<b>Total</b>	571.080	670.135

3

Detail may not add to total given independent rounding.

4  
5

**Table 4: Year 3 Before and After Rates First-Class Mail Volume**  
**(Millions of Pieces)**

<b><u>Mail Type</u></b>	<b><u>Before Rates</u></b>	<b><u>After Rates</u></b>
<b>Solicitation</b>	64.430	163.485
Letters	29.387	128.442
Flats	35.043	35.043
<b>Customer</b>	506.650	506.650
<b>Total</b>	571.080	670.135

6

Detail may not add to total given independent rounding.

7

**A. Before Rates Volumes**

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Based on Bank One's relative stability in First-Class Mail volumes and my own

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business judgment, I do not expect Year 1 Before Rates volumes to deviate significantly

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from our 2003 volumes. In the absence of the proposed NSA, Bank One would expect to

11

mail approximately 571 million pieces of First-Class Mail in 2004, consistent with but

12

somewhat less than our 2003 volumes. I expect there to be 507 million pieces of

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customer mail and 64 million solicitations. To arrive at the Year 1 Before Rates, I used

14

actual volumes from 2004 when available. For the rest of the year, I used Bank One's

1 mail volume forecasts for 2004 that were developed by our business managers and used  
2 in the ordinary course of business for Bank One's planning. I needed to make a single  
3 downward adjustment to the solicitation forecasts to reflect the fact that historically, as  
4 the end of the budget year draws near and the pressure increases to reduce costs to make  
5 budget, our Marketing Department has shifted solicitation volumes from First-Class Mail  
6 to Standard Mail for cost-saving reasons. Depending on market conditions, the state of  
7 the economy, and our response rates, this could easily occur again in the absence of an  
8 NSA.

9 As to the Year 2 and Year 3 Before Rates volumes, I do not expect much  
10 deviation from Year 1 Before Rates volumes. If the cost of postage remains stable until  
11 2006, using mail as a marketing channel might become relatively less expensive than  
12 other channels. Assuming a general increase in postal rates in 2006, I expect mail to  
13 become a relatively more expensive marketing channel. All else being equal, our use of  
14 the mail through 2005 would increase and then decrease in 2006 after any such general  
15 rate increase. Modest account growth might also increase our use of mail. On the other  
16 hand, we, like all other banks, are concerned about and under pressure to reduce our  
17 costs. Suppressing paper bills by replacing them with electronic bills is one form of cost  
18 control. In light of these offsetting influences on volume, I forecast Before Rates  
19 volumes for Year 2 and Year 3 to be the same as Year 1 volumes. If anything, I believe  
20 that this outyear forecast may be optimistic.

1           **B.      After Rates Volumes**

2           Based on my business judgment and the historical trend in volumes discussed  
3 above, I estimate that if the NSA had been in place for all of 2004, Bank One would have  
4 at least met the 2004 First-Class Mail solicitation volume forecasts. Thus, I forecast an  
5 After Rates volume increase for Year 1 of 19 million pieces. By Year 2, Bank One will  
6 have had time to adjust to the declining block rates in the NSA, and these rates will  
7 induce us to switch a considerable volume of solicitation mail from Standard Mail to  
8 First-Class Mail. I expect Year 2 and Year 3 After Rates volumes to substantially exceed  
9 Year 1 After Rates volumes. I expect an additional 80 million pieces in Year 2 for a total  
10 difference of 99 million pieces between Year 2 Before Rates and Year 2 After Rates. I  
11 expect the same additional 80 million pieces in Year 3, relative to Year 1, for a total  
12 difference of 99 million pieces between Year 3 Before Rates and Year 3 After Rates.  
13 While there may be some organic growth in our existing First-Class Mail use for  
14 solicitation purposes, I have not relied on such growth in developing these forecasts. The  
15 projections assume that all new First-Class Mail would be converted from Standard Mail.

16           **V.      ADDRESS HYGIENE**

17           Under the NSA, Bank One will meet or exceed all postal requirements for address  
18 hygiene. Bank One will run National Change of Address (“NCOA”) on existing  
19 customer files and on solicitation files every 90 days. In fact, once Bank One has  
20 converted to its new mailing platform, it will run NCOA every 60 days on all mail from  
21 BOCS.

1           Our historical return rates have been as follows: For non-solicitation First-Class  
2 Mail, including statements and letters, 0.3 percent were returned. For First-Class Mail  
3 letter solicitations, approximately 9 percent were returned, based on my experience when  
4 Bank One last used the Postal Service’s Address Correction Service (“ACS”). For First-  
5 Class Mail flat solicitations, approximately 11 percent were returned, but Bank One  
6 occasionally had return rates as high as 13 to 14 percent. I conservatively estimate  
7 similar return rates for 2004, 2005, and 2006.

8       **VI.   PROPOSED MERGER**

9           Bank One has announced plans to merge with J.P. Morgan Chase. At this time,  
10 however, Bank One has not received all of the necessary approvals for the merger, and  
11 the official closing date for the merger is not definite. This testimony thus does not  
12 include any J.P. Morgan volume data. The Bank One NSA contains language which  
13 addresses how integration of volumes from a merged entity would be handled should a  
14 merger be consummated.

15       **CONCLUSION**

16           Bank One believes that this NSA provides cost-savings to the Postal Service and  
17 strong incentives to Bank One to switch solicitations from Standard Mail to First-Class  
18 Mail, thereby increasing the contribution that Bank One makes to the Postal Service’s  
19 institutional costs.