

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

COMPLAINT OF TIME WARNER INC. ET AL.
CONCERNING PERIODICALS RATES

Docket No. C2004-1

DIRECT PREPARED TESTIMONY OF LOU BRADFIELD
ON BEHALF OF AMERICAN BUSINESS MEDIA
(September 9, 2004)

1 My name is Lou Bradfield, and I am submitting this testimony on behalf of
2 American Business Media. The general purpose of my testimony is to respond to
3 certain assertions and assumptions that have been put forth by the complainants to
4 support a radical and, I believe, potentially very harmful change in Periodicals rate
5 design. As someone with substantial experience in both the printing and distribution
6 sides of the business, and who has worked with both large and small circulation
7 periodicals, I think that I am well equipped to comment on some of the issues raised by
8 the proposal.

9 Many businesses, including publishers and printers, have developed business
10 models based upon the type of rate structure that has been in existence for many
11 decades, a structure that has changed gradually over the years to reflect changes in
12 processing costs and to more fully reflect those costs.

13 Adaptation to these changes has for the most part been possible, although, also
14 for the most part, smaller circulation Periodicals appear to have absorbed more of a
15 burden than larger circulation Periodicals. For example, I recall that in Docket No.

1 MC95-1, the reclassification case in which I testified for what was then American
2 Business Press, the Commission rejected the proposed split of the Periodicals class but
3 recommended rate changes, such as a very large increase in the carrier route discount
4 (§ 5328), that caused the rates for smaller circulation periodicals to increase while those
5 for the largest publications decreased. I understand that per copy postage for Time and
6 Sports Illustrated are now about what they were prior to the decision in MC95-1, and
7 that as proposed they would be lower than they were a decade and several rate
8 increases ago.

9 I submit that even though it might be reasonable for the Commission to consider
10 recommending some modest changes, it should reject the major overhaul proposed for
11 many of the same reasons that it rejected the major overhaul in the reclassification
12 case. I think that the Commission well understands that big rate changes that will
13 allegedly “drive costs out of the system” might well drive mailers out instead.

14 Autobiographical Sketch

15 My present position is Corporate Distribution Director for VNU Business
16 Publications, where I have been employed for two years. VNU publishes forty- eight
17 titles, among them some that are relatively known, such as The Hollywood Reporter,
18 Billboard, and AdWeek, and some that are highly specialized and well known only in
19 their field, such as Beverage World, Sales & Marketing Management and one of witness
20 Gordon’s favorites, Kirkus Review. My present responsibilities include managing the
21 mailing and distribution of all of VNU’s titles.

22 Prior to joining VNU, I held similar positions over the past twenty-two years at
23 Cahners Publishing (now Reed Elsevier), Mack Printing (now Cadmus),

1 and TV Guide Magazine where I handled both production and distribution functions. In
2 addition, I have also consulted for Dennis Publishing, Deutsche Post Global Mail and
3 others.

4 I have been a MTAC member for several years and the Industry Co-Chair for the
5 USPS Periodicals Focus Groups in the Eastern and Capital Metro Areas since 1994. I
6 have spoken at Postal Forums and MAILCOM, and am a Certified Mail and Distribution
7 Systems Manager (from Mail Systems Management Association). I have also attained
8 the Periodicals Professional Certificate from the USPS. I have a certificate in Criminal
9 Justice from Villanova University and Associate in Arts degree from California State
10 Merced.

11 Cost-based Rates

12 If there is a single, overriding theme in the complaint and testimony, it is that
13 there should be cost-based Periodicals rates. I certainly do not pretend to have Mr.
14 Stralberg's expertise in measuring the Postal Service's costs or Mr. Mitchell's expertise
15 in turning those costs into rates. Nevertheless, it is not essential to have that level of
16 expertise to conclude that the end result of their efforts do not represent appropriate
17 rates for Periodicals.

18 In this regard, I should note up front that it is difficult to address the rate structure
19 in a vacuum. Although, for example, I believe that the more than \$3 per sack charge
20 proposed would be devastating to many small publications, I cannot say that a 3¢ per
21 sack charge—to pick an extreme and unrealistic number—would create any problems.
22 Therefore, to the extent that I discuss the proposal in terms of the rates that were

1 proposed but that the Commission has ruled are not at issue, I do so because it is
2 necessary to put some context on the proposal.

3 My primary objection to the proposal is that it elevates costs and cost-based
4 rates so far above all other rate factors (except ECSI value, limited to the markup and
5 the editorial discounts) that it essentially ignores them. For example, Mitchell says (Tr.
6 851-52) that he considered the impact on mail users, but he really didn't, at least not in
7 any way that matters. He was asked whether he ran his numbers against actual
8 Periodicals, and he said that he had not (Tr. 989, 1168). Witness Stralberg concedes
9 (Tr. 160-61) that he did no analysis of the own-price sensitivities of mail with no
10 alternative to sacks and mail that cannot be drop shipped. I find it strange that the
11 complainants asked American Business Media and others for all sorts of detailed data
12 from which one can calculate the effect of the proposed rates only after they completed
13 the filing of their testimony. And, apparently, they did not even calculate the effect of
14 the proposal on their own publications, including some that are low in circulation and are
15 likely to see rate increases. For example, witness McGarvy's Exhibit JM-1 shows two
16 Time Warner publications (Time for Kids and Motocross) with increases of 28% and
17 12% respectively. Although Time Warner stands to gain more than \$16 million in
18 annual savings from the proposal, according to that exhibit, and I'm sure would not lose
19 any sleep over those two increases, increases like that should have at least given the
20 complainants pause and led to some more serious investigation of the impact of the
21 proposed rates on publishers who produce publications that would cause them to see
22 only the red ink. Furthermore, Mr. Mitchell's claim that his proposal goes easy on
23 adversely affected "high zone" mailers (Tr. 836) is of little consequence, given the

1 extremely low markup of 1.3% that certain of his assigned costs avoided (Tr. 1036-37).
2 Although he assumed that there are price points at which mail would leave the system,
3 he did not study the issue (Tr. 162).

4 For a more complete picture of the impact, American Business Media has not
5 only created witness McGarvy's Exhibit JM-1 but also Exhibit LB-1 attached to this
6 testimony. Early in this proceeding, American Business Media's counsel asked a
7 number of American Business Media members to attempt a calculation of the impact of
8 the Time Warner proposed rates, a task that only some can perform, because the
9 calculations require mail.dat files, which not everyone uses. It also required use of an
10 Access file that Time Warner developed and made available. Eventually, five American
11 Business Media members were able to produce the requested comparisons, and they
12 cover 144 publications. Excel spreadsheets with the results were provided to American
13 Business Media's counsel, and they have now been provided as well, with publication
14 names removed, to Time Warner in response to a request for production of documents.

15 Not all of the members produced the same type of spreadsheet. The attached
16 Exhibit LB-1 was created from those spreadsheets and includes some of the more
17 meaningful data that were contained on at least most of them. Thus, the columns show
18 per copy circulation, weight, percentages sacked and palletized, per issue postage
19 under the present and proposed rates and the percentage change.

20 Although this is not a scientific sample of the 1,500 or so Periodicals that are
21 members of American Business Media, it does appear that the 10% sample is
22 reasonably representative in many respects. I would guess, however, that since it was
23 only larger companies that were able to perform the calculations, the number of

1 publications with circulations over 100,000 (eighteen) is not representative. On the
2 other hand, the average number of copies per issue of 54,187 seems about right.

3 The range of impacts is quite large, from five publications with modest reductions
4 to ten with increases greater than 50%. The non-weighted average of the increases,
5 that is, the average of the percentage increases and decreases, is about 13%. As I
6 would have guessed from the rate design, the largest increases tend to be for the
7 publications with relatively high percentages of sacks. I also would guess that, as the
8 complainants are reading this testimony, they are repeating to themselves and perhaps
9 to each other that these numbers assume that mailing practices do not change, and one
10 purpose of their proposal is to “encourage” mailers to change their “behavior” (or force
11 them to pay for the services they allegedly receive if they do not).

12 I agree. The numbers do assume no change in mailing practice, and there is no
13 doubt that for some of these publications, the increase in postage cost can be
14 ameliorated, or in certain cases perhaps even reversed, if mailers take such steps as
15 increasing sack size, co-mailing, or co-palletizing. But there is also no doubt that of
16 the 25,000 or so outside-county Periodicals in the mail (Tr. 1041), a good number would
17 be staring at increases of the type portrayed at the upper end of the range on my exhibit
18 with no reasonable opportunity to change their mailing practices.

19 American Business Media witness McGarvy has touched on the issue of
20 increasing sack sizes even for publications that have the volume to do so. I will address
21 these cost-saving measures later.

22 First, however, I must discuss cost-based rates some more. To begin with, as
23 I've already said, the complainants treat maximization of cost basing and the “efficiency”

1 it would create as if they were the 11th commandment. But they are not. We all agree
2 that rates should to some degree reflect costs, and they already do, as I will show. But
3 the fine tuning in the proposal—creating a rate element for virtually every cost-causing
4 characteristic—is not the appropriate goal of postal rate making, especially for
5 Periodicals.

6 The Commission knows this. In Docket No. R-87-1, at ¶ 5510, it said: “There
7 are criteria in the Act besides those looking to economic efficiency. . . .” In Docket No.
8 R94-1, it ruled that Section 101(a) of the Postal Reorganization Act requires
9 considerations of all policy objectives “rather than allowing efficiency to dominate.” It
10 put these theories to work in the reclassification case, Docket No. MC95-1, a case in
11 many ways like this one. There, according to the Commission (page ii), under the rate
12 structure proposed for Periodicals, “publishers of small publications and small
13 circulation newspapers would pay more [and]. . .large circulation publishers would pay
14 less.” More specifically, an average of 17% more and 14% less (¶ 5122). The
15 Commission rejected major changes to the Periodicals rate structure, finding (¶ 5134)
16 with words still appropriate that it would be wrong to place “excessive emphasis on
17 ‘driving costs from the system’ and ‘changing mailers’ behavior” without full
18 appreciation for the impact on those that cannot change or could do so “only after
19 considerable adjustments in about every aspect of their operations. . . .” It determined
20 (¶ 5132) that the proposal there, like the proposal here, might “make the formation of
21 new periodicals more difficult by withholding the most favorable rates from publications
22 which have not attained significant levels of market penetration.”

1 From the complainants' complaints one would think that today's Periodicals rates
2 are randomly developed and not based on costs and are aberrational in that regard.
3 From my perspective, not only are Periodicals rates cost based, they are over time
4 becoming increasingly cost based, and they are probably more cost based than the
5 rates that apply to most mail. One way to demonstrate on a general basis that
6 Periodicals rates are cost-based is to compare the rates for the periodicals that are less
7 costly for the Postal Service to handle with the rates for those that are the more costly.

8 This comparison was made by American Business Media witness McGarvy, who
9 compared the rates paid by Time Warner's weeklies with the rate Crain pays for a
10 publication of equivalent weight and ad content. Crain's rate is 66% higher. Another
11 place to look is at the rates paid by the complainants themselves for a single publication
12 mailed in mass quantities for its main file mailing and mailed in smaller quantities in
13 supplemental mailings. The data at Tr. 73 to 75 and 116 to 126 (see also Tr. 263)
14 contain telling comparisons, for example:

- 15 • Money's main file mailing contained 1.8 million pieces, with per piece postage of
16 22.96¢. Its supplemental mailing contained 17 thousand pieces at 38.19¢ per
17 piece, or 66% higher (coincidentally the same difference shown by witness
18 McGarvy).
- 19 • The main filing mailing of Conde Nast's Bon Appetite contained 1.1 million pieces
20 and paid postage of 36.86¢ per piece, while the 28,067 piece supplemental
21 mailing paid an unappetizing 46.72¢ per piece, a 27% difference.
- 22 • Conde Nast's Brides pays 55¢ per (heavy) copy in its main file of 127,000, but
23 84¢, or 53%, more for its supplemental mailing of 5,890.

24 Time and Conde Nast do not pay these much higher rates because they like to,
25 and the Postal Service does not charge more for the supplemental mailings to
26 discourage small mailings more typical of American Business Media member
27 circulation. Rather, the rates for the supplemental mailings are higher because the

1 Postal Service's costs for these smaller, less work-shared mailings are higher, and the
2 cost based rates in effect today reflect those cost differences. Witness Stralberg
3 confirmed that these rate differences reflect cost differences (Tr. 236).

4 One look at the complex Periodicals rate structure shows just how cost-based it
5 is. As the Commission knows, there are a number of piece rates reflecting processing
6 cost differences as part of a piece/pound structure that seeks to recoup both piece-
7 related and pound-related costs. The zoned advertising pound rate is based on
8 distance-related costs, and there is a modest sack/pallet differential as well as a
9 barcode discount. Witness Mitchell agreed that at least most of the elements of
10 Periodicals rates are cost based, to varying degrees Tr. 938-46 and 1148-50. I
11 understand that there is some cost averaging in the Periodicals rate, just as there is in
12 any broadly applicable rate. Even the complainants are willing to accept some
13 averaging, as shown by witness Stralberg's support for a cost-averaged bar code
14 discount (Tr. 225).

15 One might conclude from the vigorous attack on Periodicals rates as not "cost
16 based" that they lag behind other postal rates in this regard. But witness Mitchell also
17 contended that First-Class rates are not cost based (Tr. 935) and that Standard rates
18 are not cost based (Tr. 936). He wouldn't commit on parcel post (Tr. 937). Certainly,
19 neither First-Class nor Standard rates are zoned by weight (although Standard rates do
20 reflect drop ship discounts). In addition, even though Periodicals rates appear to be at
21 least as cost-based as other rates, Periodicals rates are supposed to reflect content,
22 which is not a cost consideration. Deviation from pure cost-based rates is therefore to
23 be expected. Witness Mitchell said he has "no personal problem" with a rate for a 100%

1 editorial Periodical that is below cost or with the “price signal” that sends (Tr. 1150-52).
2 I don’t know why he should be so concerned with cost averaging as a way to preserve a
3 broad and diverse Periodicals class.

4 I said earlier that American Business Media and I are not opposed to serious
5 study and consideration of measured changes that are likely to produce lower Postal
6 Service processing costs without imposing undue hardship upon a segment of the
7 Periodicals class. Doing so, however, it seems to me, requires simultaneous
8 consideration of up-to-date Postal Service processing costs, projections of changes in
9 those costs in the short and intermediate term future and the rate structure, along with
10 an analysis of the likely impact of such changes on all types of Periodicals mailers.
11 Perhaps that was what witness Mitchell was referring to when he made a presentation
12 in which he contended that changes in Periodicals rate design could not be made by the
13 Commission and that the Postal Service must do studies to support the changes (Tr.
14 902).

15 I’m sure that witness Stralberg did what he could with what he had, but he used a
16 model from R2000-1 updated with the data used to develop fiscal year 2003 costs in
17 R2001-1 (Tr. 21). We are almost in fiscal year 2005, so the data, productivity, mail flow
18 assumptions, etc. are at least two years old. Cost estimates, of course, lose their
19 accuracy over time (Tr. 173).

20 However, things are changing, including the Periodicals processing environment,
21 with widespread use of the AFSM 100 flats processors, introduction of the Automated
22 Package Processing System (see Tr. 179), steps to reduce bundle breakage and, as I
23 understand it, substantial reduction in the use of processing annexes. At August’s

1 Periodicals Operations Advisory Committee and Mailers Technical Advisory Committee
2 meetings, the Postal Service reported that it has been able to reduce its transportation
3 costs by shifting from rail to truck. That announcement was trumped at the end of
4 August, when Amtrak announced that, effective October, it will no longer carry mail. In
5 an August 31st article in the Washington Times, an Amtrak spokesman was quoted as
6 saying that most of the Amtrak mail is “a lot of magazines” on long-distance routes. The
7 Postal Service will have to tell us what this announcement means for Periodicals service
8 and transportation costs.

9 The Postal Service also reported that it is still moving ahead with plans to
10 develop the ability to package or sequence flats to delivery points, as it now does with
11 letters. It has not yet decided whether to go with the more complicated DPP (Delivery
12 Point Packaging) or the less complicated FSS (Flats Sequencing System) approach. It
13 has, however, already completed Phase 1, concepts and simulations, and is now
14 reviewing proposals in Phase 2. There will soon be awards that will encompass the
15 building of a prototype for FSS and the building of a “test bed” of critical components for
16 DPP. If all goes well, there could be a field test of an FSS prototype in March 2006,
17 field-testing of DPP, if pursued, two years later.

18 What all of this means is that the pattern of cost incurrence is likely to undergo
19 significant change in the next few years, and I think it would be a mistake to restructure
20 rates without consideration of those changes. From the perspective of the
21 complainants, of course, there is no reason to wait, since they will save tens of millions
22 of dollars a year without the need to change a thing and without a penny of incremental
23 savings to the Postal Service. To the extent that these very large, very knowledgeable

1 and very sophisticated mailers can make some changes, they stand to save even more,
2 but should they choose to wait with those changes, they would still enjoy the very
3 substantial benefits of the rate design they have proposed.

4 The picture looks very different to the small publishers and printers who even the
5 complainants admit would have to change (if they can) to avoid punishing rate
6 increases for publishers and loss of business for printers. Efforts are underway and
7 should be continued to encourage smaller publishers and printers to engage in cost-
8 saving practices, if they can. I certainly hope that with the latest announcements from
9 Fairrington and Quebecor World discussed by witness McGarvy, co-mailing and co-
10 palletization will be available to and used by many more Periodical mailers to reduce
11 their and the Postal Service's costs.

12 No rate change is necessary to produce this result. I agree with witness Schick
13 (Tr. 430 and 504) that the co-mail incentives today are adequate, for those that are able
14 to participate. We seem to agree that for most periodicals, the drop ship incentives are
15 also adequate, since he testified that Quad/Graphics can drop ship down to and
16 possibly below 15% advertising content (Tr. 436 and 525) despite the flat editorial rate.
17 Drop ship incentives today are such that, according to witness Mitchell (Tr. 976), 69.2%
18 of all Time Warner pieces are entered at either the DSCF or the DDU. For TV Guide,
19 the percentage is a remarkable 89.6%, for Newsweek 73.18%, for Conde Nast 67.44%,
20 and for Readers Digest 65.05%.

21 My concern is for the weeklies, the very small publications, the small printers with
22 relatively few publications and others that cannot turn a switch or run a program to
23 change their mailing characteristics or the way that they prepare mail. Witness Schick

1 recognized that, even with all of the resources of Quad/Graphics and its admirable
2 history of co-mailing, his clients have valid reasons for not being able to co-mail,
3 including daily or weekly production schedules that would be difficult to adjust or
4 expand, differing trim sizes, printed polywrap and multiple insertions (Tr. 414), and he
5 added that publications or versions with fewer than 1,500 pieces cannot be co-mailed
6 as a practical matter (Tr. 448). He repeated (Tr. 425) that, even with the multiple and
7 sophisticated co-mail pools run by Quad/Graphics, weekly publications in co-mail pools
8 would risk missing critical entry times.

9 In addition, publications in a co-mailing program such as that at Quad/Graphics
10 cannot at the last minute delay their printing to accommodate a late-breaking story or a
11 lucrative, last-minute advertisement without incurring huge costs for re-running the co-
12 mail software (Tr. 418), even though there are, according to witness Schick (Tr. Tr.
13 516), publications that believe that they must do so. Business-to-business publications,
14 even many monthlies, are time sensitive news publications, and they cannot afford to
15 wait an entire month to cover a late-breaking story in the industry or profession that they
16 cover.

17 I understand from the Quebecor World press release that it may be able to
18 overcome that problem. I hope so. But that does not mean that publishers that now
19 print at other printers can simply move their work to Quebecor World (or
20 Quad/Graphics) in order to take advantage of co-mailing, assuming that the other
21 problems, such as with weeklies, can be overcome. The typical printing contract is for a
22 3-5 year duration (Tr. 509), according to witness Schick and my own experience, so
23 even if a publisher wanted to make the move, and even if that publisher's periodical(s)

1 could be co-mailed, and even if the publisher was one whose business was desired,
2 and even if the publisher thought that the new, large printer would provide all of the
3 assistance that a smaller and perhaps closer printer could provide, it could still take
4 years to make the change. And witness Schick agreed (Tr. 509) that when a publisher
5 “has to pull up stakes in one place and move, depending on the amount of work it is and
6 the complexity, that’s a big deal for them too. . . .”

7 Where I disagree with Mr. Schick is with his view that entry into the co-mail
8 business is relatively simple and inexpensive and that, as he said, any printer with a 4-
9 pocket Sitma can co-mail (Tr. 471-72). I suppose that, taken literally, it’s a true
10 statement that even a printer printing four small publications a month can run them on
11 its 4-pocket Sitma and co-mail, but I’m sure that Mr. Schick would agree that it would
12 not and could not do so as a practical matter. For one thing, they would all have to print
13 at roughly the same time of the month (unless some agreed to sit around a couple of
14 weeks). For another, the ability to make four 20,000 circulation publications look for
15 postal purposes like one 80,000 publication is unlikely to lead to substantial
16 improvement in the ability to avoid sacks and the worst of the proposed rates.

17 Co-mailing takes volume. It’s no accident that nine out of Quad/Graphics’ ten co-
18 mail pools per month contain one participant with at least 100,000 copies and that eight
19 of those ten have a participant with at least 250,000 copies (Tr. 391). Of the 105 titles
20 that participate in the Quad/Graphics co-mail pools, only thirty have circulation less than
21 100,000 and more than half have circulation in excess of 200,000. Numbers like that
22 are impossible for shorter-run printers. I would also point out that, in contrast to the

1 theoretical 4-pocket Sitma co-mailer, Quad/Graphics' primary co-mailers contain 24
2 pockets (Tr. 472), and Quebecor World plans to install 30-pocket co-mailers.

3 Even assuming that a printer has sufficient volume of eligible material for co-
4 mailing, that printer must have both the time and the financial resources to commence
5 co-mailing. According to witness Schick, it would take about twelve to eighteen months
6 to install co-mail equipment and software (Tr. 440), and to get started with a 24-pocket
7 co-mailer would cost from \$500,000 to \$2,000,00 (Tr. 433-34). From what I have been
8 able to learn, these costs are likely to be at the upper end of this range: \$1,500,000 to
9 \$2,000,000. But the time frame suggested by Mr. Schick, while accurate if measuring
10 the time from ordering a machine to making it operable, fails to take into account the
11 time it would take for a new entrant to study the issue and obtain both customer and
12 investment commitments. These steps could take about a year.

13 In addition, consideration must be given to the large amount of floor space that
14 must be devoted not only to the machine itself but also to the staging space needed
15 both before and after co-mailing. Many printers handling short-run titles have limited
16 space now, and some are land locked. Even if additional floor space can be obtained,
17 the time and money necessary to do so must be added into the equation.

18 Despite these threshold impediments, publishers of shorter run publications are
19 moving in the direction that the complainants wish to "encourage" with rate carrots and
20 sticks. VNU began co-mailing nine of its titles this summer, and our experience,
21 combined with comments to me by several printers, indicate that we can expect to see
22 gross postage savings of about 9% to 15%, with the added front-end costs eroding

1 around half of that number. For our titles for a couple of months, the net postage saving
2 has been about 4.5%. I expect that number to improve over time.

3 To me, the bottom line is that more co-palletizing and more co-mailing can be
4 done, is being done and will be done. It takes no rate design change to encourage
5 mailers to avoid the costs and damage of loading their publications into many small
6 sacks or to encourage the nation's larger publication printers to move forward in this
7 area. The main effects of the rate design and rate changes proposed here would be to
8 provide millions of dollars of rate reductions to those periodicals already paying the
9 lowest rates while imposing much higher postage costs on those unable to participate in
10 the proposed "race to efficiency."

RATE INCREASES AT PROPOSED RATES

Publication	Circulation per copy	Average Weight (lbs.)	% Sacked	% Palletized	Per issue postage (Current)	Per issue postage (Proposed)	Postage % change
1	153,500	0.53	11	89	\$31,364.00	\$34,700.00	10.64
2	126,000	0.36	23	77	\$29,495.00	\$30,527.00	3.50
3	83,000	0.23	52	48	\$18,575.00	\$19,848.00	6.85
4	32,000	0.36	65	35	\$6,386.00	\$7,096.00	11.12
5	26,000	0.31	88	12	\$6,917.00	\$7,462.00	7.88
6	131,700	0.45	24	76	\$43,366.00	\$48,007.00	10.70
7	44,000	0.22	78	22	\$9,091.00	\$9,996.00	9.94
8	77,300	0.36	39	61	\$21,326.00	\$22,386.00	4.97
9	46,000	0.19	86	14	\$9,831.00	\$10,856.00	10.42
10	77,000	0.25	82	18	\$15,147.00	\$15,994.00	5.59
11	64,000	0.21	97	3	\$9,947.00	\$10,941.00	10.00
12	92,500	0.30	17	83	\$23,159.00	\$25,618.00	10.62
13	68,000	0.37	49	51	\$19,368.00	\$20,305.00	4.84
14	99,000	0.21	27	73	\$22,883.00	\$24,335.00	6.35
15	42,000	0.34	63	37	\$12,313.00	\$13,122.00	6.57
16	157,500	0.43	11	89	\$48,345.00	\$48,882.00	1.11
17	48,000	0.31	94	6	\$12,511.00	\$13,374.00	6.90
18	21,000	0.33	N/A	N/A	\$7,412.00	\$8,042.00	8.50
19	54,000	0.38	70	30	\$16,196.00	\$16,847.00	4.02
20	38,000	0.38	79	21	\$9,031.00	\$10,107.00	11.91
21	36,500	0.24	97	3	\$8,839.00	\$9,762.00	10.40
22	96,500	0.28	39	61	\$23,709.00	\$24,723.00	4.27
23	152,000	0.24	20	80	\$36,987.00	\$37,826.00	2.27
24	76,000	0.34	30	71	\$23,681.00	\$24,564.00	3.73
25	87,000	0.30	42	58	\$21,383.00	\$22,381.00	4.67
26	100,000	0.27	26	75	\$20,114.00	\$21,446.00	6.62
27	82,000	0.22	54	46	\$16,622.00	\$18,186.00	9.41
28	42,000	0.29	90	10	\$8,211.00	\$9,241.00	12.55
29	76,000	0.31	74	26	\$22,083.00	\$23,670.00	7.19
30	101,000	0.20	20	80	\$24,312.00	\$25,879.00	6.45
31	38,000	0.26	87	13	\$10,115.00	\$11,070.00	9.44
32	163,000	0.25	30	70	\$31,041.00	\$32,513.00	4.74
33	91,700	0.16	66	34	\$19,576.00	\$21,263.00	8.62
34	96,600	0.28	34	66	\$21,254.00	\$22,550.00	6.09
35	22,000	0.39	N/A	N/A	\$6,067.00	\$6,247.00	2.96
36	63,700	0.35	62	38	\$15,632.00	\$16,483.00	5.45

RATE INCREASES AT PROPOSED RATES

Publication	Circulation per copy	Average Weight (lbs.)	% Sacked	% Palletized	Per issue postage (Current)	Per issue postage (Proposed)	Postage % change
37	98,000	0.27	32	68	\$21,350.00	\$22,859.00	7.07
38	10,600	0.36	N/A	N/A	\$3,778.00	\$4,108.00	8.72
39	43,000	0.24	81	19	\$10,581.00	\$11,371.00	7.46
40	102,000	0.69	27	73	\$33,841.00	\$34,988.00	3.39
41	65,000	0.37	29	71	\$20,671.00	\$21,517.00	4.09
42	174,000	0.27	17	84	\$26,402.00	\$29,352.00	11.18
43	28,000	0.21	N/A	N/A	\$6,057.00	\$6,412.00	5.86
44	21,000	0.34	N/A	N/A	\$5,741.00	\$6,318.00	10.06
45	35,000	0.34	72	28	\$7,456.00	\$8,153.00	9.35
46	46,000	0.21	69	31	\$11,573.00	\$12,667.00	9.45
47	19,700	0.57	91	9	\$6,112.00	\$6,576.00	7.58
48	27,200	0.84	64	36	\$10,885.00	\$11,738.00	7.83
49	17,600	0.29	N/A	N/A	\$4,162.00	\$4,364.00	4.87
50	7,000	0.20	N/A	N/A	\$2,118.00	\$2,234.00	5.48
51	55,000	1.14	34	66	\$26,689.00	\$28,710.00	7.57
52	18,000	0.67	73	27	\$7,382.00	\$8,223.00	11.39
53	16,000	0.33	N/A	N/A	\$4,490.00	\$4,764.00	6.11
54	26,000	0.35	87	13	\$5,768.00	\$6,118.00	6.08
55	37,000	0.77	55	45	\$16,279.00	\$17,662.00	8.50
56	2,200	0.22	N/A	N/A	\$523.00	\$543.00	3.89
57	17,000	0.55	N/A	N/A	\$5,268.00	\$4,891.00	(7.16)
58	31,300	0.73	N/A	N/A	\$11,269.00	\$14,707.00	30.51
59	8,300	0.21	31	69	\$2,188.00	\$2,318.00	5.91
60	8,700	0.22	N/A	N/A	\$2,348.00	\$2,403.00	2.35
61	10,800	0.31	61	39	\$2,891.00	\$2,881.00	(0.35)
62	6,300	0.24	N/A	N/A	\$1,701.00	\$1,731.00	1.74
63	11,600	0.23	72	28	\$3,295.00	\$3,375.00	2.42
64	8,800	0.25	N/A	N/A	\$2,424.00	\$2,488.00	2.65
65	7,000	0.25	22	78	\$1,830.00	\$1,772.00	(3.19)
66	10,500	0.32	31	69	\$3,256.00	\$3,451.00	5.97
67	10,400	0.22	11	89	\$2,773.00	\$2,925.00	5.48
68	7,300	0.24	66	34	\$2,013.00	\$2,078.00	3.23
69	7,000	0.26	14	86	\$1,945.00	\$2,094.00	7.65
70	40,500	0.53	23	77	\$14,915.00	\$17,900.00	20.01
71	49,500	0.43	22	78	\$15,593.00	\$19,142.00	22.76
72	21,800	0.55	64	36	\$8,451.00	\$10,450.00	23.65

RATE INCREASES AT PROPOSED RATES

Publication	Circulation per copy	Average Weight (lbs.)	% Sacked	% Palletized	Per issue postage (Current)	Per issue postage (Proposed)	Postage % change
73	160,000	0.38	71	29	\$40,116.00	\$54,067.00	34.78
74	88,000	0.42	79	21	\$33,983.00	\$47,266.00	39.09
75	39,000	0.27	86	14	\$10,319.00	\$14,537.00	40.88
76	364,345	0.22	21	79	\$89,633.00	\$99,333.00	10.82
77	194,152	0.33	34	66	\$45,038.00	\$52,059.00	15.59
78	311,522	0.26	33	67	\$66,973.00	\$79,958.00	19.39
79	47,805	0.19	8	92	\$3,266.00	\$3,550.00	8.70
80	33,056	0.18	10	90	\$5,246.00	\$5,340.00	1.79
81	18,912	0.20	9	91	\$1,174.00	\$1,348.00	14.82
82	61,074	0.20	14	86	\$5,121.00	\$6,161.00	20.31
83	31,320	0.35	79	21	\$9,440.00	\$13,928.00	47.54
84	24,519	0.16	100	0	\$6,869.00	\$11,384.00	65.73
85	15,605	0.17	100	0	\$4,294.00	\$7,158.00	66.70
86	17,985	0.18	100	0	\$5,375.00	\$8,187.00	52.32
87	33,093	0.21	100	0	\$9,013.00	\$16,225.00	80.02
88	155,960	0.38	24	76	\$41,038.00	\$43,680.00	6.44
89	196,920	0.32	26	74	\$48,164.00	\$50,138.00	4.10
90	154,277	0.42	27	73	\$43,327.00	\$45,604.00	5.26
91	22,193	0.350	N/A	N/A	\$6,313.00	\$6,418.00	1.66
92	62,265	0.460	N/A	N/A	\$18,501.00	\$20,355.00	10.02
93	14,864	0.220	N/A	N/A	\$4,255.00	\$4,767.00	12.03
94	24,833	0.400	N/A	N/A	\$8,717.00	\$9,227.00	5.85
95	17,139	0.160	N/A	N/A	\$5,012.00	\$5,631.00	12.35
96	30,405	0.300	N/A	N/A	\$9,816.00	\$10,832.00	10.35
97	11,986	0.550	N/A	N/A	\$3,864.00	\$5,008.00	29.61
98	16,760	0.370	N/A	N/A	\$4,934.00	\$4,971.00	0.75
99	55,699	0.240	N/A	N/A	\$13,853.00	\$14,062.00	1.51
100	30,523	0.230	N/A	N/A	\$8,206.00	\$8,940.00	8.94
101	30,204	0.620	N/A	N/A	\$10,271.00	\$10,403.00	1.29
102	71,904	0.570	N/A	N/A	\$26,614.00	\$25,977.00	(2.39)
103	22,398	0.360	N/A	N/A	\$6,897.00	\$12,311.00	78.50
104	49,452	0.390	N/A	N/A	\$17,987.00	\$29,789.00	65.61
105	25,969	0.600	N/A	N/A	\$11,895.00	\$12,151.00	2.15
106	36,300	0.530	N/A	N/A	\$14,608.00	\$15,242.00	4.34
107	40,992	0.410	N/A	N/A	\$14,055.00	\$14,691.00	4.53
108	50,480	0.270	N/A	N/A	\$15,004.00	\$15,853.00	5.66

RATE INCREASES AT PROPOSED RATES

Publication	Circulation per copy	Average Weight (lbs.)	% Sacked	% Palletized	Per issue postage (Current)	Per issue postage (Proposed)	Postage % change
109	30,047	0.580	N/A	N/A	\$11,500.00	\$11,768.00	2.33
110	121,540	0.280	N/A	N/A	\$30,516.00	\$30,423.00	(0.30)
111	17,805	0.570	N/A	N/A	\$7,331.00	\$7,737.00	5.54
112	63,938	0.350	N/A	N/A	\$19,126.00	\$20,577.00	7.59
113	8,019	0.220	N/A	N/A	\$1,917.00	\$3,078.00	60.56
114	73,238	0.560	N/A	N/A	\$24,297.00	\$25,722.00	5.86
115	42,012	0.310	N/A	N/A	\$13,142.00	\$22,960.00	74.71
116	18,060	0.21	91	9	\$5,022.00	\$5,629.00	12.09
117	35,723	0.23	84	16	\$9,601.00	\$10,428.00	8.61
118	24,229	0.22	100	0	\$7,228.00	\$7,754.00	7.28
119	29,405	0.66	71	29	\$12,121.00	\$16,723.00	37.97
120	36,064	0.18	100	0	\$10,340.00	\$11,347.00	9.74
121	29,540	0.19	100	0	\$7,799.00	\$14,115.00	80.98
122	102,771	0.72	11	89	\$45,794.00	\$47,840.00	4.47
123	22,805	0.18	100	0	\$6,356.00	\$7,304.00	14.92
124	40,808	0.48	50	50	\$14,859.00	\$15,728.00	5.85
125	12,752	0.17	100	0	\$3,481.00	\$3,925.00	12.75
126	33,774	0.39	72	28	\$11,397.00	\$12,073.00	5.93
127	52,012	0.69	26	74	\$22,838.00	\$23,980.00	5.00
128	22,948	0.24	89	11	\$6,614.00	\$10,918.00	65.07
129	32,087	0.34	68	32	\$9,863.00	\$10,611.00	7.58
130	36,373	0.18	92	8	\$9,032.00	\$9,917.00	9.80
131	29,357	0.47	47	53	\$8,346.00	\$8,748.00	4.82
132	29,357	0.47	47	53	\$8,346.00	\$8,748.00	4.82
133	29,357	0.47	47	53	\$8,346.00	\$8,748.00	4.82
134	29,357	0.47	47	53	\$8,346.00	\$8,748.00	4.82
135	16,345	0.25	60	40	\$4,775.00	\$5,054.00	5.84
136	14,617	0.52	31	69	\$5,434.00	\$6,310.00	16.12
137	28,301	0.17	93	7	\$7,971.00	\$8,556.00	7.34
138	50,646	0.99	31	69	\$24,747.00	\$27,862.00	12.59
139	67,545	0.38	73	27	\$22,200.00	\$24,630.00	10.95
140	29,942	0.23	88	12	\$8,689.00	\$9,505.00	9.39
141	18,569	0.44	61	39	\$7,188.00	\$7,609.00	5.86
142	18,514	0.39	92	8	\$6,762.00	\$7,332.00	8.43
143	27,097	0.27	80	20	\$8,168.00	\$8,764.00	7.30
144	56,521	0.36	49	51	\$18,589.00	\$23,868.00	28.40

RATE INCREASES AT PROPOSED RATES

Publication	Circulation per copy	Average Weight (lbs.)	% Sacked	% Palletized	Per issue postage (Current)	Per issue postage (Proposed)	Postage % change
Total	7,802,986				\$2,103,579.00	\$2,351,122.00	
Average	54187	0.35	41	32	\$14608.19	\$16327.24	13.12

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

COMPLAINT OF TIME WARNER INC. ET AL.
CONCERNING PERIODICALS RATES

Docket No. C2004-1

DIRECT PREPARED TESTIMONY OF NICK CAVNAR
ON BEHALF OF AMERICAN BUSINESS MEDIA
(September 9, 2004)

1 My name is Nick Cavnar, and I am appearing on behalf of American Business
2 Media. American Business Media members publish approximately 1,500 business-to-
3 business and professional periodicals and pay approximately \$300,000,000 per year to
4 do so. Most also operate websites associated with their publications, and many publish
5 newsletters, operate trade shows and offer data products and services.

6 I will cover several issues in my testimony, including:

7 (a) Hanley Wood's experience with co-palletizing, and what we have
8 learned from it,

9 (b) witness Mitchell's error in assuming that advertising revenues,
10 especially for business-to-business publications, can be viewed on a per-
11 subscriber basis and the related issue of whether publishers would really
12 limit circulation geographically as a result of differential postage rates,

13 (c) ECSI value, including both (i) witness Gordon's troubling but,
14 fortunately, uninformed and erroneous testimony that apparently seeks to
15 prove the increasing irrelevance of hard copy periodicals and (ii) the
16 complainants' myopic view of ECSI value and how it should be reflected in
17 rates,

18 (d) the complainants' prediction that, even though increased worksharing
19 did not "drive costs from the system" in the past, it will in the future, and

20 (e) an overview of American Business Media's position in this docket.

1 Autobiographical sketch

2 I have worked in magazine publishing for more than 30 years, starting in 1973 as
3 an editor for a small non-profit periodical in Ann Arbor, MI. Since 1986, my career has
4 focused on circulation management for business magazines, and I am currently Vice
5 President of Circulation for Hanley Wood, LLC, of Washington, DC. My circulation
6 career has included jobs with some of the largest business-to-business publishers in the
7 country, including Crain Communications, International Thomson, Cahners Publishing
8 (now Reed Business Media), Primedia Business Media, and now Hanley Wood. In
9 these positions, I have worked closely with 180 magazines, ranging from a weekly
10 consumer publication with 200,000 subscribers to highly-targeted business magazines
11 serving less than 15,000.

12 My area of expertise is circulation development and business strategy, and I do
13 not pretend to be a specialist in distribution. However, I have been actively involved in
14 postal issues for a number of years, serving on the American Business Media
15 Government Affairs and Postal Committees since 1996, and serving on the USPS
16 Mailers Technical Advisory Committee for two years from 1998 to 2000.

17 Co-palletizing

18 Co-palletization and co-mailing, as the complainants suggest, is increasingly
19 enabling smaller circulation publications to move from sacks to pallets, but it is not and
20 will not be available to many periodicals for a number of reasons.

21 I have been closely involved with co-palletizing programs for smaller circulation
22 magazines. I participated in a committee that worked with the Postal Service in 2003 to
23 develop the trial co-palletization discount of \$.007 per copy. My company then became

1 the first publisher to utilize a co-palletization program introduced in June 2003 by our
2 printer, RR Donnelly, at their Bolingbrook IL facility. Hanley Wood mails twelve
3 magazines as periodicals, and all twelve are now co-palletized in Bolingbrook and then
4 shipped for direct entry at points around the country. We are able to co-palletize even
5 our smallest periodical, a magazine for swimming pool builders that mails only 17,000
6 copies.

7 For our magazines that otherwise would mail almost completely in sacks, with a
8 single entry point, we have seen direct postage savings in the range of fifteen percent.
9 Hanley Wood's net savings from the program are substantially less, of course, since we
10 must also pay for the cost of co-palletization and shipping. Currently, we net only a one
11 percent savings, based on the cost of single entry postage. We expect that as more
12 publications enter the co-palletization pool at Donnelley and as more co-palletization
13 and co-mail operations are started, as is happening, both competition and declining
14 administrative costs will increase our net savings. Future rate increases, with or without
15 rate design changes, should do the same.

16 Our commitment to co-palletization goes beyond immediate postage savings,
17 however. We recognize that making periodical mail more efficient for the Postal Service
18 can help to contain our rates long term by driving cost out of the system. We
19 understand that sacks are a cost issue, and we have in fact achieved a dramatic
20 reduction in the use of sack. For example, our magazine The Concrete Producer, which
21 previously sent its 20,000 copies in 445 sacks, used only 8 sacks in its most recent
22 mailing. A recent co-palletization pool at Donnelly reduced sack usage from 2,806, if
23 each magazine had been mailed individually, to only 79.

1 Based on our own success with co-palletization, Hanley Wood is actively
2 encouraging other business magazine publishers to work with their printers to expand
3 these programs. I presented a seminar on co-palletization for the American Business
4 Media in January 2004, and will be speaking on the subject at the National Postal
5 Forum here in Washington on September 21. To judge by interrogatories recently
6 directed to American Business Media, it even appears that my efforts have been
7 noticed—appreciatively, I hope—by the complainants.

8 Precisely because I am speaking with many other publishers on this subject,
9 however, I am very aware that not all periodicals can be palletized, at least today.
10 Other American Business Media witnesses have explained, as has the complainants'
11 witness Schick, that publication frequency, trim size, inserts, and circulation size either
12 alone or in combination can preclude certain publications from participation in co-
13 mailing or co-palletization. In my own discussions, I have learned that some publishers
14 experience substantial service delays with co-palletization and drop shipping, compared
15 to mailing in sacks. This has not been a great problem for Hanley Wood, but most of
16 our magazines are monthlies and bi-monthlies that are not highly time-sensitive. I have
17 worked with time-sensitive magazines at other companies, and I can appreciate that a
18 single day's difference in delivery time can be critical in retaining subscribers and
19 advertisers.

20 Even if an individual magazine may be well suited for co-palletization, not all
21 magazine printers can offer their clients this service. Hanley Wood is fortunate to work
22 with one of the nation's largest printing and distribution companies. RR Donnelley
23 already owned facilities and equipment that could be adapted to create a co-

1 palletization line. But many printers do not have the volume of periodicals, or the
2 equipment and floor space, to create a similar operation.

3 For the foreseeable future, and especially if the Postal Service does not develop
4 a container than can replace sacks, there will be publications that have no choice but to
5 continue mailing mail in sacks—either because alternatives are precluded by their
6 mailing characteristics and delivery requirements, or because they do not have the
7 service available to them. If Periodical rates are restructured as proposed by the
8 complainants, these publications will be heavily penalized. Ultimately, that will affect not
9 only the publishers, but also their subscribers, especially those who become most costly
10 to serve.

11 Advertising Revenues

12 Complainants' witness Mitchell seeks to demonstrate that publishers' profits from
13 each subscriber are so high that they would never seek to trim subscribers with very
14 high postage costs. In order to prove the unprovable, witness Mitchell develops a
15 complex formula that essentially increases advertising revenue by the average of ad
16 revenues per subscriber for each additional subscriber and reduces ad revenues by that
17 amount for each eliminated subscriber (Tr. 860-61). When asked directly whether he
18 assumes advertising revenue to be directly proportional to the number of subscribers,
19 he agreed that he did "on a long-term equilibrium basis" (Tr. 993).

20 Mr. Mitchell stumbled when asked to explain what "long-term equilibrium basis
21 means," stating (Tr. 1219) that he is dealing with "general tendencies." He explained
22 that if a periodical obtains a new subscriber it "doesn't run out the next day and raise
23 their advertising rates" but that "it might be a while before they change their advertising

1 rates.” His examples, however, as well as his formula seem to assume a short-term
2 response.

3 It is clear that witness Mitchell does not understand how publishers, at least
4 publishers of business-to-business and other special interest periodicals, set advertising
5 rates and collect advertising revenues. This lack of awareness is not surprising, since
6 Mitchell has never been employed to produce a periodical (Tr.886), has never
7 purchased or sold periodical advertising (Tr. 887-88), and has never worked in or as a
8 consultant to anyone in the advertising business (Tr. 889).

9 As someone who has actually developed and managed circulation for nearly 200
10 magazines, I can easily identify the fallacies in Mr. Mitchell’s arguments.

11 First, Mitchell believes that in at least “most cases,” advertisers are given a
12 “promised” level of circulation (Tr. 1220) and, presumably, that if they do not meet that
13 level, advertising revenues decline, perhaps on a “long-term equilibrium basis.” Had Mr,
14 Mitchell examined Time Warner’s published advertising rates before being asked to do
15 so during cross-examination, he would have seen that his guaranteed rate base
16 hypothesis is untrue and that, even where there is a guarantee, there is no reason to
17 believe that the loss of a minimal number of subscribers will have any affect whatsoever
18 on advertising revenues.

19 For example, during cross-examination (Tr. 1222-23), witness Mitchell was
20 directed to the rate card for Time magazine’s national edition (which is in the transcript
21 at Tr. 1281). He believed that the “rate base” of 4,000,000 was a commitment to
22 advertisers, but he did not know whether a shortfall would lead to a rebate requirement,
23 nor did he know whether publishers traditionally exceed their rate bases.

1 Mr. Mitchell was then asked to look at the rates for Time's state editions (in the
2 transcript at Tr. 1283), and he was directed to the fact that the same per page
3 advertising rate applies to Alaska, with a rate base of 10,000, Connecticut, with a rate
4 base of 75,000, and New Jersey, with a rate base of 150,000 (Tr. 1224). Although
5 Mitchell conceded (Tr. 1225) that "[t]his is an issue I haven't thought about," I, on the
6 other hand, have thought about it, and it is perfectly clear that the advertising rates for
7 Time's state editions are hardly circulation dependent. It is inconceivable that if the
8 circulation of the New Jersey edition were reduced to 148,000, its ad rate would decline,
9 given that it is now the same rate as an advertiser pays for 75,000 copies in Connecticut

10 Just as Time magazine does not use the same "rate base" approach for its state
11 editions as in its national advertising rates, other magazines published by Time Warner
12 do not base their rates on a one-to-one ration with circulation. The much smaller,
13 90,000 circulation, special interest publication Motocross (Tr. 1226-29) does not even
14 use the term "rate base," but instead refers to a "circulation projection." Mr. Mitchell
15 professed (Tr. 1228-29) that he did not know how these terms should be interpreted.
16 From my years of experience with business-to-business publications, I do know the
17 difference. A guaranteed rate base is just that, a guarantee to the advertiser of a
18 specified circulation, with a rebate obligation if that level is not met. A circulation
19 projection does not imply a guarantee, and individual issues may fluctuate from the
20 specified level.

21 Since circulation fluctuates from month to month, publishers with stated rate
22 bases typically maintain a cushion. If such a publisher chooses to reduce subscribers in
23 an area or of a certain type, it can do so safely as long as the margin is not eliminated

1 and, presumably, as long as circulation efforts are stepped up in other areas if the
2 publisher wishes to maintain its rate base and cushion.

3 In my experience, the notion of a guaranteed rate base is associated primarily
4 with general interest publications, such as Time, and not special interest publications,
5 such as Motocross and, especially, business-to-business publications. The former are
6 selling access to “eyes.” That is, advertisers, while interested in the demographics of
7 the readers, are primarily buying a certain numbers of readers.

8 For special interest and business-to-business publications, advertisers care far
9 more about the quality of the readership. They want to reach only people who are truly
10 involved in a particular field, and therefore likely to buy their products. That is why the
11 detailed demographic information in our audited circulation statements is so important.
12 Most business-to-business publishers could, and do at times, trim the total number of
13 subscribers without affecting the quality of the readership in the eyes of the advertiser or
14 the page rate paid by advertisers. More importantly for purposes of refuting witness
15 Mitchell’s formula, we can reduce our readership marginally—or even more than
16 marginally—without affecting either our promise to advertisers (because there is none)
17 or our page rates.

18 For example, Hanley Wood purchased the magazine Tools of the Trade from
19 another company in December, 1997. At the time of acquisition, Tools of the Trade had
20 been serving an average 80,680 qualified subscribers per issue. With the first issue
21 under Hanley Wood’s ownership, we reduced the circulation to 75,102 subscribers. Ad
22 rates were not reduced correspondingly—on the contrary, the 1998 rate card increased
23 from the previous year. Why were advertisers willing to pay a higher rate for a smaller

1 circulation? Because the reduction was achieved by eliminating “lower quality”
2 subscribers, which in that case meant individuals who were not identified as
3 professional construction contractors and subcontractors.

4 In January 2002, we reduced the circulation of Tools of the Trade again, from
5 75,000 to 65,000, while again increasing ad rates. Again, advertisers accepted the
6 reduction because at the same time we improved the “quality” of the circulation, this
7 time by greatly increasing the percentage of subscribers who had personally requested
8 a subscription within one year.

9 Tools of the Trade illustrates how business-to-business publishers can and do
10 constantly shift the composition of our circulation to deliver the right market for our
11 advertisers while lowering our own cost. It is very common for us, especially with
12 request publications (for which there is no subscription charge), to refuse service to
13 subscribers we deem marginal without affecting either our promise to advertisers
14 (because there is none) or our page rates.

15 Mitchell uses the publication Pit & Quarry as an example in the application of his
16 formula, concluding that the “implied profit” from a zone 8 subscriber to this request
17 publication is \$100.37 (Tr. 863), driven, of course, by his assumption that it would lose
18 1/24,000ths of its advertising revenue if it ceased delivery to that subscriber. Unlike Mr.
19 Mitchell, I have examined the relevant section of Pit & Quarry’s latest media kit, where it
20 makes no rate base promises but mentions the same 24,000 circulation noted by
21 witness Mitchell. It also shows how many subscribers in 2002 were “qualified,” how
22 many are officers, administrative executives and department heads, how many are

1 sales and marketing subscribers, and how many of its subscribers qualified in the past
2 year.

3 I have also examined data concerning Pit & Quarry's advertising rates and
4 circulation. It shows:

PIT & QUARRY
Rate card and circulation history

<u>Year</u>	<u>Full page 1x b/w rate</u>	<u>BPA qualified av. circ.</u>	<u>BPA total circ.</u>
1996	\$ 4,521	23,449	24,828
1997	\$ 4,520	23,577	25,359
1998	\$ 4,520	23,479	25,129
1999	\$ 4,791	23,463	25,664
2000	\$ 5,130	23,665	25,961
2001	\$ 5,179	24,247	25,834
2002	\$ 5,340	23,873	25,469
2003	\$ 5,500	23,762	25,193
2004	\$ 5,890	23,794	25,353 (June only)

5 For most advertisers, the only number that matters is qualified subscribers.
6 These data show, for example, a decline in average circulation from 2001 to 2002 of
7 410 qualified subscribers, or 1.7%, but an increase in the rate for a black and white
8 page of 3.1%. As is obvious, Pit & Quarry's ad rates and therefore revenues do not
9 vary with modest changes in circulation. Rather, like ad rates in general, including I'm
10 sure for the complainants, they vary with the market, the economy and other factors. I
11 am confident that Pit & Quarry could cut a few hundred subscribers from its rolls without
12 suffering the loss of advertising revenues hypothesized by witness Mitchell.

13 Mitchell seems further unaware that, even if a publisher were to consider each
14 subscriber in some way responsible for a pro rata share of advertising revenue, we also

1 constantly evaluate subscribers by their cost to acquire and serve. We compare the
2 cost of acquiring and renewing subscribers by direct mail to the cost of telemarketing or
3 broadcast email, and shift our sources accordingly. We also look at any factors that
4 would increase the cost to serve a particular subscriber, including and especially the
5 cost of postage.

6 For example, Hanley Wood publishes a number of controlled circulation
7 magazines for professionals involved in residential construction and design, including
8 Building Products, Custom Home, Residential Architect, Remodeling, and the
9 aforementioned Tools of the Trade. None of these magazines offers controlled
10 subscriptions in Canada, even though we could easily find qualified professionals in
11 Canada and even though many of our advertisers market their products in Canada as
12 well as the United States. The reason is simply that cost of mailing issues into Canada
13 is roughly five times the cost of postage within the United States.

14 I have spent a good deal of time on this issue, because, like witness Mitchell, I
15 think it is important. At the rates and schedule proposed, not only would the zoning of
16 editorial content cause certain copies to experience larger rate increases than a
17 publication's other subscribers, but other features, such as the very large sack charge
18 proposed, would cause an enormous increase in rates for many copies that, for one
19 reason or another, must be mailed in small sacks. At an extreme, I point to witness
20 Stralberg's agreement (Tr. 237) that a single piece in a sack could cost as much as
21 \$3.70 to mail. Therefore, the temptation to reduce circulation to save a disproportionate
22 amount of postage, or to market in particular areas, could affect not only subscribers far
23 from the entry point but also subscribers in less densely populated areas of the country,

1 where building large sacks might be impossible. If costs for serving different
2 subscribers within the United States varied as much as or more than the current cost for
3 mailing into Canada or Mexico, I am quite confident that publishers would find ways to
4 identify and restrict the most expensive subscriptions.

5 ECSI Value and Periodicals Rates

6 Through witness Gordon, the complainants claim to be addressing the limited
7 question of whether a flat editorial rate is still necessary to assure that the nation is
8 bound together by the wide distribution of periodicals. I believe that Gordon's testimony
9 goes well beyond that issue and that the complainants' presentation fails to address the
10 proper role of ECSI value in the setting of Periodicals rates.

11 I found witness Gordon's testimony to be very troubling, and, frankly, I cannot
12 understand why Time Warner and the other complainants would sponsor the testimony
13 of a witness who apparently believes that periodicals are obsolete and that the print
14 medium, which he suggests is no longer necessary, has no further need for preferred
15 rates. I understand that Gordon's testimony had as its limited purpose to persuade the
16 Commission that zoning the editorial pound rate will not cause harm to the flow of
17 information, even if some subscribers no longer receive hard copy publications, since
18 equivalent information is allegedly available on cable television and the Internet. But it
19 certainly appears to go well beyond that.

20

1 I suggest that the Commission should re-read the following excerpt from the
2 transcript (at 704):

3 Q You don't believe that it's superfluous and unjustifiable for
4 periodicals to enjoy lower rates because they have editorial content?

5 A I think it is far less necessary now. I think I'm not at all sure that it
6 accomplishes or helps to accomplish in any significant way the object.

7 Q Well, I think you just told me two things. You said you don't think it
8 superfluous and unjustifiable, but then I think you went on to say that it's
9 pretty much superfluous and unjustifiable.

10 Let me ask you again. Is a rate preference for periodicals based on
11 ECSI value superfluous and unjustifiable?

12 A I think, yes, a rate preference is. I think the object of binding the
13 nation together intellectually and culturally is a great social good.

14 Q But the rate preference for periodicals doesn't contribute to that
15 good?

16 A Not any more I don't think.

17 I know that after this exchange received some publicity in the trade press, a
18 spokesperson for Time Warner explained that Gordon misspoke and that he was
19 confused between the rate preference received by periodicals for their ECSI value,
20 which was the subject of the questions, and the flat editorial pound rate, which the
21 complainants oppose.

22 Any witness can become confused, and I do not wish to hold Mr. Gordon to
23 higher standard than I hope will be applied to me when I appear for cross-examination.
24 Neither of us is a professional witness and, I believe, neither of us has ever testified
25 before. Nevertheless, I find the defense of Mr. Gordon and the attempt to explain away
26 his views simply demonstrates that he lacks the perspective and experience to offer
27 views on postal rates, given other exchanges during his cross-examination. For

1 example, although in Gordon's response to *written* cross-examination, where he had the
2 advantage of having his responses at least reviewed by counsel and others, he agreed
3 with the proposition that "Periodicals bind the nation together by providing a common
4 source of information," when alone on the witness stand he was not so sure. He was
5 asked whether, because of television and the Internet, Periodicals are less important in
6 binding the nation together than they once were, and he answered "Yes" (Tr. 714).
7 When asked whether the nation would be "less bound together than it is now" if there
8 were no periodicals, he said "I suppose so, but not by a significant matter" (Tr. 715). If
9 no Periodicals were sent to Alaska and Hawaii, he says (Tr. 715), residents of those
10 states would be "only marginally" less integrated into the fabric of society than they are
11 today.

12 A few minutes later, the cross-examining counsel had changed, but Gordon's
13 views had not. The following exchange took place (Tr. 739):

14 Q You indicated this morning, and correct me if I'm wrong, that in your
15 view preferential postage rates play no role in contributing to the extent to
16 which publications help bind the nation together.

17 A I believe that it's marginal at best at this point.

18 Make no mistake about the fact that American Business Media and I vehemently
19 disagree with Mr. Gordon. We believe, as does Time Warner witness Schick (Tr. 501),
20 that reflection of ECSI value in rates continues to be important to maintenance of a
21 "healthy, vibrant, and diverse" Periodicals class. Fortunately, that is fortunately for all
22 Periodicals mailers including the complainants, there are sound grounds for rejecting
23 Gordon's views on the continuing importance of Periodicals in binding the nation
24 together.

1 His basic thesis is that television and, to a greater, extent the Internet have
2 rendered periodicals redundant. Yet he does not appear to have the background and
3 experience to draw this conclusion. While he reads a number of publications on a
4 regular basis (Tr. 635), he reads no specialized business periodicals on a regular basis
5 (Tr. 636-37). Although he gives opinions on the printing industry and the feasibility of
6 printing at multiple plants (Tr. 622), he has no experience in that industry and professes
7 to have the knowledge of “an informed layman” (Tr. 660). Yet despite his testimony
8 about the availability of multiple plant printing, he did not know whether all periodicals
9 can cost-effectively be printed at multiple plants today (Tr. 662). I think that an
10 “informed layman” ought to be able to answer a resounding “no” to that question. As
11 the record shows (Tr. 129), the complainants print only six publications at multiple
12 plants, all weeklies with multi-million circulation. The fact that no monthlies, even the
13 very heavy ones that would presumably benefit the most from avoided transportation,
14 print at more than one plant shows that it cannot be done economically today. It shows
15 as well that witness Gordon’s suggestion (Tr. 617 and 622) that changes in printing
16 technology affect the need to bind the nation together with rate preferences for
17 Periodicals should be given no weight.

18 Deserving of more serious attention but no different conclusion is Gordon’s view
19 that the Internet has made hard-copy publications unnecessary. Once again, Gordon’s
20 lack of knowledge—and in fact his own website—serve to undermine this view. The
21 interrelationship between hard-copy publications and both associated websites and
22 unrelated websites covering the same topics is a complicated one that Gordon’s
23 simplistic views about everything being available on line do little to elucidate.

1 Many or perhaps most American Business Media member publications now
2 operate related websites. I understand that in some of those cases the content of the
3 website duplicates that in the publication (and may contain updates as well), while some
4 do not. Some have associated charges, and some do not. Time Warner witness
5 Mitchell recognized (Tr. 1137) that, in general, publishers' web sites do not contain the
6 entire publication or its advertising content.

7 Again, I can refer to my own company's experience. Hanley Wood publishes 20
8 magazines in all. We also have a very successful eMedia division that provides web
9 sites and email newsletters, incorporating content from our magazines along with
10 unique online content. However, we maintain web sites for less than half the
11 magazines, and even our most robust web sites do not attempt to carry all of the
12 editorial and advertising information available in the related magazine.

13 As shown by some of the material quoted in Time Warner's interrogatories to
14 American Business Media, the great majority of business-to-business media
15 companies, like Hanley Wood, do see the Internet as crucial to their financial futures.
16 We recognize that our readers now look to the Internet—as well as the hard copy
17 publication—for information. The ability to offer both readers and advertisers multi-
18 media exposure is moving from a nice fringe benefit to essential. But with very few
19 exceptions, and those tend to be in the high-tech industries, publishers are not even
20 considering the abandonment of hard-copy publications. The Internet provides value
21 added but well less than full value. And, I might add, I strenuously disagree with the
22 notion that, because Mr. Gordon's Google search for the type of information contained
23 in Automotive News, Fire Engineering, Mayo Clinic Proceedings, and the New England

1 Journal of Medicine produced, for example in the case of Automotive News, more than
2 half a million hits, information of the kind and quality that appears in that publication is
3 available on any of them or even all of them combined (Tr. 771-79). Even witness
4 Gordon did not bother to look at any of the sites to which Google directed him to
5 determine the nature of their content (Tr. 780-81). He also agreed (Tr. 713-14) that it is
6 far easier to put information on the Internet than to publish it in a periodical, which to
7 me means that one must be more suspicious about the accuracy and thoroughness of
8 the former, a point driven home by Gordon's own inaccurate web site (see Tr. 647-49
9 and 711). Gordon admitted (Tr. 710) that if he published a newsletter with the same
10 type of information that appears on his website, it would be more accurate.

11 It ought to be clear that if a publication folds due to high costs, such as high
12 postage costs, its website(s) are highly likely to disappear along with it. Websites can
13 and do provide incremental advertising revenue, but not enough to replace the print
14 advertising that in turn supports the editorial content of the publication (along with its
15 distribution). Therefore, there should be no serious debate about the fact that, if a
16 publication carrying important information ceases publication, the broad dissemination
17 of information will be adversely affected.

18 I expect that Time Warner will answer that, at least insofar as some publishers
19 might trim high-cost subscribers, web sites of the publisher, or even digital versions of
20 the publications, will provide a viable substitute. Mitchell testified (Tr. 818) that even if
21 (contrary to his hypothesis) some publications did drop a portion of their subscribers,
22 the information available elsewhere would prevent any adverse affect on the "unity or
23 cohesion of the nation." Unfortunately, the fact is that no matter how important the

1 information, the number of people who are willing and able to access it electronically,
2 which would often require hours of reading off a computer screen, are limited. While
3 Hanley Wood and, I suppose, virtually all publishers believe that the information they
4 produce is vital to the industries or other constituencies that they serve, we recognize
5 that many of our readers simply will not accept the same information on a computer.

6 Having worked with publications serving a wide variety of industries, I am
7 particularly aware that access to and usage of electronic media still varies greatly in our
8 markets. Hanley Wood, for example, serves many small building and remodeling
9 contractors who do not spend their work day at a desk in front of a computer. Certainly
10 they use electronic media, but it may not be as accessible and easily used as a printed
11 publication they can carry with them to a job site. I can see their attachment to the print
12 media even in response to our direct marketing for new subscribers and renewals: We
13 enjoy significantly higher response rates to traditional direct mail and printed renewal
14 forms in this market than I have seen in high technology industries such as
15 telecommunications. In other words, different industries and population segments
16 require different mixes of media.

17 It also remains true that many rural and remote areas of the country still do not
18 enjoy the same quality of Internet and even telephone service as urban areas.
19 Unfortunately, these are the same subscribers who could become most costly to serve
20 under the rate structure proposed by the complainants. So the individuals most
21 susceptible to losing their printed magazine subscription due to high postal cost might
22 also have greater difficulty accessing an electronic replacement.

1 If all of our subscribers today would prefer to receive content exclusively by
2 electronic media, and if the advertisers would spend enough to cover our reduced costs,
3 why would any of us be publishing hard copy? Time magazine alone could save the
4 cost of printing and mailing 200 million pieces a year, probably close to \$100 million, if
5 the Internet truly provided a viable alternate to print media. But it does not. If postage
6 rates unnecessarily rise to the point where some publications, or some significant
7 portion of some publications, can no longer be mailed economically, the flow of
8 information will suffer, and the mandate to bind the nation together will not be met.

9 From the focus of their testimony, it would be fair to conclude that the
10 complainants view ECSI value and its role in setting rates more narrowly than American
11 Business Media and I do. They seem to think that it's relevant only to the issue of
12 whether or not the flat editorial pound rate should be retained, and they appear to
13 believe that the Commission will have done all it needs to do to recognize ECSI value if
14 it continues the low cost coverage for Periodicals, particularly for editorial content
15 through editorial pound and piece discounts, while letting the rest of the postal "chips"
16 fall where they may. See Tr. 933, where witness Mitchell asserts that the degree of rate
17 "attractiveness" for all periodicals should be the same.

18 We have a different view. We think that when Congress insisted that ECSI value
19 be considered, it sought to ensure that the Commission recognized, in the famous
20 words of Congressman Ford, that "a book, a magazine or a newspaper has more
21 intrinsic value to the public than a brick" and that periodicals are granted a rate
22 preference in order to bind the nation together through the broad dissemination of
23 information. We believe that the Commission may and in some circumstances must

1 assess the overall impact of a rate proposal and its potential effect on segments of the
2 periodicals industry with ECSI value in mind, and it is not enough simply to say that
3 every pound of editorial matter gets the same discount, so no more is needed.

4 The Commission has long recognized that it is required to provide for the
5 widespread dissemination of information, as part of its responsibility to “bind the Nation
6 together through the personal, educational, literary, and business correspondence of
7 the people.” Opinion in R090-1 at ¶ 5279, quoting 39 U.S.C. § 101(a). It said there that
8 it “will not recommend a rate structure that will impair” the special treatment of editorial
9 content. Although the Commission in that case applied these concepts in rejecting an
10 earlier proposal by witness Mitchell (then testifying for the Postal Service) to zone
11 editorial content in order to send the proper price signals and improve fairness (see ¶
12 5275), the concepts of ECSI value and broad dissemination of ideas need not be limited
13 to the flat editorial rate. In Docket No. MC91-3, pages 6-7, the Commission found:

14 Similarly, we find that the national policy in favor of the
15 widespread dissemination of information is intended to
16 encourage the availability of both large and small circulation
17 publications, and to keep the Postal Service as a viable
18 carrier for the national delivery of all types of publications.

19 In this case the Commission should also consider the needs of “all types of
20 publications,” of “both large and small circulation publications,” and if it does so, I
21 submit, it will not endorse the complainants’ recommendations.

22 Nor must it do so in order to assure that the complainants receive significant
23 credit for their publications’ ECSI value, for they already enjoy substantial savings. One
24 way to measure that credit is to compare the rates they now pay with the rates they
25 would pay if they mailed at the Standard rates (or, if they weigh more than a pound, the

1 Bound Printed Matter rate)—that is, the rates that apply to similar pieces that are not
2 given ECSI credit. Witness Stralberg provided that rate comparison for several of the
3 complainants' publications (Tr. 108). As he shows there, the differential is very large.
4 For example, Time magazine pays 17.76 cents per copy at the present rates and would
5 pay 23.35 cents per copy at Standard rates. That difference of 5.59 cents, or an "ECSI
6 discount" of about 24%, saves Time Warner more than \$11,000,000 per year (at
7 approximately 200 million copies per year). Readers Digest receives an "ECSI
8 discount" of 8.26 cents per copy, or 29%, for annual savings of nearly \$11,000,000 (at
9 approximately 128 million copies per year). At the proposed rates, these differentials
10 would increase by about \$5,000,000 each.

11 By contrast, at the rates proposed, I believe that many Periodicals mailers would
12 see their rates increase above the Standard rates, creating, it would seem, an ECSI
13 penalty. That would be the case for the hypothetical but "representative" non-drop
14 shipped publication used by witness Mitchell in response to ABM/Time Warner-T1-93
15 (Tr. 989), as shown by McGraw-Hill witness Schaefer. I do not know how one can
16 reconcile a rate schedule that charges more for many Periodicals than they would pay
17 at the Standard rates with a statutory requirement that ECSI value be recognized in
18 Periodicals rates and that rates for Periodicals bind the nation together.

19 Finally, in this regard, I would like to respond to allegations that, under the
20 present rate schedule, larger publications subsidize smaller ones. I cannot deny that
21 different publications pay different percentages of "their" attributable costs, and I think
22 that we all agree that 100% editorial publications pay less than attributable costs, as do
23 no doubt many others with the mark-up as low as it has been in recent years. But I do

1 not accept that publications paying higher mark-ups are necessarily subsidizing those
2 with lower or no markups. It is possible that the publications with lower than average
3 mark ups are being “subsidized” by mailers in other classes. In other words, it may be
4 that the present per copy rates of lower than 18 cents now paid by, among others, Time,
5 Entertainment Weekly, Newsweek and TV Guide would not be lower but for the rate
6 preferences for the publications that are their target in this case. It is equally plausible
7 that, but for those preferences, the lowest Periodicals rates would be the same, but the
8 class mark up over attributable costs would have been maintained at a somewhat
9 higher level by virtue of greater revenues from the allegedly high-cost publications
10 targeted here.

11 In other words, assume that in the past few cases the Commission had decided
12 that rates for small circulation publications must be even higher because of the costs
13 that they impose on the postal system, as the complainants allege here. It is possible
14 that the Commission could have assigned the additional revenues not to a reduction in
15 the rates paid by the complainants and others similarly situated but to payment of
16 institutional costs in order to increase the cost coverage closer to its historic level.

17 In order to give the Commission some indication of the important and, I submit,
18 irreplaceable content of business-to-business publications, I have attached two exhibits.
19 Exhibit NC-1 is a press release related to the fiftieth anniversary of American Business
20 Media’s Jesse H. Neal National Business Journalism Awards, which honor excellence in
21 business-to-business editorial content. Exhibit NC-2 provides brief synopses of recent
22 award winners and, I hope, will help the Commission understand that the type of

1 editorial content in business-to-business publications cannot be replaced by cable
2 television shows or Google searches.

3 Driving Costs from the System

4 The linchpin of the complainants' case, other than the large rate decreases they
5 would enjoy, is that rates must be changed in order to change mailers' "behavior," and
6 that such behavior changes will "drive costs from the system." In other words, if mailers
7 can only be given incentives to prepare their mail differently and increase the level of
8 worksharing, postal service processing costs will decline, and the seemingly
9 inexplicable upward pressure on rates in the past will ameliorate or reverse.

10 In the words of the Complaint that initiated this proceeding (pages 4-5):

11 For the past seventeen years, Periodicals mail processing costs have
12 been rising and Periodicals mail processing productivity has been falling,
13 despite extensive efforts by both the Postal Service and mailers to bring
14 about more efficient Periodicals handling.

15 This theme was repeated by the complainants' witnesses. For example, witness
16 Mitchell agreed (Tr. 912) that for the past twenty or so years, mailers took steps
17 that should have reduced Postal Service processing costs and (Tr. 1029-30) that:

18 inordinate increases in the attributed costs and rates of Periodicals
19 mail have occurred since the early 1990s *despite* significantly
20 increased use of pallets, increased dropshipping and increased
21 worksharing of other types by Periodicals mailers during that
22 period.

23 My question is, if the significant changes made by all segments of the
24 Periodicals industry in the past twenty years did not have the expected effect of
25 "driving costs out of the system," why should we believe that similar changes in
26 the next few years will have that effect? There is an adage that is often, although
27 I think incorrectly, attributed to Sigmund Freud that goes "insanity is doing the

1 same thing over again and expecting different results.” I do not believe that the
2 complainants are insane, but when asked to confirm the possibility that the effort
3 to develop new price signals and to respond to them might have little effect on
4 Postal Service costs, witness Mitchell would not even confirm that possibility (Tr.
5 1106). Interestingly, that question was asked by the Postal Service itself, which
6 leads me to believe that it might doubt that forcing mailers to change the way
7 they present their mail (if they can) will result in significant cost savings.

8 I believe it was Time Warner witness Stralberg himself who coined the
9 phrase “automation refugees” to explain why processing costs did not decline as
10 they should have with automation (Tr. 298). As I understand it, the basis for the
11 automation refugee hypothesis is that the Postal Service has difficulty reducing
12 costs as activity in specific functions declines, possibly because personnel that
13 become excess are reassigned to functions where additional labor is not
14 necessarily needed. I have seen nothing that convinces me that that the same
15 phenomenon will not continue to exist, for whatever reason. Of course, if my
16 fears are correct, then rates that assume cost reductions that do not exist will
17 soon have to be raised as cost coverage drops into the negative zone, leaving
18 behind those publishers, who may become former publishers, who were unable
19 to respond to the price signals and faced rate increases of 30%, 50% and even
20 80%.

21

1 Conclusion

2 American Business Media does not have a final position at this stage of
3 the proceeding. Nevertheless, certain conclusions will not change as the record
4 develops further. One is that, notwithstanding witness Gordon’s discussion of
5 technology changes, print publications—ours and the complainants’—are not
6 anachronisms, and television and the Internet are not now and will not in the
7 foreseeable future be viable substitutes for print publications. If postage rates
8 cause there to be fewer Periodicals, or cause some Periodicals to reduce
9 circulation in distant or rural areas as a result of rate design, the nation will be
10 worse off for it. Another immutable conclusion is that even though some
11 publications can change the way they present mail to make it less costly for the
12 Postal Service to handle, those changes are underway and increasing today,
13 without the need for new “price signals.” And, finally, even the complainants do
14 not deny that some publications, because they have valid service issues, or they
15 are weeklies, or they have very small circulations, or they are printed by very
16 small printers in out-of-the-way locations, will not be able to avoid punishing rate
17 increases if the rate structure and level proposed were to be implemented.

18 At this point, therefore, American Business Media’s position is that it
19 cannot support and must oppose significant structural changes likely to increase
20 rates for many Periodicals without:

- 21 1. An alternative to sacks for those that cannot palletize.
- 22 2. Protection for mailers that cannot change.
- 23 3. Better information on the effect of Delivery Point Sequencing,
24 Automated Package Processing and other upcoming
25 changes.

- 1
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4. A convincing case that the Postal Service can actually capture theoretical savings.
 5. Reasonable notice and phasing of major changes (just as Congress phased the major changes required in the Postal Reorganization Act).

IN ITS 50th YEAR, A JOURNALISM COMPETITION IS TOUGHER THAN EVER

A record 1,283 entries vie for the 2004 Neal Awards; this year's ceremony will pay tribute to all past recipients and to one courageous editor

NEW YORK, Feb. 26, 2004— *Washington Technology* exposes 60 government officials who obtained phony degrees from diploma mills. Editorials in *University Business* tackle the inability of colleges to prepare students for survival in a complicated world. *CSO* teaches readers how to prevent competitive espionage and intellectual property theft. *Workforce Management* takes HR leaders to task for the executive compensation practices that have scandalized Wall Street.

These are among the 78 finalists for the 50th Annual Jesse H. Neal National Business Journalism Awards, which honor b-to-b editorial excellence. The finalists were chosen from a record 1,283 entries, making this year's Neal Awards the most competitive ever. Winners—and the recipient of a new award recognizing editorial courage and integrity—will be announced at a luncheon ceremony on Thursday, March 18, at The Waldorf=Astoria in New York.

For the last two years, stories related to 9/11 and terrorism seem to have dominated the work of Neal finalists. Now, business-to-business publications have returned to an emphasis on the craft of industry reporting. The Neal Board of Judges remarked that this year's finalists presented fresh angles and unexpected points of view—evidence that editors are working harder than ever to provide new information in their core topics.

Several of the finalists broke major news. One of the more dramatic examples: *Aviation Week & Space Technology* was the first to write about the Columbia shuttle's reentry photo showing damage to the left wing—a scoop later picked up by the general news media.

At the 2004 Neal Awards ceremony, a new award recognizing editorial courage and integrity will be introduced: the Timothy White Award, named after the longtime editor of *Billboard* magazine who passed away unexpectedly in June 2002. White was known to artists and music moguls alike as “the conscience of the music industry,” and this new award will be given to an editor whose work exemplifies the passion, courage and integrity that White displayed in his career. There is no entry fee, and the deadline for entries is Monday, March 1. Visit www.americanbusinessmedia.com for more information.

Also being honored at the 2004 Neal Awards are Vernon Henry, Advanstar's corporate editorial director, who will receive the Crain Award for lifetime achievement; and Aric Press, editor in chief of *The American Lawyer*, recipient of the 2004 McAllister Editorial Fellowship.

The Neal Awards are open to members of American Business Media, the association for b-to-b information providers. American Business Media's member companies represent over 3,000 print and online titles and reach an audience of 90 million professionals.

EXAMPLES OF NEAL AWARD WINNERS, 2003

Article: **Tech Alert**
 Publication: *CIO*
 Award: Grand Neal Winner

CIOs manage the business lifeline in a language few understand – which translates into blame, headaches and flare-ups amidst a sprinkling of credit. Career survival hinges on keeping sane while keeping the peace with bosses who don't know a bit from a byte.

Enter *CIO*, with a special issue of hands-on advice from seasoned peers on every aspect of the job and life. From how to run a Microsoft-free shop to how to refuse homework to how to neutralize the CFO, readers get practical information on timely topics, from their perspective and in their tone.

Article: **Deadly Dilemmas**
 Publication: *Photo District News*
 Award: Best Article

Increasingly, photojournalists face a choice: your integrity or your life. From a U.S. government that buys photographers' allegiance, to rebels who stage events and threaten cameramen with assault rifles, the power of the press now puts young hopefuls in a risk-or-die bind.

How do you strike a balance between industry ethos and personal responsibility? How do you sniff out "spin" in strange situations? *Photo District News* answered these essential questions with grit, showing the smarts, dedication and courage it takes to discern truth from propaganda in a world where combatants are out to work the media.

Article: **Blunt Conscience**
 Publication: *Editor & Publisher*
 Award: Best Staff-Written Editorials

Scolding Tennessee dailies for striking a "Faustian bargain" that undermines the cause of open government. Lauding a local Cincinnati paper that took down a bullying water treatment conglomerate and made municipal water quality a national issue. Week to week, *E&P's* editors take on an industry that can bite back, and they never back down. *E&P* does what many media fear most: hold an industry up to its professed standards, naming names in the process. Challenging readers with thinking while shedding light on events whose import might otherwise be missed has earned *E&P* the nickname of "industry conscience."

Article: **Terror Ready**
 Publication: *RN*
 Award: Best Article Series

How do you prepare for an unprecedented epidemic? *RN* published the definitive series for registered nurses on the front lines of anxiety, mixing comprehensive treatment protocols with first-hand counsel from a military nurse. From recognizing the biological, chemical, and nuclear agents that would be used in a terrorist attack, to preventing the spread of diseases they create, to caring for people who have been exposed – the series covered it all. But it didn't stop there: A final installment showed RNs how to assess the readiness of their facilities, and what to do if they're found lacking.

EXAMPLES OF NEAL AWARD WINNERS, 2003

Article: **Higher Purpose**
 Publication: *Architectural Record*
 Award: Best Staff-Written
 Editorials

As an architect and editor, Robert Ivy calls industry design colleagues to their profession's social, political and human dimensions in terms that can be described as poetic. He celebrated the late architectural great Sam Mockbee for "going to war" against the housing conditions plighting the poorest of the poor, while urging colleagues to lift the curtain on social injustice and find creative ways to serve the needs of neglected markets. He attacks cronyism, pushes for government advocacy of design, and calls on the architectural community to stand up to bureaucrats and preserve historical buildings.

Article: **Eye Source**
 Publication: *Review of Optometry*
 Award: Best Article Series

Can your doctor do genomics?

Genetics is on the fast track, and doctors have to sprint to keep up. Since scientists first used gene therapy (genomics) to restore vision in dogs blinded by disease, the rate for human eye treatments has sped to full-throttle. Avoiding progress isn't an option; genetic counseling, diagnosis, and treatment are eventual norms that will determine doctors' careers. *Review of Optometry's* four-part series answered the critical questions about a brave new world of diagnostic tools, customized drugs and DNS disease predictors for people who have our sight in their hands.

Article: **Need for Speed**
 Publication: *QSR*
 Award: Best Magazine Issue

In fast food, one second can mean \$100 in sales. Some chains make upwards of 60 percent of revenues from drive-thru customers, so pushing motorists "through the loop" is every bit a science. *QSR's* "Best Drive-Thru in America" issue is an anticipated event for such quick-service restaurateurs, who need uncommon depth of information to keep up to pace. From charts that detail service times and order inaccuracies (Do employees more often forget the napkins or give the wrong topping?), to in-depth interviews with industry stars, *QSR* gives readers the inside track.

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

COMPLAINT OF TIME WARNER INC. ET AL.
CONCERNING PERIODICALS RATES

Docket No. C2004-1

DIRECT PREPARED TESTIMONY OF JOYCE MCGARVY
ON BEHALF OF AMERICAN BUSINESS MEDIA
(September 9, 2004)

1 My name is Joyce McGarvy, and I am submitting this testimony on behalf of
2 American Business Media in order to comment on the rate and restructuring proposals
3 that have been advanced in this proceeding by Time Warner, Newsweek, Readers
4 Digest, TV Guide and Conde Nast (which I will at times collectively refer to as “Time
5 Warner” to make this testimony more readable).

6 As a general matter, I agree that Periodicals mailers should take whatever steps
7 are reasonably possible to reduce their own postage costs as well as the Postal
8 Service’s costs (that are, after all, passed through to mailers). It appears to me,
9 however, that the Time Warner restructuring proposal—especially with the rates
10 suggested but not directly at issue here—is too much, too fast. If implemented, they
11 would sacrifice many small publications in order to assure guaranteed rate reductions
12 for Time Warner and would result in speculative, modest benefits, at best, for the
13 Postal Service and most other Periodical mailers. I draw these conclusions not as an
14 economist or a Postal Service costing expert but as a person who, unlike the Time
15 Warner witnesses who presented the proposal, has actually been involved in both

1 producing and distributing Periodicals through the mail. Theory is nice, but reality is
2 often different.

3 **Autobiographical Sketch**

4 My present position is Corporate Distribution Director for Crain Communications,
5 where I have been employed for twenty-five years. Crain Communications is primarily a
6 publishing company with thirty titles providing vital news and information to industry
7 leaders and consumers. Each newspaper or magazine has become required reading
8 and an authoritative source in its own sector of business, trade and consumer market.
9 In my present position, which I have held for nineteen years, my responsibilities include
10 managing the distribution of all of Crain's weekly, bi-weekly and monthly publications, a
11 job that includes managing the company's postal affairs.

12 During my years at Crain, I have been very active in the industry. I am presently
13 the Vice-Chair of the Mailers Technical Advisory Committee (MTAC) and President of
14 the Red-Tag News Publications Association. I have served on MTAC for approximately
15 nine years, during which time I served on numerous committees and work groups,
16 including serving as Industry Co-chair for the Electronic Publication Watch and the
17 Electronic Mail Improvement Reporting (eMIR) work groups. I am the Industry Co-chair
18 for the Periodicals Operations Advisory Committee (POAC), and I serve as Industry Co-
19 chair for the Postal Service's Periodicals National Focus Group and the Great/Lakes
20 area, and I am a member of the Periodicals Advisory Group.

21 I have a degree in Transportation from the College of Advanced Traffic, Chicago,
22 IL, a Bachelor's Degree in Business Administration from Cleary College, and a Master's
23 of Science in Administration Degree from Central Michigan University.

1 **Overview**

2 Time Warner proposes a radical restructuring of the Periodicals class that would
3 produce changes far more drastic than those previously rejected by the Commission,
4 such as in its several decisions refusing to zone the editorial pound rate and its decision
5 in the 1995 reclassification case, MC95-1. There appear to be several basic rationales
6 advanced for the proposal, including: (1) present rates are unfair, because some
7 publications pay too much while others pay too little, (2) the present rates do not send
8 the right “price signals,” so that mailers are not given the incentives to make their mail
9 less costly for the Postal Service to handle and (3) with proper rates and price signals,
10 most (but not all) mailers will be able to change the way that they prepare their mail and
11 avoid the large rate increases that would otherwise befall them. Underlying much of the
12 Time Warner presentation is the suggestion that a large number of Periodical mailers
13 are doing things like mailing in low-volume sacks for no good reason—simply because
14 they can without paying a rate penalty.

15 In my opinion, the presentation in support of the changes requested is a mixture
16 of truth, questionable assumptions and wishful thinking. It fails to take into account
17 mailers’ desire for better service, the degree to which rates already reflect cost
18 differences and the changes that are now underway in the industry without any
19 additional rate “incentives.” And it suggests near indifference to the service and other
20 problems that could confront many publishers of small-circulation Periodicals if they
21 sought to avoid the very large rate increases that a new structure could impose.

22 From the response of the Postal Service to the Complaint and comments of
23 Postal Service officials in the past few years, it appears that it intends to move forward

1 with certain rate design changes, but to do so with caution in order to make certain that
2 its mission to “bind the nation together” is not unduly impeded by the unintended
3 consequences of a massive, one-time shift in rate design. Although “ready, fire, aim”
4 may be a valid and profitable corporate philosophy for Quad/Graphics, according to
5 witness Schick (Tr. 442), I do not think that it is an appropriate credo for the Postal
6 Service.

7 **The Industry is Changing**

8 Witness Schick remarked more than once during the hearing that the present
9 rate schedule provides ample incentives for co-mailing (Tr. 403, 504), and he also
10 testified that Quad/Graphics is able under the present rates to justify drop-shipping of
11 Periodicals with editorial content of 15% or even less. (Tr.436) He is absolutely correct.
12 That is why Crain has five of its small circulation publications co-palletized by
13 Quad/Graphics and nine of its small circulation publications co-palletized by RR
14 Donnelley. All of these co-palletized publications are drop shipped. The present
15 incentives are also why other American Business Media members co-palletize and co-
16 mail and why some of the complainants’ publications are co-palletized or co-mailed.

17 Time Warner submitted a number of interrogatories to American Business Media,
18 asking American Business Media to confirm that it has been encouraging its members
19 to investigate co-palletizing and co-mailing and that they are doing so. Combined with
20 the educational efforts of others, including the complainants themselves, printers and
21 other vendors, those efforts now are paying off. I understand that in the past couple of
22 years, monthly publications of American Business Media members, and I would
23 assume, smaller circulation publications of non-members, have begun to be co-mailed

1 or co-palletized. I have seen full page ads from Publishers Press, which specializes in
2 shorter run publications, touting its co-palletizing capabilities, and it is well-known in the
3 industry that, last month, Quebecor World announced that it is moving forward with the
4 purchase of two 30-pocket co-mailers and will actively market that service to short-run
5 publications. Even more recently, Fairrington, a transportation services company with
6 substantial involvement in the Periodicals industry, announced that it is moving forward
7 with a consolidation, co-palletization and transportation initiative that, it is hoped, will
8 eventually allow publishers who use printers that cannot co-palletize to have their mail
9 co-palletized and drop-shipped.

10 I know very well, and have worked closely with, key people at Quebecor World
11 and Fairrington and am confident that they would not be investing time, money and
12 management attention to co-palletizing and co-mailing endeavors based upon
13 speculation that the postal rate structure will change dramatically. Rather, I am certain,
14 or as certain as I can be without being in their board rooms, that they—like
15 Quad/Graphics and Publishers Press—understand that the present postal rates,
16 combined with mailers' desire to get out of sacks whenever they can, have produced an
17 environment in which Periodical mailers are changing and will continue to change. We
18 do not like excessive sack use any more than the printers do, or the Postal Service
19 does, because sacking mail imposes costs on printers that are passed on to us.

20 I know that I cannot predict, and I do not suppose that anyone can, whether the
21 changed mailing patterns that are certain to occur in the next couple of years without a
22 massive rate design shift will move enough mail so that the remaining high-cost mail will
23 impose a minimal and acceptable burden on the subclass. That is certainly a

1 possibility, however. When Crain co-palletized fourteen of its publications, we were
2 able to eliminate 900,000 sacks a year from the mail. Multiply that number by the
3 hundreds or thousands of Periodicals that will begin to comail and co-palletize as
4 Quebecor World, Fairrington and others ramp up their operations, and it is apparent that
5 a major shift has just begun.

6 **But There Are Limits to that Change**

7 If all Periodical mailers could move from small sacks to either big sacks or
8 pallets, and from small bundles to big bundles, and could then drop ship their mail, there
9 would be less concern about the rate design (and rates) proposed by Time Warner,
10 assuming of course that their implementation were delayed until the infrastructure
11 changes have taken place. But, unfortunately, it would be a huge mistake to push
12 forward with rate structure and level changes on the assumption that all publishers have
13 the ability to adapt to that rate structure. I know from the study we and a few other
14 American Business Media members did of the impact of the proposed rates, the results
15 of which were provided to Time Warner in discovery and provided as an exhibit to Lou
16 Bradfield's testimony, that rate increases of 50% and more under the proposed rates
17 would not be rare. I recognize that in some of those cases it would be possible, in
18 theory, to reduce the increase to a significant extent (but not necessarily without cost in
19 terms of money and service), but even the complainants recognize that this is not a "no
20 publisher left behind" recommendation.

21 Crain publishes both weekly and monthly publications, and I'll be the first to admit
22 that a publisher's flexibility with respect to monthly publications is greater than it is for
23 dailies or weeklies. The complainants concede that co-mailing and co-palletizing are

1 extremely problematic for weeklies (Tr. 425), because they must be entered into the
2 mail immediately after printing and cannot wait around the plant for the several days it
3 takes to complete a co-mail or co-palletizing program. But weeklies and dailies,
4 especially, also cannot simply increase sack sizes, rather than build pallets, to avoid the
5 brunt of the proposed rate increase, because of our concern that the service we need
6 will be seriously eroded if we move, for example, from 5-digit sacks to 3-digit sacks.

7 I recognize that this is a somewhat controversial issue, although witness Schick
8 understood (Tr. 340) that mail in 5-digit sacks is likely to be delivered more quickly than
9 if that mail were on an ADC pallet. As I understand it, there is no *theoretical* reason
10 why, for example, mail arriving at a destination SCF in a 3-digit sack should not be
11 processed and delivered on the same day as mail received at that SCF in a 5-digit sack
12 that is sent directly from the SCF to the DDU. As a member of the Periodicals
13 Operations Advisory Committee, I also know that, with product supplied by Crain
14 containing Planet Codes (used to track delivery), the Postal Service just completed a
15 very small experiment in Carol Stream, Illinois, to determine whether this belief is
16 accurate. The results of that study were not consistent with our belief that service would
17 be eroded, but everyone involved recognizes that the sample was far too small to permit
18 any conclusions, other than that a better test should be conducted. Because delivery
19 times are absolutely crucial for weekly publications, we cannot afford to make a mistake
20 in this area. In the business-to-business world, if the information is not delivered when it
21 should be, which is often on Monday, the ramifications for the publisher can be very
22 serious. A publisher faced with eroded service or much higher rates would face a
23 Hobson's choice—a choice I hope that Crain and I never have to make. In fact, for the

1 small test in Carol Stream we were so concerned about service that we did not use our
2 subscriber copies but added new addresses (of postal employees) for the test copies.

3 The proposed rate structure would present other problems for small publishers
4 as well. Crain is a relatively large and, I submit, sophisticated publisher of short-run
5 publications numbering around 30, with one larger publication (*Autoweek*). It can afford
6 to have a distribution department of the type I head, and it is large enough to be an
7 attractive client for large and sophisticated printers. As a result, we can find a printer,
8 such as Quad/Graphics and RR Donnelley, that will co-palletize our publications, and
9 we have the knowledge, the software access and, frankly, the money that would permit
10 us to at least attempt to weigh rate versus service issues and to make the horrendously
11 complex sacking, palletizing, bundling and drop shipping decisions that would be
12 necessary for every mailing under the proposed rate structure.

13 Make no mistake about it—if rates were as proposed by Time Warner, the task of
14 figuring out how to best “package” a mailing would be enormous and, I would think,
15 simply beyond the capability of many small publishers. I know that we were not even
16 able to calculate the postage at the proposed rates with our present mailing
17 characteristics without mail.dat files (that not all publishers produce) and a new program
18 developed by Time Warner. One ABM member that wanted to calculate that impact for
19 its publications gave up and asked me to do it. The task of simply calculating the rates
20 for a publication with specified characteristics, which is what we did, is far less
21 complicated than calculating when, for example, it might cost less under the proposed
22 rate structure to mail large sacks than small pallets, where the crossover point lies
23 between larger, less finely sorted bundles and smaller, more finely sorted bundles, and

1 the myriad other calculations that would have to be made and repeated to minimize
2 postage under the proposed structure.

3 There are other reasons as well why co-palletizing and co-mailing may not be
4 available to, especially, small publishers. There is no escaping the fact that a co-pallet
5 or co-mail program needs a threshold volume to be efficient. It is no accident that
6 nearly all of Quad/Graphics' co-mail pools have at least one participant with more than
7 100,000 pieces in the pool (Tr. 391), or why witness Schick would not confirm that its
8 small pool is an economic (as opposed to promotional) success (Tr. Tr. 496-97). Small
9 printers of short-run publications may simply not have the volumes necessary create
10 efficient pools, especially for publishers of tabloids, which cannot be co-mailed with
11 standard trim size Periodicals (Tr. 449).

12 Although Crain does not publish anything with circulations in the thousands, as
13 opposed to the tens of thousands, there are many out there who are not represented in
14 this case and who, due to their size, are not candidates for co- anything and are no
15 doubt stuck with small sacks. They, too, must be considered, especially because, if I
16 am correct that the industry is changing, they will not impose an undue burden on the
17 remainder of the class.

18 Finally, the country's major printers, the printers with the volume and the capital
19 to enter the co-palletizing and co-mailing business, are generally not interested in
20 printing one or two short-run publications, if that's all the publisher has. Even if they
21 were interested, they would likely not provide the kind of assistance and "hand holding"
22 that some small publishers need, and Time Warner's witnesses agreed (Tr. 509
23 (Schick) and 1002 (Mitchell)) that switching printers is not something to be taken lightly.

1 Even if a publisher were able to overcome these obstacles and switch to a printer that is
2 able to co-mail or co-palletize, there is likely to be a delay of up to several years in order
3 to avoid breaching a printing contract that, typically, would be of 3-5 year duration (Tr.
4 509).

5 **The Need for a “Measured Pace”**

6 The above considerations, as well as those addressed by the other American
7 Business Media witnesses, require that if any fundamental changes are going to be
8 made to the Periodicals rate structure, they be made with adequate notice and at the
9 “measured pace” witness Mitchell claims to have adopted (Tr. 803) but in my opinion
10 did not (see Tr. 923).

11 Before he testified in this case, Mitchell understood and explained that changes
12 such as those he now proposes should not be imposed upon an unprepared Postal
13 Service by the Postal Rate Commission. In a May 8, 2003 presentation to the Envelope
14 Manufacturers Association, he argued that Postal Service rates are in need of
15 fundamental change to eliminate averaging and properly reflect costs, yet he also
16 pronounced (at Tr. 902) that “USPS must do studies to support changes” of the type he
17 sought then and seeks now. He admitted during cross-examination (Tr. 1146-47) that
18 he knows of no such studies undertaken since he asserted that studies are needed. In
19 addition, in that same presentation, Mitchell explained that “USPS must play the
20 leadership role” and that “[t]he changes cannot be made by the Postal Rate
21 Commission.” He does not explain what has happened in the past year to justify
22 changes ordered by the Commission in the absence of Postal Service “leadership” and
23 the once-necessary studies.

1 I would like to point out that today's rates are not as unfair and insulated from
2 cost considerations as Time Warner suggests. I note that the large circulation
3 magazines published by Time Inc. already pay much lower postage than we pay. For
4 example, for their main files, Time now pays 17.67 cents per copy, Sports Illustrated
5 pays 18.73 cents per copy, People pays 19.12 cents per copy and Entertainment Week
6 pays 17.2 cents per copy (Tr. 116). The Time Warner proposal would reduce these per
7 copy charges by roughly 2 to 3 cents (Tr. 116). In contrast, we have one publication
8 mailed by itself (Advertising Age's Creativity) that weighs roughly the same as these
9 Time Warner publications-- .35 ounces for ours versus .32 ounces, .39 ounces, .36
10 ounces and .27 ounces for Time Warner's (Tr. 116). Our editorial content is 50%,
11 compared with their average of 55.5%. Our per-copy postage is now around 30.14
12 cents, or 66% more than the 18.18 cents unweighted average Time Warner per copy
13 postage for these four publications. The Time Warner proposed rates would increase
14 the postage for Advertising Age's Creativity to 44.47 cents per copy, which is 184%
15 more than the 15.64 average postage at the proposed rates for the four Time Warner
16 publications (Tr. 116).

17 I am not complaining about the present, 66% difference between what they pay
18 and what we pay for a Periodical of approximately the same weight and only slightly
19 higher advertising content. I know that Time Warner palletizes nearly all of its copies of
20 these publications and rarely mails beyond zones 1 and 2. By contrast, we can now
21 palletize only 21% of Creativity , which has a mailed circulation of 31,320, and we do
22 not drop ship it. I point out these numbers in order to show with real life examples that
23 the current rates do in fact to a very substantial extent reflect differences in Postal

1 Service processing costs and reflect as well my general understanding that, over the
2 past ten or fifteen years, smaller circulation publications have faced larger rate
3 increases than the mass circulation magazines. It would be a mistake to believe that
4 Crain Communications does not see the present difference of about 12 cents per copy,
5 or \$45,000 a year for this one, small Periodical, as a strong price signal. If we could
6 mail like Time does and pay the postage Time pays, we would.

7 **Conclusion**

8 I do not blame Time Warner and its allies for seeking lower postage rates, even
9 though, because Periodicals rates are now to a large degree cost based, their postage
10 costs per copy are typically well below ours. Our calculations, based upon the “before
11 and after” postage figures and the circulation figures that the complainants provided in
12 discovery for their main files, show that the five companies initiating this case would
13 save, collectively, more than \$50 million annually at the rates they propose without
14 changing a thing about the way they prepare and present their mail, and without saving
15 the Postal Service a penny. More specifically, Time Warner would save \$16.7 million,
16 Conde Nast would save \$10.7 million, Reader’s Digest Association would save \$6.7
17 million, Newsweek would save \$4.4 million, and TV Guide would save \$13.5 million.
18 The calculations that produced these results are attached as Exhibit JM-1.

19 They would save these amounts even if everything they say about postal costs,
20 the responsiveness of postal costs to changes in mail preparation and the ability of
21 mailers to change is absolutely incorrect. The postage savings would not reflect any
22 incremental cost reductions to the Postal Service, because there are no changes in
23 mailing necessary to achieve them. Others of their size would see huge savings as

1 well. On other hand, as a representative of smaller circulation Periodicals, I am
2 concerned that if Time Warner is wrong in these forecasts, these postage reductions,
3 which would occur in any case, will require postage increases of equal magnitude for
4 the remainder of the class merely to maintain the very modest cost coverage for the
5 class.

6 It would be far preferable, I submit, for the Postal Rate Commission at the
7 conclusion of this case to encourage the Postal Service to investigate and study all of
8 the issues raised in this proceeding, and to propose in the next case any rate structure
9 changes, with associated rates, that it believes will both encourage mailers to continue
10 the move away from sacks and give some degree of protection to those mailers who,
11 due to their size, their business models or other factors would not be able to avoid large,
12 crippling increases if the proposals did not account for their existence.

13 I understand that the rapid increase in Periodical processing costs that
14 characterized much of the past twenty years is finally leveling off, see Tr. 192. I fully
15 expect that the combination of greater mailer awareness and the entry of new co-
16 mailing and co-palletizing providers is just the beginning of a major trend in that
17 direction that will have a very significant impact on processing costs of the type that
18 Time Warner says it is seeking through a carrot and stick change in rate design. I've
19 said it before: mailers don't like sacks. Give us a reasonable way to get out of them, or
20 to reduce the sack count by increasing the sack size with assurance that service will not
21 be compromised, and we will. It looks like we are getting there, and doing it without
22 inflicting harm on countless small and under-represented publications that will become
23 the collateral damage of the Time Warner proposal.

Current and Proposed Postage Costs

Exhibit JM-1 – page 1

	Publication	Frequency	Volume (pieces/issue)	Current Postage (cents/piece)	Total Current Annual Postage	Proposed Postage (cents/piece)	Total Proposed Annual Postage	Difference
Time Weekly	Time	51	3,977,381	17.67	\$35,842,964.36	15.30	\$31,035,503.94	\$4,807,460.41
	Sports Illustrated	51	3,323,687	18.73	\$31,748,855.33	15.40	\$26,104,237.70	\$5,644,617.63
	People	51	2,446,528	19.12	\$23,856,583.83	16.76	\$20,911,942.73	\$2,944,641.10
	Entertainment Weekly	49	1,842,991	17.20	\$15,532,728.15	15.11	\$13,645,321.06	\$1,887,407.08
	Time for Kids	26	114,686	29.51	\$879,939.80	37.78	\$1,126,537.64	-\$246,597.84
	<i>Total - Time Weekly</i>	<i>N/A</i>	<i>N/A</i>	<i>N/A</i>	<i>\$107,861,071.47</i>	<i>N/A</i>	<i>\$92,823,543.08</i>	<i>\$15,037,528.39</i>
Transworld	BMX	12	16,959	38.54	\$78,431.98	40.54	\$82,502.14	-\$4,070.16
	Motocross	12	37,038	41.26	\$183,382.55	46.40	\$206,227.58	-\$22,845.04
	Ride BMX	9	18,495	42.05	\$69,994.33	44.65	\$74,322.16	-\$4,327.83
	Skateboarding	12	66,601	58.38	\$466,579.97	60.70	\$485,121.68	-\$18,541.72
	Snowboarding	8	63,658	53.06	\$270,215.48	56.59	\$288,192.50	-\$17,977.02
	Surf	12	32,564	44.07	\$172,211.46	48.06	\$187,803.10	-\$15,591.64
	<i>Total - Transworld</i>	<i>N/A</i>	<i>N/A</i>	<i>N/A</i>	<i>\$1,240,815.76</i>	<i>N/A</i>	<i>\$1,324,169.17</i>	<i>-\$83,353.41</i>
	Time Monthly Publications	Coastal Living	8	444,101	41.61	\$1,478,323.41	37.58	\$1,335,145.25
Cooking Light		11	1,308,587	30.01	\$4,319,776.55	26.12	\$3,759,832.17	\$559,944.38
Field & Stream		11	1,270,058	25.73	\$3,594,645.16	22.62	\$3,160,158.32	\$434,486.84
Fortune		26	842,421	28.59	\$6,262,052.26	26.80	\$5,869,989.53	\$392,062.73
Golf		12	1,190,680	33.77	\$4,825,111.63	27.55	\$3,936,388.08	\$888,723.55
In Style		13	838,815	61.50	\$6,706,325.93	53.37	\$5,819,782.35	\$886,543.57
Money		13	1,781,577	22.96	\$5,317,651.03	19.81	\$4,588,095.25	\$729,555.78
Outdoor Life		9	751,210	26.15	\$1,767,972.74	24.37	\$1,647,628.89	\$120,343.84
People en Español		11	308,485	25.52	\$865,979.09	23.17	\$786,235.72	\$79,743.37
Popular Science		12	1,267,993	25.85	\$3,933,314.29	23.24	\$3,536,178.88	\$397,135.41
Progressive Farmer		14	599,217	20.44	\$1,714,719.37	18.41	\$1,544,421.90	\$170,297.47
Real Simple		10	1,169,973	39.01	\$4,564,064.67	33.35	\$3,901,859.96	\$662,204.72
Ski		8	245,277	24.99	\$490,357.78	23.42	\$459,550.99	\$30,806.79
Skiing		7	294,742	22.50	\$464,218.65	20.71	\$427,287.48	\$36,931.17
SI for Kids		12	695,289	18.73	\$1,562,731.56	17.28	\$1,441,751.27	\$120,980.29
Teen People		10	1,105,195	26.58	\$2,937,608.31	23.01	\$2,543,053.70	\$394,554.62
This Old House		10	882,666	30.71	\$2,710,667.29	26.60	\$2,347,891.56	\$362,775.73
Sunset		12	1,207,735	28.21	\$4,088,424.52	23.40	\$3,391,319.88	\$697,104.64
Business 2.0		11	586,437	26.26	\$1,693,981.92	22.79	\$1,470,138.92	\$223,843.00
Yachting		12	96,479	45.75	\$529,669.71	44.45	\$514,618.99	\$15,050.72
Southern Living		12	2,355,590	29.56	\$8,355,748.85	24.41	\$6,899,994.23	\$1,455,754.62
Southern Accents		6	311,780	49.92	\$933,843.46	44.83	\$838,625.84	\$95,217.61
Saltwater Sportsman		12	148,675	33.13	\$591,072.33	32.06	\$571,982.46	\$19,089.87
Motorboating		12	141,018	33.06	\$559,446.61	31.88	\$539,478.46	\$19,968.15
<i>Total - Time Monthly</i>		<i>N/A</i>	<i>N/A</i>	<i>N/A</i>	<i>\$12,663,762.87</i>	<i>N/A</i>	<i>\$10,834,838.89</i>	<i>\$1,828,923.98</i>
<i>Total - All Time Inc. Cos.</i>		<i>N/A</i>	<i>N/A</i>	<i>N/A</i>	<i>\$121,765,650.10</i>	<i>N/A</i>	<i>\$104,982,551.14</i>	<i>\$16,783,098.96</i>

Current and Proposed Postage Costs

Exhibit JM-1 – page 2

	Publication	Frequency	Volume (pieces/issue)	Current Postage (cents/piece)	Total Current Annual Postage	Proposed Postage (cents/piece)	Total Proposed Annual Postage	Difference
Condé Nast Publications	Allure	12	730,829	35.96	\$3,153,673.30	27.55	\$2,416,120.67	\$737,552.63
	Gourmet	12	541,296	35.96	\$2,335,800.50	27.55	\$1,789,524.58	\$546,275.92
	GQ	12	787,374	35.96	\$3,397,676.28	27.55	\$2,603,058.44	\$794,617.84
	Self	12	938,348	35.96	\$4,049,159.29	27.55	\$3,102,178.49	\$946,980.80
	Vogue	12	781,038	35.96	\$3,370,335.18	27.55	\$2,582,111.63	\$788,223.55
	Bon Appetit	12	1,087,157	36.86	\$4,808,712.84	29.92	\$3,903,328.49	\$905,384.35
	The New Yorker	52	920,991	21.82	\$10,449,932.28	18.69	\$8,950,927.33	\$1,499,004.95
	Glamour	12	1,392,461	38.34	\$6,406,434.57	30.36	\$5,073,013.92	\$1,333,420.65
	Vanity Fair	12	752,414	51.51	\$4,650,821.42	40.63	\$3,668,469.70	\$982,351.72
	Modern Bride	12	160,309	65.44	\$1,258,874.52	60.69	\$1,167,498.39	\$91,376.13
	Brides	12	127,165	55.02	\$839,594.20	49.07	\$748,798.39	\$90,795.81
	Traveler	12	682,900	34.90	\$2,859,985.20	28.70	\$2,351,907.60	\$508,077.60
	Teen Vogue	12	351,859	29.17	\$1,231,647.24	25.56	\$1,079,221.92	\$152,425.32
	House & Garden	12	336,844	30.96	\$1,251,442.83	25.02	\$1,011,340.43	\$240,102.40
	Golf Digest	12	738,446	30.96	\$2,743,474.58	25.02	\$2,217,110.27	\$526,364.31
	Golf World	46	179,244	22.80	\$1,879,911.07	22.40	\$1,846,930.18	\$32,980.90
	<i>Total - Condé Nast</i>	<i>N/A</i>	<i>N/A</i>	<i>N/A</i>	<i>\$54,687,475.30</i>	<i>N/A</i>	<i>\$44,511,540.42</i>	<i>\$10,175,934.88</i>
Fairchild Pubs.	DNR	52	10,508	27.70	\$151,357.23	27.51	\$150,319.04	\$1,038.19
	Footware News	52	14,583	27.70	\$210,053.53	27.51	\$208,612.73	\$1,440.80
	Supermarket News	52	31,472	27.70	\$453,322.69	27.51	\$450,213.25	\$3,109.43
	Home Furnishing News	52	16,699	27.70	\$240,532.40	27.51	\$238,882.53	\$1,649.86
	Details	10	313,842	34.47	\$1,081,813.37	29.31	\$919,870.90	\$161,942.47
	Children's Business	12	12,185	34.78	\$50,855.32	37.16	\$54,335.35	-\$3,480.04
	Executive Technology	12	30,273	38.97	\$141,568.66	41.34	\$150,178.30	-\$8,609.64
	In Furniture	16	23,292	34.65	\$129,130.85	37.67	\$140,385.54	-\$11,254.69
	W Magazine	12	431,514	38.44	\$1,990,487.78	30.23	\$1,565,360.19	\$425,127.59
	Women's Wear Daily	260	28,560	24.67	\$1,831,895.52	25.80	\$1,915,804.80	-\$83,909.28
	<i>Total - Fairchild</i>	<i>N/A</i>	<i>N/A</i>	<i>N/A</i>	<i>\$6,281,017.34</i>	<i>N/A</i>	<i>\$5,793,962.64</i>	<i>\$487,054.70</i>
<i>Total - CN & Fairchild</i>	<i>N/A</i>	<i>N/A</i>	<i>N/A</i>	<i>\$60,968,492.64</i>	<i>N/A</i>	<i>\$50,305,503.06</i>	<i>\$10,662,989.58</i>	

Current and Proposed Postage Costs

	Publication	Frequency	Volume (pieces/issue)	Current Postage (cents/piece)	Total Current Annual Postage	Proposed Postage (cents/piece)	Total Proposed Annual Postage	Difference
Reader's Digest Ass'n	Reader's Digest	12	10,714,401	20.00	\$25,714,562.40	17.00	\$21,857,378.04	\$3,857,184.36
	Selecciones	12	285,705	22.00	\$754,261.20	21.00	\$719,976.60	\$34,284.60
	Taste of Home	6	4,194,396	30.00	\$7,549,912.80	26.00	\$6,543,257.76	\$1,006,655.04
	Birds & Blooms	6	1,957,124	26.00	\$3,053,113.44	21.00	\$2,465,976.24	\$587,137.20
	Quick Cooking	6	2,699,170	26.00	\$4,210,705.20	23.00	\$3,724,854.60	\$485,850.60
	Country	6	1,157,640	25.00	\$1,736,460.00	23.00	\$1,597,543.20	\$138,916.80
	Country Woman	6	1,215,720	27.00	\$1,969,466.40	25.00	\$1,823,580.00	\$145,886.40
	Light & Tasty	6	1,455,997	28.00	\$2,446,074.96	25.00	\$2,183,995.50	\$262,079.46
	Reminisce	6	1,088,311	26.00	\$1,697,765.16	24.00	\$1,567,167.84	\$130,597.32
	Reminisce Extra	6	340,799	26.00	\$531,646.44	25.00	\$511,198.50	\$20,447.94
	Crafting Traditions	6	249,769	28.00	\$419,611.92	27.00	\$404,625.78	\$14,986.14
	Country Discoveries	6	340,481	27.00	\$551,579.22	25.00	\$510,721.50	\$40,857.72
	<i>Total - Reader's Digest</i>	<i>N/A</i>	<i>N/A</i>	<i>N/A</i>	<i>\$50,635,159.14</i>	<i>N/A</i>	<i>\$43,910,275.56</i>	<i>\$6,724,883.58</i>
NW	Newsweek	51	2,856,420	17.44	\$25,406,142.05	14.51	\$21,137,793.64	\$4,268,348.41
	Budget Travel	10	426,512	29.48	\$1,257,357.38	26.59	\$1,134,095.41	\$123,261.97
		<i>Total - Newsweek</i>	<i>N/A</i>	<i>N/A</i>	<i>N/A</i>	<i>\$26,663,499.42</i>	<i>N/A</i>	<i>\$22,271,889.05</i>
TV	TV Guide (All Plants)	52	6,285,141	16.54	\$54,057,240.71	12.39	\$40,493,906.43	\$13,563,334.28