

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

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

Docket No. C2004-1

RESPONSES OF TIME WARNER INC. ET AL. WITNESS
ROBERT W. MITCHELL TO INTERROGATORIES OF
AMERICAN BUSINESS MEDIA (ABM/TW ET AL.-T1-1-2)
(May 12, 2004)

Time Warner Inc., Condé Nast Publications, a Division of Advance Magazine Publishers Inc., Newsweek, Inc., The Reader's Digest Association, Inc., and TV Guide Magazine Group, Inc. (collectively, Time Warner Inc. et al.), hereby provide the responses of witness Mitchell (TW et al.-T-1) to American Business Media interrogatories ABM/TW et al.-T1-1-2, filed April 28, 2004.

Each interrogatory is stated verbatim and is followed by the response.

Respectfully submitted,

s/ _____

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**Response of Time Warner Inc. et al. Witness Robert W. Mitchell
to Interrogatory of American Business Media**

ABM/TW et al.-T1-1. Please provide a narrative detailing Mr. Mitchell's experience in or with the periodical publishing industry, including employment by periodical publishers or analysis of that industry.

Response:

For the past twenty-five years, the design and analysis of Periodicals rates and classifications has been among my major areas of responsibility: from 1979 to 1992 at the United States Postal Service as an Assistant to the Assistant Postmaster General of Rates and Classifications, Manager of the Primary Rates Branch in the Office of Rates, Principal Economist, and as the Postal Service's witness on Periodicals rates in Dockets No. R87-1 and R90-1; from 1992 until 2002 at the Postal Rate Commission as Special Assistant to the Chairman and Special Assistant to the Commission; and from 2002 until the present as a private postal consultant.

During these years I developed knowledge and understanding of the periodical publishing industry in many ways, including talking to mailers and publishers, observing their operations, fielding their inquiries, following newsletters and other widely circulated media (including newspaper, television, and radio reports), reading magazines such as *Folio* and *Mailing Systems Technology*, working with information sources such as *The Magazine Handbook* and the Household Diary of the Postal Service, reading testimony and briefs in cases before the Postal Rate Commission (including those of ABM, formerly ABP), and interactions with colleagues at the Postal Service and the Commission.

Initially, my work at the Postal Service centered primarily on issues relating to costing and corporate planning. Beginning in 1979, while working for the Assistant Postmaster General of the Rates and Classifications Department and in the now-defunct Office of Rates, I began working seriously and in detail on issues relating to Periodicals (then second-class) rates, including detailed attention to the workpapers supporting rates, which were then done by hand, to appropriations requests, and to

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possible changes in the structure of the rates. One of the earlier issues that received a great deal of my attention was the destination SCF discount proposed by the Postal Service in Docket No. R84-1. Questions existed about the nature of the cost study that was to be done, what special information was needed, and how the rate proposal should be designed.

Prior to my testimony on second-class rates in Docket No. R87-1, I computerized all of the supporting workpapers. This allowed considerably more inquiry than was possible previously. Specifically, we were able to assess the effects of changes and to ask classic "what if" questions. During this period, I prepared a number of studies of alternative rate structures. I do not have copies of these studies, in part because I tried to avoid taking internal documents when I moved to the Rate Commission in 1992. During this period of time, the rates people at the Postal Service worked in limited degree with the marketing people, who resided in a separate department under a separate Senior Assistant Postmaster General, but did not work much with mailers.

Following Docket No. R87-1, I took the lead in working more with the Marketing Department and in communicating more with mailers on rate issues. I felt that the more I understood mailer's situations and interests the better, and that mailers deserved but were not getting good answers to rate questions. I spoke at many second-class meetings, including those at Postal Forums, and found mailers both large and small saying: I have wondered about such and such, and have asked about it many times, but I have never been able to get a clear answer. It was in order to answer some of these questions that several managers and account representatives in the Marketing Department kept asking me to go with them to meetings.

In Docket No. R84-1, the piece rate for basic presort increased 75.7 percent. In Docket No. R87-1, it increased again by 30.1 percent. Both of these increases were virtually an order of magnitude greater than the average increase for the subclass and were also greater than the Postal Service proposed. The Commission recommended

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them in order to bring rates into closer alignment with costs and to send correspondingly appropriate signals to mailers. It was about such changes that mailers asked. If rates people are going to be involved in these kinds of changes, they need to face the mailers paying the rates, listen to their concerns, and provide explanation. Incidentally, I found in some cases that mailers had focused on specific rate cells instead of the postage for their entire mailing.

My interest in talking with mailers continued while I was working for the Rate Commission, from 1992 through 2002. I believe that the Postal Service and the Rate Commission, as independent agencies charged with achieving fair and balanced rates, have the same goals. I understand that the Commission makes rate decisions based on a record developed in a proceeding that is open to the public, but I have always felt it helpful to be able to approach that record with a good understanding of mailers and the mailing industry.

Over the years, I have addressed and talked with many mailers, at Postal Forums, Postal Customer Councils, focus groups, and meetings sponsored by industry and trade associations, including the Magazine Publishers of America, the Association of Paid Circulation Publications (now Periodicals Publications Association), the American Business Press (now American Business Media), the Coalition of Religious Press Associations, the Alliance of Nonprofit Mailers, the National Newspaper Association, the International Regional Magazines Association, the Graphic Communications Association (now IDEAlliance), the Agriculture Circulation Association, the Classroom Publishers Association, the Red Tag News Publications Association, the Direct Marketing Association, the Newspaper Association of America, the Independent Free Papers of America, and the Envelope Manufacturers Association. I have tried to recall meetings with specific publishers, apart from widely attended meetings, and recall meetings with representatives of Dow Jones, McGraw-Hill, The Hearst Corp., National Geographic, and Highlights for Children. I have also talked with managers from Brown

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Printing Company, Postal Logistics Inc., and Farrington, visited a number of printing plants, including World Color Press (now Quebecor World), Quad Graphics, and Judd's Press (now part of Perry-Judd's), and accompanied members of the Rate Commission on a number of visits to facilities of printers and publishers, including Rodale Inc. (including *Prevention* and *Runner's World*), Time Inc., RR Donnelley, and the Billy Graham Evangelistic Association (*Decision Magazine*). I attended a presentation made at the Commission by Reader's Digest. I have visited a number of Postal Service facilities, some more than once, including Atlanta, St Louis, San Diego, Baltimore, Richmond, Gaithersburg, Philadelphia, Northern Virginia, the Newark BMC and international hub, the Northwest hub in Minneapolis, Carol Stream, the Washington BMC, Washington, Charlottesville, and various destination delivery units. I was an invited speaker at an MPA meeting last year, for which they paid my transportation expenses.

I began working as a consultant to Time Inc. in November 2002. My only other Periodicals-mailer client is Scholastic, but I have not worked with them on Periodicals issues. My other clients, to the best of my knowledge, have no involvement with Periodicals mail.

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ABM/TW et al.-T1-2. Please describe in detail all of Mr. Mitchell's experience that is relevant to his discussion in Appendix A of the sources of and possible variations in revenues received (a) by *Pit & Quarry* and (b) by publications similar to *Pit & Quarry*.

Response:

It is not the purpose of my Appendix-A model to analyze the sources of revenue or the possible variations in revenue of any particular publication or type of publication. Rather, my model is designed to focus on a very specific question: given a publication with a distribution and an ease of accessibility by actual and potential readers, is it reasonable to expect that the publisher would change that distribution and ease of accessibility given a change from flat editorial rates to zoned editorial rates, and no other changes? This question is importantly related to the question of widespread dissemination. If no publisher, given such a change in rates, would change his distribution or the ease of accessibility of his publication, then it is difficult to see how such a change in rates could affect the extent to which the publication is disseminated widely.

To be useful, a model need not develop an answer in exactly the way a particular firm would develop an answer for itself. Economic models seek to identify and put dimensions on the basic forces acting on firms, including their goals, and to answer questions or study implications. The contribution that such modeling efforts can make is not reduced by the fact that actual firms go about their decision-making in a myriad of different ways. For example, most models of competition among firms suggest that profit-maximizing firms tend to operate at a point where their marginal cost is equal to their marginal revenue. Yet almost no one argues that firms focus their strategic efforts on developing estimates of their marginal revenue.

Before I built the model in Appendix A, I had given a great deal of thought to the factors associated with whether the rates for editorial matter are zoned. I understood clearly that the marginal cost of printing another copy is small and that the cost of

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preparing editorial matter would not increase if another copy were to be printed. I also understood how postal rates vary by zone with and without editorial zoning. It seemed apparent that no publisher would refuse a subscriber in a higher zone.

The purpose of my model is to help explain the role of the various factors involved: a low marginal cost of printing, a fixed cost of preparing editorial content, and an adjustment in postal rates, depending on the zone and the proportion of advertising, and to help put dimensions on the various interrelationships. The model deals systematically with the forces important to publishers' decisions on zones and the availability of their publications.

Reaching conclusions for particular publications requires publication-specific information. Some of this information is available. Some is viewed by publications as proprietary but can be estimated. In order to supplement information readily available, I made certain estimates. My conclusion for *Pit & Quarry* on page 66 of my testimony is: "In other words, as long as the cost of account maintenance for one subscriber is less than \$100.37 per year, which is almost certainly the case, it is profitable to add subscribers in zone 8." I did not testify concerning the actual costs of account maintenance, costs that clearly must cover subscriber acquisition, record keeping and related operations, and attempts to obtain renewal. I do not know what steps *Pit & Quarry* takes in any of these areas.

The result found, however, is so strong that it would be unaffected by refinements in my estimates. In cases like this, results are generally described as robust. Nevertheless, this does not end the steps that can be taken. If *Pit & Quarry*, or any similar publication, were to provide information specific to that publication, the results could be more finely tailored.

My response to ABM/TW et al.-T1-1 provides additional information relevant to this question.