

BEFORE THE
POSTAL RATE COMMISSION
Washington, DC 20268-0001

Complaint of Time Warner et al.)
Concerning Periodicals Rates)

Docket No. C2004-1

**DIRECT TESTIMONY OF
R. DOUGLAS CREWS
On behalf of the National Newspaper Association
(NNA T-2)**

Respectfully Submitted,



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September 9, 2004

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Autobiographical Sketch

1
2
3 I am a native of Odessa, MO, near Kansas City. I have a Bachelor of Journalism
4 degree from the University of Missouri School of Journalism in Columbia. Before
5 I became executive director, I worked for several Missouri weekly newspapers,
6 including my hometown newspaper, The Odessan. I was news editor of the
7 Union Franklin County Tribune in 1973, and was editor and publisher of The
8 Lawson Review from September 1973 to December 1974, leasing the
9 newspaper from a group of local businessmen. I've also been editor of The
10 Edina Sentinel, and news editor of The Fairfax Forum. In 1978, with my wife,
11 Tricia, I purchased The Lawson Review and we published it until I joined MPA.

12
13 I direct the association's activities including convention and meeting planning. I
14 am a registered lobbyist in Jefferson City, and I am involved in advertising sales
15 for Missouri Press Service. I am familiar with the business plan of a typical
16 community newspaper, having managed several, and being in daily contact with
17 owners, publishers and editors of newspapers in Missouri.

18
19 I am in my second three-year term on the National Newspaper Association's
20 board of directors as representative of Newspaper Association Managers, Inc.,
21 an organization of executive directors of press associations. I am also a member
22 of the Missouri Society of Association Executives and a member of the board of
23 directors of Literacy Investment for Tomorrow, the statewide literacy resource
24 center, headquartered in St. Louis. I was treasurer of the board of directors of
25 Woodhaven Learning Center, an organization serving persons with mental
26 retardation and other developmental disabilities in Columbia. In 2000, I joined
27 the board of directors of Central Missouri Subcontracting Enterprises, a sheltered
28 workshop in Columbia. I became president of the University of Missouri Alumni
29 Association in July, 2004.

1 **Direct Testimony of**
2 **R. Douglas Crews**

3
4 **1. Purpose of my testimony**

5
6 My name is Doug Crews. I have been Executive Director of the Missouri Press
7 Association since Jan. 1, 1990, after serving more than 10 years as assistant
8 director.

9
10 The purpose of my testimony is to discuss how the proposed rates would affect
11 newspapers in a generally rural state like mine, where the mail is critical to the
12 local newspaper. I also will address newspapers' use of the Internet.

13
14 **2. *About Missouri Press Association***

15
16 The Missouri Press Association is a statewide association having as members
17 approximately 300 newspapers in the state of Missouri. The membership
18 includes approximately 50 daily newspapers and 250 non-daily newspapers,
19 publications which are rural in nature as well as urban publications. Our largest
20 newspaper is the St. Louis Post-Dispatch with 314,000 daily and 485,000
21 Sunday subscribers. The smallest may be the Goodman Dispatch with 327
22 subscribers. Notwithstanding the two major metro newspapers—the Post-
23 Dispatch and the Kansas City Star, our membership is mostly small newspapers.
24 The typical daily is about 8,000 circulation and the weeklies are about 3,000
25 circulation.

26
27 The association was incorporated in 1922 as a not-for-profit corporation in the
28 State of Missouri. It was incorporated for the purpose of furthering
29 efficiency and morality in the newspaper field, promoting and improving the
30 profession of journalism, and making the profession of journalism more
31 beneficial to the people of the State of Missouri. Prior to incorporation,

1 it existed as an association which was originally formed in 1867. Since its
2 inception, the association has served as a spokesman on journalism
3 activities for the people in the newspaper field in Missouri. The Missouri
4 Press Association has established an office adjacent to the School of
5 Journalism located on the University of Missouri campus in Columbia,
6 Missouri, and maintains a full-time staff who work for the newspapers in the
7 State. As part of its program, the association has long had a keen interest
8 in preserving the distribution of newspapers via the U.S. Postal Service.
9

10 I am neither a postal expert nor necessarily an expert on every detail of our
11 members' mailing practices. However, having worked closely with these
12 newspapers for more than 25 years, I know their business plans and habits pretty
13 well. For this testimony, I have spoken to publishers or their representatives at
14 several newspapers whose business practices illustrate some of the challenges
15 publishers would face under the rates proposed in this case. Most of my
16 comments are directed to outside county periodicals mail, because this case
17 does not involve within county mail directly. Where the within county mail is
18 pertinent to understanding the full picture, I have mentioned it.
19

20 **3. Outside county readers are important to Missouri newspapers**

21
22 Newspapers in Missouri rely heavily upon within county mail. But there is also
23 significant use of outside county mail—both to serve readers within their markets
24 and those who live far away. All of them, I believe, perform some degree of
25 presorting. Relatively few use the proprietary mailing software that may be most
26 familiar to the larger periodicals industry and none that I am aware of produce
27 data in a “mail.dat” format. Publishers of smaller papers will use off-the-shelf
28 mail software if they can, because of the cost of the proprietary packages, which
29 can run well into the thousands of dollars.
30

1 Most weekly newspapers focus primarily upon their own counties. Whereas
2 some states may have a few relatively large counties, Missouri has mostly small
3 counties. And there are 114 of them. It is not uncommon to find newspapers
4 serving multi-county areas. And, with our sparse population, many of the
5 weeklies in small cities in Missouri are the principal newspapers for a trade zone,
6 even if some of the even smaller towns within their home counties and adjacent
7 counties have newspapers of their own.

8
9 ***a. The Cameron Citizen Observer***

10
11 The Cameron Citizen Observer is an excellent example. That weekly newspaper
12 serves a four county area: Clinton, DeKalb, Daviess and Caldwell counties. It
13 claims Clinton as its home county and earns within county circulation rates for
14 that mail.

15
16 Readers outside its home county, such as those in a small town called Maysville,
17 also have their own community weekly paper. But the Citizen Observer brings
18 them the news from the next nearest retail trade area and is probably considered
19 their major newspaper. Cameron, for example, has that area's only movie
20 theater, a couple of discount retail centers, and several restaurants that people in
21 outlying areas will frequent. They depend upon the Citizen Observer to tie that
22 greater community together.

23
24 The mail pieces going outside Clinton county are mailed at outside county
25 periodicals rates, which are the subject of this case. This use of outside county
26 rates is typical for a significant county seat weekly. It has readers:

- 27 ▪ Within the county
- 28 ▪ Outside the county, but within the retail trade zone
- 29 ▪ Outside the county, but in the nearby Kansas City or St. Joseph areas
30 who may have direct ties to one of its four counties

- 1 ▪ Outside the county, but as far away as Arizona and California, where
2 senior citizens like to escape Missouri's harsh winters.

3
4 All of these readers would be individuals with ties to one of these four counties.
5 Most live, work or shop in those areas all or part of the year.

6
7 I have discussed its mailing patterns with the publisher, Jamey Honeycutt.

8
9 All of the mail is entered in the Cameron post office. The Cameron destination
10 mail remains in that office.

11
12 The rest of the mail travels to St. Joseph, Missouri, all in 5-digit, 3-digit, ADC or
13 mixed ADC sacks as the volumes permit. The total mailing is 1,167 copies, with
14 approximately 384 pieces outside the county.

15
16 Obviously, this outside county mail is too sparse for the use of a pallet, even if it
17 were a mixed ADC pallet. It would be rare for the paper to have an issue heavy
18 enough for 384 pieces to make up a 250 pound pallet.

19
20 Nor could this newspaper combine its copies at a central printing plant with any
21 other mailing to achieve sufficient volumes for a pallet. This newspaper does its
22 own printing, and even prints a couple of the smaller circulation neighboring
23 newspapers. But each of these products is time-sensitive, and cannot be
24 warehoused at the printer while others come off the press to be co-palletized in
25 some way.

26
27 At this point, this newspaper has not been offered any alternative to either a
28 pallet or a sack. Thus, the sacks are its only option.

29
30 If the proposed rates created a charge for sacks, this newspaper would be faced
31 with critical choices. It could absorb the extra cost from its profits. It could pass

1 along the cost of the sacks to its outside county readers. Or it could drop those
2 readers.

3
4 I have not examined this newspaper's earnings, nor do I have access to those
5 data. But I am familiar with the economics of small town newspapers. Profit
6 margins below 5 percent are not uncommon. In fact, many of the newspapers
7 barely break even after paying the small staff. They may earn the publishers an
8 adequate living, but they are not going to win any prizes with their attractive
9 cashflows. I would not expect most of our members to be able to absorb
10 significant postage increases. They will have to recover this cost through their
11 own price increases or drop those subscribers.

12
13 The newspaper will not want to drop its readers. Most of them are part of the
14 core circulation. I considered the impact of this decision.

15
16 The loss of the readers who live and shop in the Clinton County retail area would
17 cost the newspaper more than the subscription revenue. It would also cost the
18 potential loss of advertisers who can no longer reach those readers. So it will be
19 harmed in two ways if those readers are lost.

20
21 The potential loss of readers who escape Missouri's winters for warmer climates
22 in the winter would also have significant impact. These readers are particularly
23 important because they form a part of the in-market subscriber base during part
24 of the year. Those people, often called snowbirds, like to maintain their
25 subscriptions, because home is still Missouri. If the subscription rates increased
26 significantly, those readers are also at risk. Like those who live full time in the
27 four county area, these residents represent not only subscription income but
28 advertiser audience to this newspaper.

29
30 Possibly the newspaper could sell them subscriptions just for the months of their
31 Missouri residency—but most weekly newspapers sell subscriptions for a year at

1 a time. To chop up the subscription year into smaller increments would mean
2 setting up another system and adding the additional cost of doing so, such as
3 extra bookkeeping, more frequent invoices and additional promotion cost.

4
5 And, in the case of these snowbird readers, the paper would have to expect them
6 to resubscribe each time they returned home. The constant startup and stop
7 required of them likely would create enough of a barrier that the newspaper
8 would become more of a nuisance than a benefit, and some or all would give it
9 up. If the rates went up considerably for a year's subscription and the only
10 alternative were to subscribe and unsubscribe constantly as they come and go, I
11 would expect many of those readers to simply drop their subscription to the
12 newspaper.

13
14 Other readers are college students, retirees who move away permanently and
15 others who leave the area, but want to maintain contacts with Cameron. Some
16 of these may be individuals who will return to live and work in the 4-county
17 area—like the college students. In that case, they will be as important as the rest
18 of the subscriber base. Others may not shop in the area, but their ties to the area
19 are important and the newspaper would feel an obligation to serve them if
20 possible.

21
22 This newspaper does have an out-of-town subscription rate, which it charges to
23 people outside the retail trade zone. Its regular subscription is \$34. People within
24 the state but outside the 4-county area pay \$38. Out of staters pay \$49. The
25 publisher charges his snowbird readers the local rate. He considers those people
26 local subscribers. In addition to not wanting to lose them by jacking up the price
27 when they leave for the winter, as I said, the newspaper sells subscriptions on an
28 annual basis.

29
30 For the college students and permanent nonresidents, he charges the out of
31 state rate.

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I considered whether it would be reasonable to require these individuals to absorb the cost of a sack surcharge. I chose to look at its zone 7 subscribers, which are the furthest away from Cameron.

This newspaper has 7 subscribers in zone 7. Let's assume this mail would travel in an ADC sack. Under the proposed rates, these 7 subscribers would share a \$3.25 sack surcharge, or .46 cents per issue. Subscriptions are sold on an annual basis. If the proposed rates in this case were put into effect along with new rates from the next omnibus rate case, it is easy to imagine an additional \$20 surcharge on these subscriptions. That surcharge would probably cost the newspaper most of those readers, and those readers their hometown newspaper.

I considered whether those readers would read about their hometowns on the newspaper website.

The newspaper does maintain a website. It does not post the entire newspaper. I do not know its business plan for this website. I would be surprised if the newspaper had one, as many small papers do not work from formal business plans. But I believe its decision not to post the entire paper is based upon sound reasoning that would follow the thinking of most of our publishers.

There are several reasons why the Internet newspaper is less complete than the printed product.

One is absence of demand.

Most publishers find that their readers want the printed product as well, or instead of the website. That may be in part because the population of Missouri skews toward older people. In the state overall, the 2000 census shows the

1 percentage of people over 65 in our state to be 13.5%, which is 1.1% higher than
2 in the nation overall. In the more rural areas, the age gap is even wider. In
3 addition, those who winter out of the state are almost by definition the senior
4 citizens, as they are the retirees with the flexibility to get away.

5
6 The senior citizens are less likely to be Internet friendly. The Pew Internet and
7 American Life Center reported this year that only 22% of seniors over 65 use the
8 Internet. Perhaps that is from habit. And it is also often because they are living
9 on fixed incomes and are not likely to invest in a computer.

10
11 Another reason is that the essential economic base of a newspaper is in linking
12 news to advertising. The advertising pays for the operating cost of the
13 newspaper, primarily. But on the Internet, our culture seems to want the
14 information for free, and resists reading ads on webpages. At one time,
15 newspapers thought they could support news on the Internet by selling click-
16 through and banner ads. But those have not been widely successful because
17 readers ignore them. Newspapers have had some success with direct selling on
18 the Internet, such as in auctions that mimic the popular eBay service. But these
19 are costly to set up and outside the budget of most small newspapers.

20
21 Finally, in order to make the advertising that could be found on the website
22 meaningful, the current thinking about Internet sites is that the reader needs to
23 be able to link from the advertiser's information directly to that advertiser's
24 website. But small town newspaper advertisers are small businesses for the most
25 part. Many, if not most, of them have no websites. They would be the plumbers,
26 the mechanics, the tax accountants, the hair salons and so forth, who are sole
27 proprietorships and do not have the interest or resources for websites. So an
28 Internet newspaper will have little value to them.

29
30 Thus, I have to conclude most of the Citizen Observer's outside county readers
31 have no real alternative to the printed newspaper. If the publisher incurs

1 significant postage increases and must pass on those costs to readers, the
2 readers will be heavily impacted. If they cannot afford the price increase, they
3 will have to cancel their subscriptions. The Postal Service that ties these people
4 to their community will have let them down.

5
6 ***b. The Atchison County Mail***
7

8 This newspaper serves an area in upper Northwest Missouri. I spoke to its
9 publisher, Bill Farmer, about the proposed rates in this case. I decided to use his
10 newspaper as an illustration in this testimony because his situation may show
11 that there are potential alternatives to either the sacks and their surcharges, or
12 the Internet, for newspapers.

13
14 Farmer mails primarily within Atchison county. He carries mail himself each week
15 in sacks through an exceptional dispatch arrangement to at least three small post
16 offices in his area: Tarkio and Fairfax post offices in Missouri and Hamburg,
17 Iowa. He does that because service through the regular outside-county
18 distribution system is too slow to reach his readers on time.

19
20 But the mail he presents to the Rock Port, MO, post office where he claims his
21 within county rate is delivered in tubs. He was in the post office one day when the
22 Tarkio postmaster was visiting. The Tarkio postmaster mentioned that he was
23 receiving some periodicals in tubs. The Rock Port postmaster thought that was a
24 good idea. He began to do it with all the mail entered there, not only the
25 destinating within county mail, but his out of state mail.

26
27 Farmer told me that he has what he considers “a lot” of snowbirds—at least 10 or
28 15—who leave the area for Arizona or California. He once had repeated
29 complaints about service from those individuals, who experienced delays as long
30 as a week to 10 days and sometimes got two weeks’ of newspapers at once.

1 Since he switched to tubs about three months ago, he has not had many
2 complaints.

3
4 **c. Odessa Odessan**

5
6 The Odessan's story also may be fairly typical. I spoke with Joe Spaar, a
7 member of the family that has owned this newspaper for several generations.
8 Joe is a unique newspaper vice president. He actually sacks the mail himself, so
9 he knows a little about it.

10
11 Joe drives to Independence, Missouri, maybe 30 miles west of Odessa, where
12 his newspaper is printed by an area daily newspaper company. The Odessan
13 has no circulation software at all. It simply maintains a subscriber list and counts
14 on the Independence publisher to produce labels and sack tags. Joe's job is to
15 pick up the bundles after they come off the bundling machine and take them
16 where they need to go.

17
18 His newspaper serves Odessa and several small towns nearby. Joe "drop-ships"
19 to a couple of small post offices—Oak Grove and Bates City—that are part of his
20 retail zone, but outside his county. And he delivers the rest of the mail to the
21 Odessa post office himself. His paper serves other small towns in the county, but
22 with the time available between the presstime and the entry time at the post
23 office, he cannot reach all of the small towns with his "drop ship."

24
25 Interestingly, Joe also drops the in-county copies at Odessa in bundles. But the
26 newspapers headed to Wellington and Napoleon—two small towns in the
27 county—cannot be entered in bundles. These are in sacks. The copies in sacks
28 leave Odessa and backtrack to Kansas City, another 20 miles east of
29 Independence from where Joe just picked up the papers, to be processed and
30 come back to the small towns. Would Joe use a container other than sacks?
31 Sure, if he had an alternative, but none other has been authorized.

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Another 500 copies are also in sacks. Two-thirds of these go to readers within Missouri. The rest go outside the state, mostly to former residents and, again, the snowbirds. These readers are important to the newspaper. The Odessan has three subscription rates: \$45 per year for out of state readers; \$40 for readers in Missouri but outside the market and \$34 for in-market.

Like the Cameron newspaper, this one would have an extremely difficult set of choices if the use of sacking procedures to achieve service standard-delivery resulted in sack charges. Joe says his mailing uses 30-40 sacks per issue, even with some copies being dropped in bundles. I asked him what he would do if he had to recover a sack charge from \$1.55 to \$3.25 from the readers whose copies are in those sacks. He said he did not believe most of them would pay the upcharge.

I asked whether his readers could find what they needed on the Odessan's website, and he laughed. He said he didn't even know what was on the website, so I visited it myself. The paper's website is primarily a calling card for the newspaper. It does not contain a full issue of the paper, nor even a close facsimile of it.

Joe said he did not believe the Odessan advertisers would support moving the news to the website, and he had no idea how the newspaper would pay for doing so. He also noted that Internet usage in small towns like his, he believes, trails that of bigger cities, and that his readers wouldn't use the Internet very much.

The Odessan, like the Citizen-Observer, would suffer serious harm if the Postal Service began to charge for sacks and did not provide a viable alternative to the sacks, without a surcharge.

1 I have read the testimony of the complainants' witness John Steele Gordon. I
2 could not disagree with him more when he opines that the Postal Service no
3 longer needs to bind the nation together because of the Internet. Mr. Gordon
4 clearly has never lived in small-town Missouri, or in most of the areas served by
5 NNA's members. For these newspapers, periodicals mail is as critical as it was
6 in the 19th Century. The examples of these three Missouri Press Association
7 members detailed here would be replicated a thousand times over if we were to
8 study every weekly newspaper in America. I believe the dramatic restructuring of
9 rates suggested in this case would put many of the outside county readers in
10 grave jeopardy.

11

12 **4. Conclusion**

13 I have discussed the proposed rates with several MPA members. I chose three
14 examples for this testimony because I think they speak to three important points:

15

- 16 1. Outside county readers are important to small newspapers,
- 17 2. The Internet is not going to provide a suitable substitute in the foreseeable
18 future.
- 19 3. Sacks are still a significant part of the mail preparation picture. But the use
20 of tubs is beginning to come into the picture. In time, it may make sacks
21 unnecessary and allow the Postal Service to achieve the service
22 publishers think they are paying for today.

23

24 If the cost of sacks escalates before the tub option is fully available, however,
25 the net effect upon Missouri newspapers will be a circulation loss. There may
26 not be a need for tubs at all, if the sack charges drive the outside county
27 readers out of the system. Once they are lost readers, they are not likely to
28 return either to the newspaper or to the Postal Service as periodicals
29 recipients. Therefore, I believe the prudent thing would be to deploy tubs or
30 other containers as viable options before trying to shape mailers' behavior by
31 penalizing them for something they cannot avoid.

1

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Moreover, it is essential for the Commission to understand the critical role

3

played by Periodicals in the weekly newspaper industry, and to realize that

4

weekly newspapers serve a very large part of this country. If Periodicals rates

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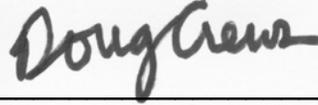
are restructured in the dramatic ways proposed here, I believe we will see

6

serious disruption to our outside county readers.

Declaration

I, Doug Crews, declare under penalty of perjury that the foregoing testimony is true and accurate to the best of my knowledge, information, and belief.

A handwritten signature in black ink that reads "Doug Crews". The signature is written in a cursive style with a horizontal line at the end.

Doug Crews

September 9, 2004

Certificate of Service

I hereby certify that I have filed the foregoing document online in accordance with the Commission's Rules of Practice.



Tonda F. Rush
Counsel for National
Newspaper Association

September 9, 2004