

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 AMERICAN BUSINESS MEDIA TO
TW et al./ABM-T3-8-12 TO
WITNESS JOYCE MCGARVY
(October 12, 2004)

American Business Media hereby provides the responses to Time Warner Inc., et al.'s Interrogatories TW et al./ABM-T3-8-12, filed September 27, 2004.

The interrogatories are stated verbatim and followed by the response.

Respectfully submitted,

/s/ David R. Straus
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October 12, 2004

Response of ABM to TW et al./ABM-T3-8

TW et al./ABM-T3-8:

Please refer to your testimony at p. 6, ll. 13-17, where you state: " I know from the study we and a few other American Business Media members did of the impact of the proposed rates, the results of which were provided to Time Warner in discovery and provided as an exhibit to Lou Bradfield's testimony, that rate increases of 50% and more under the proposed rates would not be rare."

- a. Please confirm that the "study" referred to applied the proposed rates to the current mailing practices of a sample of ABM-member publications. If not confirmed, please explain.
- b. Please confirm that the "results" of the "study" referred to accurately represent the "impact" of the proposed rate on the publications studied only if one assumes that those publications will be entirely unable to adapt their current mailing practices in response to the economic incentives created ny [sic] the proposed rates. If not confirmed, please explain.
- c. Please confirm that your testimony does not report the results of any study, by yourself or others, of the ability of any publication or group of publications to adapt their mailing practices in response to the proposed rate changes. If not confirmed, please explain.

RESPONSE

8 a. Confirmed. In retrospect, the word "study" may have implied too much. What several others and I did was to take a recent issue, and, using the mail.dat file and a program developed by Time Warner, calculated the postage charges at the proposed rates

b. Of course I confirm, since right after the sentence you quote, I go on to say: "I recognize that in some of those cases it would be possible, in theory, to reduce the increase to a significant extent. . . ." Also, witness Bradfield, who introduced the study, said at page 6, lines 12-15: "The numbers do assume no change in mailing practice, and there is no doubt that for some of these publications, the increase in postage can be ameliorated, or in certain cases perhaps even reversed, if mailers take such steps as

Response of ABM to TW et al./ABM-T3-10

increasing sack size, co-mailing or co-palletizing.” Your question implies that I failed to recognize this fact.

c. Confirmed.

Response of ABM to TW et al./ABM-T3-9

TW et al./ABM-T3-9:

Please refer to your testimony at p. 8, ll. 13-18, where you state: "if rates were as proposed by Time Warner, the task of figuring out how to best "package" a mailing would be enormous and, I would think, simply beyond the capability of many small publishers. I know that we were not even able to calculate the postage at the proposed rates with our present mailing characteristics without mail.dat files (that not all publishers produce) and a new program developed by Time Warner."

- a. Please confirm that by "we," you mean Crain Communications. If not confirmed, please identify the persons to whom "we" refers.
- b. Please confirm that the same "we" who "were not even able to calculate the postage at the proposed rates with our present mailing characteristics without mail.dat files . . . and a new program developed by Time Warner" are not able to calculate postage at the *current* rates without mail.dat files and a program that was developed *subsequent to* the Commission's recommendation of the current rates. If not confirmed, please explain.

RESPONSE

- a. Confirmed
- b. Not confirmed. We generate mail.dat files for all of our publications, but many small publishers do not use mail.dat files, and they are able to calculate postage at the present rates. We could as well.

Response of ABM to TW et al./ABM-T3-10

TW et al./ABM-T3-10:

Please refer to your testimony at p. 12, ll. 11-15, where you state: "the five companies initiating this case would save, collectively, more than \$50 million annually at the rates they propose without changing a thing about the way they prepare and present their mail, and without saving the Postal Service a penny." Assume that a mailer changes its mailing practices, e.g., by moving a portion of its mail out of sacks onto pallets and beginning to dropship a portion of its mail, and that as a consequence the costs to the Postal Service of handling that mail are reduced. Under the assumptions described, do you agree that the mailer has changed the way it prepares and presents its mail, saving the Postal Service a penny (or more)? If you do not agree, please explain fully.

RESPONSE

I agree, based upon your assumption that moving some mail from sacks to pallets and drop shipping some mail does in fact save the Postal Service money. The reason I must stress this point is that, as I recall, under the complainants' proposed rates, there are instances where moving mail from heavy sacks to light pallets would actually increase rates and, supposedly, Postal Service costs. But I recognize that in the usual case, moving from sacks to pallets and then drop shipping reduces costs.

Response of ABM to TW et al./ABM-T3-11

TW et al./ABM-T3-11:

Please refer to your statement cited in the previous interrogatory and additionally to your statement at lines 21-23 on the same page: "The postage savings would not reflect any incremental cost reductions to the Postal Service, because there are no changes in mailing necessary to achieve them." Please make the same assumptions as in the previous interrogatory and the further assumption that, subsequent to the changes in mailing practices described, a rate reduction is implemented for the purpose of recognizing both the lower Postal Service costs that will result from the continuation into the future of the mailer's changed mailing practices (rather than reversion to its previous practices) and the adoption of the same practices by other mailers.

- a. Under the assumptions specified, is it your position that the postage savings to the mailer who had adopted the changed practices prior to the rate change "would not reflect any incremental cost reductions to the Postal Service, because there are no changes in mailing necessary to achieve them"?
- b. If your answer to part a is other than an unqualified no, please confirm that your recommended policy of denying rate recognition to cost-saving practices that have already been undertaken (1) makes impossible the achievement of lowest combined mailer/USPS costs and (2) causes the disparity between actual costs and lowest combined costs to increase over time, as cost-saving mail characteristics that are unrecognized in rates multiply and accumulate. If not confirmed, please explain.

RESPONSE

- a. Yes. In the situation you present, the mailer made the changes and the Postal Service enjoyed the assumed cost savings under one set of rates. If the rates are later changed, the rate reduction to that mailer will not reflect any incremental savings to the Postal Service, although if other mailers adopt the practice being rewarded, there will be incremental savings. I don't think that this is a complicated concept. Before the introduction of bar code discounts, some mailers were barcoding their mail. Then the discount was introduced, and more mailers barcoded their mail. I'm sure that the Postal Service had to estimate the

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revenue loss associated with the rate reduction for first set of mailers, for which there would be no incremental cost savings.

Another way to look at this is to assume that there is no “adoption of the same practices by other mailers.” And let’s go back to the barcode example. If after the introduction of the barcode discount there had been no more barcoding than there was before its introduction, there would have been lower revenues but, because there were no incremental cost savings, no savings to offset the revenue reduction. If at the time the cost coverage hovered near zero, an immediate rate increase might have been necessary, all because there was no “incremental” cost saving.

It would be wrong to read too much into this answer. I am not saying that it is never appropriate to reflect in rates practices that are already in place for some mailers, either to encourage those practices in others or even to make the rates more fair. I supported the barcode discount, even though some were already barcoding, and the existing pallet discount, even though many were already palletizing. That support does not change the fact, however, that there were mailers who enjoyed rate reductions without changing a thing and without being responsible for incremental cost savings.

Response of ABM to TW et al./ABM-T3-12

TW et al./ABM-T3-12:

Please refer to your testimony at p. 13, ll. 6-12, where you state:

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

Please confirm that your testimony does not identify or demonstrate the existence of even a single mailer who "would not be able to avoid large, crippling increases" under the rates proposed. If you do not confirm, please name or describe with specificity every mailer whom your testimony so identifies.

RESPONSE

I can confirm that my testimony does not identify a single mailer who would not be able to avoid large, crippling rate increases under the rates proposed. This is a very competitive business, and a business that for the past several years has not done well financially, as advertising revenues dropped significantly. When publications are in financial trouble, publishers tend not to want to broadcast that fact, since that information would be useful to competitors and to those who might be thinking about acquiring the publication at a bargain price. That is a major reason why you don't see testimony from an American Business Media member saying "my publication is in serious financial trouble, we're too small or publish too frequently to be a good co-mail candidate, and the proposed 45% rate increase would be the death knell for us." The complainants themselves have taken the reasonable position that not every Periodical mailer is in a position to change the way it presents mail in order to avoid the brunt of the increases they propose, and they cannot deny that, without such changes, some publications will experience double digit—and in some cases high double digit—rate increases. I don't think it's necessary to identify specific publications that

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meet these descriptions to contend that they exist. And even if I were able to identify ten such publications, I suppose the response would be to the effect that I'd identified only ten out of twenty-five thousand or more.