

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

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**EXPERIMENTAL "RIDE-ALONG"  
CLASSIFICATION CHANGE FOR PERIODICALS**

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**Docket No. MC00-1**

**DIRECT TESTIMONY  
OF  
HOWARD SCHWARTZ  
ON BEHALF OF  
UNITED STATES POSTAL SERVICE**

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1 Direct Testimony  
2 of  
3 Howard Schwartz

4 **AUTOBIOGRAPHICAL SKETCH**

5 My name is Howard Schwartz. I am the Director of Distribution and Postal  
6 Affairs for Conde' Nast Publications Inc. ("CNP"). Conde' Nast is one of the largest  
7 consumer magazine publishers in the world. We currently publish seventeen  
8 periodicals: The New Yorker, Architectural Digest, Bon Appetit, Conde' Nast Traveler,  
9 Allure, Brides, Details, Glamour, House & Garden, Gentleman's Quarterly, Gourmet,  
10 Mademoiselle, Self, Women's Sports and Fitness, Wired, Vanity Fair, and Vogue.

11 I have been with Conde' Nast for over twenty-one years. I have been in the  
12 publishing industry since 1967 and the distribution industry since 1963. I am  
13 responsible for all of the physical distribution and postal affairs of Conde' Nast.

14 I am currently a member of the Postmaster General's Mailers Technical Advisory  
15 Committee representing the Magazine Publishers of America. I have previously held  
16 positions as MTAC Periodical Subcommittee Chair as well as a member of the MTAC  
17 Steering Committee. I am also the present industry co-chair of the United States Postal  
18 Services Periodical Advisory Group (PAG).

1 **I. PURPOSE OF TESTIMONY**

2 As Conde' Nast was one of the primary proponents of the "Ride-Along"  
3 classification change for Periodicals, I have been asked by the United States Postal  
4 Service to discuss why we requested the establishment of the classification and rate,  
5 and how we believe it will affect our business as well as the business of the United  
6 States Postal Service.

7 **II. OUR BUSINESS**

8 As part of the Manufacturing & Distribution division of Conde' Nast, our  
9 department provides our Advertising Sales staff, directly or indirectly, with postage  
10 estimates for advertisements which may not qualify for the Periodical rates postage.  
11 Such advertisements would normally have to be mailed at the Standard A rates of  
12 postage. Starting at some time in the mid-1990s we became inundated with requests  
13 for these types of innovative advertisements. However, the additional postage above  
14 that for normal Periodicals pound-rate postage was so high that only a handful of  
15 advertisers could afford to pay the premium. The advertiser is charged for the  
16 appropriate space rate plus any other additional costs for printing, binding, and paper,  
17 where applicable. The Standard A postage premium over the normal Periodicals  
18 postage costs is passed along on a dollar-for-dollar basis to the advertiser. In most  
19 cases this becomes a "deal breaker," as the postal premium results in the advertiser's  
20 deciding not to pursue the project. In some cases the advertiser's budget allows for the

1 placement of the insert, or onset-t, <sup>1</sup> as the case may be, only in publications destined  
2 for specific regional areas of the country. This results in lost revenues for both Conde'  
3 Nast and the Postal Service. Had the premium been reduced, the advertisers might  
4 have decided to run their ads on a national basis (commonly referred to as "run of  
5 book"), Consequently, we only get a small amount of additional advertising revenue  
6 and the Postal Service in turn receives additional Standard A postage for relatively few  
7 pieces.

8 Some examples of potential candidates for the Ride-Along classification would  
9 be: samples of an actual product (i.e., swatches of fabric, pacquettes of actual skin care  
10 cream or cosmetics); advertisements made up of non-printed sheets (i.e., fabric or  
11 plastic); battery-operated lights; advertisements which include a tone activator, such as  
12 a music chip found in a greeting card; and a computer disk or CD-ROM.

13 Please note that the Standard A minimum-per-piece rate (for pieces weighing  
14 under 3.387 ounces) is based on the Postal Service's costs of handling that particular  
15 piece as a stand-alone piece. However, when the Standard A rate is assessed on a  
16 non-qualifying component of a periodical publication, the Postal Service is providing no  
17 additional services to the component beyond those provided to the host piece. The  
18 host periodical is assessed postage based upon the per-piece rate as well as the per-  
19 pound rates for advertising and editorial. The only additional cost to the Postal Service

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<sup>1</sup> An insert is an item bound into the periodical. A "onset" is a loose enclosure placed within the outside wrapper, such as a polybag, that contains the host periodical.

1 for the Standard A unit in question would be the incremental cost of transportation  
2 based on the weight of the Standard A unit from the point of entry into the mail to the  
3 subscriber's mailbox. In the case of Conde' Nast. the majority of our copies are  
4 entered at the SCF level. Therefore, the incremental transportation cost would be  
5 minimal to non-existent.

### 6 III. MY VIEWS

7 At a Periodicals Advisory Group (PAG) meeting held in December of 1996, the  
8 Postal Service asked industry members for examples of current rules that restricted our  
9 ability to obtain new business and for suggestions for revising them in order to increase  
10 revenues for both the publishers and the Postal Service. It was at this meeting that  
11 Conde' Nast first suggested the idea of a reduced rate of postage for Standard A  
12 material which could be combined with the mailing of our periodicals. This proposal, as  
13 it was developed, is also supported by the Magazine Publishers of America (MPA) and  
14 American Business Press (ABP).

15 In general terms, the halving of the current average postage rates for Standard A  
16 pieces that are combined with our CNP periodicals should result in a greatly increased  
17 volume of new business for us as well as the Postal Service. We mailed approximately  
18 3.339 million Standard A advertising units with our 1998 periodicals issues. Though no  
19 one can tell for sure what advertisers may or may not do in the future, my experience  
20 indicates that the proposed experimental rates could produce approximately four times  
21 the actual volume of Standard A pieces Conde' Nast generated in 1998. First, we  
22 believe that reducing Conde' Nast 's current average price of approximately \$.1 985 per

1 item for a Standard A inset-t or onset-t to the proposed flat rate of \$.10 would  
2 automatically double volumes from current advertisers to approximately 6.68 million  
3 units. This would amount to over 13 million pieces. We then believe we would almost  
4 double this volume again when other advertisers, especially those launching new  
5 products in the toiletry, cosmetic and skin care industries, are made aware of the lower  
6 postage costs for premium advertisements in periodicals. This would double the  
7 revenue that the Postal Service receives, without increasing its costs for processing this  
8 mail.

9 Magazine Publishers of America (MPA) conducted an informal survey of its  
10 Postal Committee members, asking for projected annual Ride-Along volume. The  
11 survey resulted in a projection of approximately 91,336,000 pieces, versus a present  
12 volume for Standard A pieces mailed in combination with periodicals of 14,189,000.  
13 The estimated increase is approximately 77,147,000 pieces, or 64 percent. Our CNP  
14 projections are included in the MPA survey.

15 To the best of my knowledge, there would be little or no volume or revenue  
16 diversion if this experimental rate is approved. The current Standard A material which  
17 is either on-sorted within a mailing wrapper or bound into our periodicals is not of the  
18 type that advertisers would send directly to consumers via any other class of mail, i.e.,  
19 Standard Mail A or First -Class Mail. These units are creative pieces designed for  
20 inclusion with periodicals (even though they do not qualify for the Periodicals rates of  
21 postage). They are not pieces which are normally sent independently of periodicals or  
22 which have historically been subject to mass distribution via Standard Mail A.