

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

POSTAL RATE AND FEE CHANGES, 2006)

Docket No. R2006-1

RESPONSES OF VALPAK DIRECT MARKETING SYSTEMS, INC. AND
VALPAK DEALERS' ASSOCIATION, INC.
WITNESS ROBERT W. MITCHELL TO INTERROGATORIES OF
ADVO, INC. (ADVO/VP-T1-15-19)
(October 18, 2006)

Valpak Direct Marketing Systems, Inc. and Valpak Dealers' Association, Inc.

("Valpak") hereby submit responses to the following institutional interrogatories of Advo, Inc.: ADVO/VP-T1-15-19, filed on October 4, 2006. Each interrogatory is stated verbatim and is followed by the response.

Respectfully submitted,

William J. Olson
John S. Miles
Jeremiah L. Morgan
WILLIAM J. OLSON, P.C.
8180 Greensboro Drive, Suite 1070
McLean, Virginia 22102-3860
(703) 356-5070

Counsel for:
Valpak Direct Marketing Systems, Inc. and
Valpak Dealers' Association, Inc.

**Response of Valpak Witness Mitchell
to Interrogatory of Advo, Inc.**

ADVO/VP-T1-15.

- (a) Do you have any knowledge or understanding of any differences in the typical frequency of mailing (e.g., weekly, monthly, less-than-monthly) between ECR saturation letter mailings and ECR saturation flat mailings? If so, please state your understanding and provide sources.
- (b) Are you aware of any ECR saturation letter mail programs that are mailed in a market on a regular weekly basis? If so, please identify the mailers and the markets, and quantify the volumes of such weekly-frequency saturation letter mail.
- (c) Are you aware of any ECR saturation letter mail programs that are mailed in a market on a more-frequently-than-monthly basis, i.e., more than 12 times per year? If so,
 - (i) please identify the mailers and the markets, and quantify the volumes of such saturation letter mail;
 - (ii) please state whether distribution more frequently than monthly is either commonplace, the exception, or nonexistent for saturation letter mail.
- (d) To the extent you believe there are differences in the typical frequency of mailing between ECR saturation letter mailings and saturation flat mailings, please describe the factors that you believe may account for the differences.

Response:

- (a) As stated in the testimony of witness Haldi: “Most [Valpak] franchisees mail at least 10 times per year, with the majority of offices mailing on a monthly schedule.” VP-T-2, p. 7, ll. 1-2. These are all letter-size mailings. I receive other saturation letters at my home that appear to be monthly. I also receive several saturation *flats* mailings, some of which are weekly and some of which are monthly. I believe most weekly mailings that are saturation tend to flats. I have no basis for providing proportions that are representative of the entire postal market.

**Response of Valpak Witness Mitchell
to Interrogatory of Advo, Inc.**

- (b) No.
- (c) No.
- (d) Please see my response to ADVO/VP-T1-18(a).

**Response of Valpak Witness Mitchell
to Interrogatory of Advo, Inc.**

ADVO/VP-T1-16.

At page 84 of your testimony, you state that “limited portions of the mail matter in Regular and ECR can be carried by private competitors....”

- (a) Please confirm that ECR saturation letters could be sent privately if unaddressed.
- (b) Are any of Val-Pak’s letter-size enveloped coupons distributed by private delivery, not mail? If so, please provide the following:
 - (i) the total volume of such privately-delivered pieces in 2005 and an estimate for 2006;
 - (ii) the percentage of Val-Pak’s total enveloped coupon volume that is delivered privately; and
 - (iii) identify the markets where private delivery is used, and for each market identify the private delivery company used.

Response:

- (a) Confirmed, to the extent of my understanding.
- (b) I am informed that they are not.

**Response of Valpak Witness Mitchell
to Interrogatory of Advo, Inc.**

ADVO/VP-T1-17.

Do you agree that the great majority of multi-page preprinted advertising circulars currently can be distributed either as inserts in newspapers, or as inserts in shopper publications or shared mail programs (which can be delivered either privately or via mail), without any change to the format of the preprint. If you disagree, please explain your understanding of the format and characteristics of such circulars, and how they differ between newspapers and mail and private delivery.

Response:

Although there could be differences in the range of addresses covered and the days on which service is available, I believe what you say is basically the case. I do not know what the relative charges would be or if the response rates of the recipients would be the same in each case.

**Response of Valpak Witness Mitchell
to Interrogatory of Advo, Inc.**

ADVO/VP-T1-18.

With respect to your statements that saturation letters and flats can be viewed as “separate products,”

- (a) Explain your understanding of why saturation shoppers and shared mail programs choose a flat-sized rather than letter-sized format for their mailing programs.
- (b) To what extent do you believe that their choice of format is dictated by competitive considerations (e.g., that reformatting their mailings to letter-size would impair their ability to compete for preprinted advertising circulars)?

Response:

- (a) All businesses are based on product or service concepts that the entrepreneur (or entrepreneurial organization) thinks are attractive. Support for specific product concepts is usually provided by an analysis that focuses on such things as alternative concepts, concept variations, postal rates, costs of production, the needs of customers, how those needs can be met effectively, and what related products are already being offered, including those by competitors. Although it is clear that some “saturation shoppers and shared mail programs” that use “flat-sized rather than letter-sized format[s]” have evolved, I know of no way to point to one or two factors and say: “this is why flats instead of letters are used.” This outline of the origins of products and services should not be taken to suggest that adjustments in the concepts are not made over time.

**Response of Valpak Witness Mitchell
to Interrogatory of Advo, Inc.**

- (b) I would presume that they have considered letter formats and have decided against them, with an eye toward profitability. The decision would be expected to recognize “competitive considerations,” among others.

**Response of Valpak Witness Mitchell
to Interrogatory of Advo, Inc.**

ADVO/VP-T1-19.

Currently, the rate for ECR basic letters is “linked” to the rates for the Standard A Regular subclass by being set higher than the rate for 5-digit automation letters. With this linkage to rates for the Regular subclass, if the rates for other categories within the ECR subclass are then set on the basis of cost differences, how does this result differ conceptually from the circumstance where ECR mail were treated as rate categories of Standard A Regular rather than as a separate subclass?

Response:

It may does not differ conceptually, but the actual outcome depends on how the link is accomplished. For example, it could be accomplished by increasing the markup on ECR, which would affect all ECR rates. Alternatively, it could be accomplished by selecting disparate or extreme passthroughs within ECR, such as zero, in which case some categories might be affected more than others. In practice, a combination of both approaches could be used.

In my testimony (VP-T-1) in Docket No. R2005-1, I showed on reasonable assumptions that the rates for ECR materials would be lower if third class had not been deaveraged into two subclasses. The analysis is not simple, of course, in part because of the revised approach selected by Congress for developing the Nonprofit rates. Several observations on my analysis were made during the case. Postal Service rebuttal witness Kiefer said that I had written an “‘alternative history’” about what “would have” happened. USPS-RT-1, p. 28, l. 11 and p. 29, l. 1, respectively, emphasis in original. It is true that I addressed the question of where things would stand if the deaveraging had not occurred — that was the point of the exercise — but all of the data

**Response of Valpak Witness Mitchell
to Interrogatory of Advo, Inc.**

I used were current, I honored all current costs and the Postal Service proposed revenue requirement for Standard mail, the rate development was in line with accepted principles, and no showing was made that any of my assumptions were unreasonable or unlikely. In its Opinion, the Commission reviewed this issue briefly and pointed to the relation between current cost coverages and those in Docket No. R90-1. (Docket No. R2005-1, *Op. & Rec. Dec.*, p. 97, ¶ 5046.) However, my analysis relied entirely on current costs and the cost coverages proposed by the Postal Service in Docket No. R2005-1.