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POSTAL RATE COMMISSION  
OFFICE OF THE SECRETARY

BEFORE THE  
POSTAL RATE COMMISSION  
WASHINGTON, D. C.

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POSTAL RATE AND FEE CHANGES, 1997

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Docket No. R2000-1

DIRECT TESTIMONY OF  
  
HARRY J. BUCKEL  
  
ON BEHALF OF THE  
  
SATURATION MAIL COALITION

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## TABLE OF CONTENTS

AUTOBIOGRAPHICAL SKETCH	1
PURPOSE OF TESTIMONY	2
A. THE SMC AND THE SATURATION MAIL INDUSTRY	3
B. SATURATION MAILERS AND THEIR CUSTOMERS	6
C. SATURATION MAIL COMPETITION	10
D. THE NEED FOR A LOWER, MORE REASONABLE POUND RATE	11
CONCLUSION	

### Autobiographical Sketch

1        My name is Harry J. Buckel. I have been involved in publishing community  
2 newspapers and advertising shoppers industry for 29 years, and have maintained  
3 an active interest in postal matters.

4        From 1972 to 1978, I held several positions for the Panex Corporation  
5 involving the publication of various community newspapers including the Community  
6 News of Suburban Detroit (100,000 circulation): Group Vice President, South East  
7 Michigan Newspapers, and Vice President, Publisher of the Miami Beach Sun  
8 Reporter.

9        In 1978, I joined Harte-Hanks Communications. I served in the following  
10 positions: President and Publisher, San Francisco Progress, President and  
11 Publisher, Ypsilanti Press, President and Publisher Gloucester County Times,  
12 President and Publisher Journal Publishing Company, Hamilton, Ohio.

13       In 1982, I became Publisher of the PennySaver, a position I held until 1996  
14 when I left the company to form the Newport Media Group. Newport Media was  
15 formed in 1996 to acquire several existing mail and home-delivered saturation  
16 shoppers in the Long Island area. During my ownership, the combined circulation  
17 of the Newport Media group grew to exceed 2.5 million households and included a  
18 private carrier delivered paper, the Marketeer, that delivered our largest, heaviest  
19 paper and other shopper publications that were delivered by the Postal Service at  
20 Standard A Enhanced Carrier Route (ECR) saturation rates.

21       In February 1999, I sold the Newport Media Group to Times Mirror. The  
22 acquisition included an agreement for me to become the CEO of the Newport Media  
23 subsidiary and a plan to do acquisitions to build up a network of shoppers along the  
24 East Coast. In March, 1999 I suffered a stroke that changed my plans and that of my  
25 employer.

1 I have maintained an interest in this industry and currently serve as a  
2 consultant for Times Mirror. I am on the Board of Directors of Trinity Publishing, a  
3 company with paid and free weekly papers in the Pittsburgh market. Trinity has  
4 publications in the mail as well as private carrier.

5 This is my fourth appearance before the Postal Rate Commission. I  
6 presented testimony on behalf of Harte-Hanks Shoppers in Dockets R90-1 and  
7 R94-1, and for the Saturation Mail Coalition in R97-1. I have belonged to and actively  
8 participated in numerous trade and industry associations relating to postal and  
9 publishing matters. Some highlights: In 1989 I served as industry co-chairman of  
10 the Postmaster General's Worksharing Task Force; I was Executive Vice Chairman  
11 of the Third Class Mail Association from 1989 to 1991 and chaired that association  
12 from 1991 through 1993; and in 1997, I helped form and have remained active in the  
13 Saturation Mail Coalition.

#### **Purpose of Testimony**

14 I am testifying for the Saturation Mail Coalition because I believe that  
15 maintaining reasonable rates and reducing the current pound rate are essential for  
16 the Postal Service to retain the business of saturation mailers. The purposes of my  
17 testimony are:

- 18 • Describe the Saturation Mail Coalition and the different types of mail  
19 programs operated by saturation mailers;
- 20 • Describe the customers served by the saturation mail industry; particularly,  
21 the many individuals and small businesses that use and depend on  
22 saturation mail programs;
- 23 • Describe the highly competitive nature of our business and the growing  
24 erosion of our customer base due to nonpostal competition;
- 25 • Describe the major problem with the present pound rate and how this  
26 artificially contrived rate structure is prodding successful saturation mailers to  
27 explore forming private delivery options. When saturation mailers switch to  
28 private delivery, the Postal Service both loses saturation mail volumes and  
29 finds itself facing an able competitor seeking to take more ad mail business  
30 from it.

**A. The SMC And The Saturation Mail Industry**

1           The SMC is a coalition of businesses that operate cooperative  
2 advertising programs that are distributed by saturation mail. Formed in 1997, we  
3 now have approximately 50 members that share a common interest in postal issues  
4 relating to service and postal rates. The Coalition's membership reflects the  
5 breadth of the industry. It includes publishers of free weekly newspapers, free  
6 advertising and shopper publications, shared mail programs, cooperative coupon  
7 envelope companies, and publishers of coupon magazines and booklets. Some of  
8 our members also prepare solo saturation mailings and conduct "total market  
9 coverage" (TMC) mailings for newspapers. All of our members are users of ECR  
10 saturation mail and some distribute portions of their circulation via private delivery.  
11 SMC members include the nation's largest shared mailers, ADVO, Inc. and Harte-  
12 Hanks Shoppers, with combined weekly circulation of approximately 70 million  
13 homes. The majority of our members, however, are local or regional mailers that  
14 mail on a regular weekly, monthly or other periodic schedule to specific geographic  
15 markets ranging from 10,000 to a million households. Many of our members are  
16 small mailers or publishers like Money-Saver Advertising, Inc. in New York, with  
17 weekly circulation of less than 15,000 homes.

18           One of the reasons I was active in forming the Saturation Mail Coalition was to  
19 provide a forum for these varied mailing businesses, that often compete against  
20 each other in the market place, to come together and work on issues of common  
21 concern, like postal matters, and to address misperceptions about our industry.

22           When I was with Harte-Hanks, I became aware that many Washington  
23 leaders, and even top Postal Service officials, erroneously believed that the  
24 saturation mail industry consisted of only a few large mailers and primarily served  
25 "big business." This is far from true. With the exception of a few, national concerns,  
26 most saturation mailers are very local and cover a limited market area. Although

1 saturation mail customers include national retailers, franchises, and chains, our  
2 core customers are small local businesses, individual entrepreneurs, and  
3 consumers.

4 The saturation mail industry has three basic product lines. The one with  
5 which I am the most familiar is the free community paper or "shopper segment."  
6 There are more than a thousand local and regional free community papers or  
7 shoppers in United States. Roughly half the circulation of these papers is  
8 distributed by mail at ECR rates. Some shoppers contain 100% advertising while  
9 others contain local and community news and other editorial matter. Free papers  
10 are typically printed in a newspaper tabloid or booklet format. Most shoppers zone  
11 individual editions of their paper to reflect the shopping and traffic patterns of the  
12 communities they serve. My last paper, Newport Media, divided its market into over  
13 190 zones that each served approximately 13,000 households. A separate and  
14 unique edition was printed for each zone each week. Shoppers also try to sell the  
15 delivery of preprinted advertising circulars, known as preprints or inserts. Inserts  
16 may be printed by the shopper or be free standing inserts that are printed by the  
17 advertiser for insertion and delivery with the paper.

18 The "shared mail" segment of the industry includes shared mail programs  
19 that cover 100% of all households in a geographic area and TMC programs. These  
20 programs generally combine the insert advertising of several retailers in a single  
21 package with a common piece, or wrap, on the outside. TMC programs integrate the  
22 paid circulation list of a weekly or daily paper with a household mailing list. For  
23 retailers who want their advertising delivered to all households in a given  
24 geographic area, the TMC program allows the retailer to reach a household that  
25 subscribes to the paper by getting its insert in the paper. Nonsubscriber  
26 households receive the retailer's preprint (together with other advertiser's circulars)  
27 as part of a shared mail package or a package of advertising delivered to the home

1 by private carrier or by mail at the Standard A high density rate. In response to  
2 advertiser demands, many daily newspapers have acquired mail operations, or  
3 entered into TMC agreements with shared mailers, to provide advertising delivery  
4 services to nonsubscribers.<sup>1</sup>

5 One of the growth areas for the USPS, and the shared mail industry, has been  
6 the development of shared mail programs in smaller, more rural markets. These  
7 programs combine preprinted inserts from advertisers with advertising designed  
8 and printed for customers by the shared mail company, and are typically mailed  
9 monthly or bimonthly to the smaller, more rural markets where there may be few, if  
10 any, other advertising alternatives.

11 A third type of shared mail program is the cooperative "coupon" segment. The  
12 most well-recognized mailers of this segment are the coupons in envelope national  
13 franchises operated by Val-Pak, Money Mailer, Super Coups, United and others. The  
14 franchised coupon envelope companies involve individual entrepreneurs or dealers  
15 that find and sell local businesses coupon advertising targeted to zones of, typically,  
16 10,000 homes. The printing, preparation and mailing of the coupon envelopes are  
17 handled by the national franchisor. There are also hundreds of shared mail coupon  
18 businesses that sell coupons by mail in a booklet, in a tabloid or magazine format,  
19 or in an envelope.

20 In spite of the breadth and diversity of these shared mailers and mail  
21 programs, saturation mailers share many common market characteristics:

- 22 • Saturation mail programs are used for mass media advertising by  
23 retailers and service businesses that offer products and services  
24 appealing to a broad customer base.
- 25 • Saturation mail programs are targeted to local, geographically defined  
26 markets.

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<sup>1</sup> TMC programs may be handled by a newspaper's own private carrier force, a hand delivery company, shared mail company or letter shop. Some SMC members operate TMC programs for newspapers.

- 1       •     The primary customers of saturation mailers are local retailers, service  
2             businesses and other advertisers who need a way to reach all  
3             consumers who reside near their stores or businesses. A typical  
4             shopping radius for a traditional retail business is two to five miles,  
5             and even smaller for many small businesses with only a single  
6             business location.
- 7       •     Saturation mail programs are mailed on a regular, predictable  
8             schedule, typically weekly or monthly.
- 9       •     Postage is the highest, "uncontrollable," cost for most saturation  
10            mailers. For a shared mailer, postage may exceed 50% of its gross  
11            revenues. For free papers and shoppers, postage is typically the  
12            second highest cost, following only labor, running 25% to 30% of gross  
13            revenues. Because postage costs are so high, most saturation  
14            mailers take advantage of every worksharing opportunity available to  
15            them from the Postal Service.

16       The market condition most saturation mailers experience involves selling in a  
17       tough competitive environment to advertising customers that are tremendously cost  
18       conscious. As a mass media, saturation mail services are often measured in cost  
19       per thousand. Our customers are constantly weighing and reevaluating the cost-  
20       benefit equation of our services against those of our competitors. With the exception  
21       of small markets and rural areas, where advertisers may have few choices, most  
22       saturation mailers operate in a fiercely competitive market, competing with each  
23       other, with daily and weekly newspapers, private delivery companies, electronic  
24       media, and the burgeoning growth of new media ranging from everything from  
25       internet advertising to specialty publications given away on store counters and racks.

#### 26       **B.     Saturation Mailers And Their Customers**

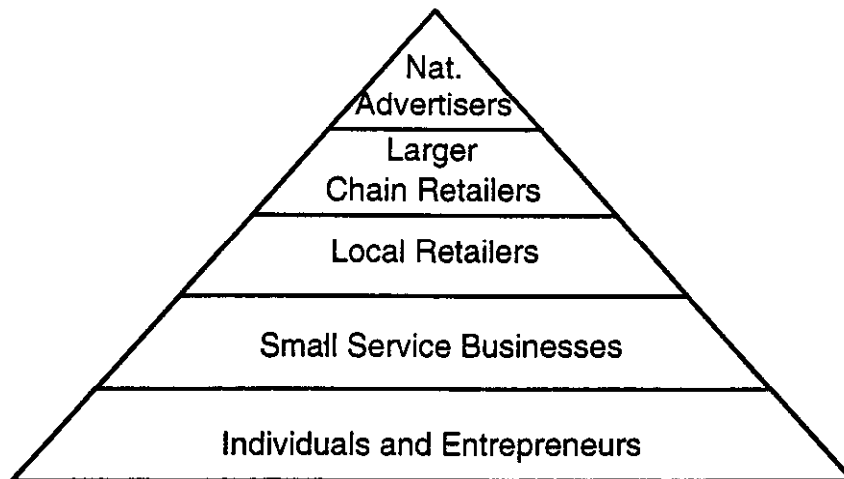
26       Most saturation mailers depend on a blend of different sized  
27       customers to survive. Although the mix of advertisers will vary from one saturation  
28       mailer to another, most mailers need to maintain some large customers to keep  
29       their programs in business.

30       From a mailer's perspective, larger customers are important because they go  
31       to most or all of the zones the mailer covers on a regular basis. These major



1 players provide a base of business that the mailer needs to commit to mailing on a  
2 fixed schedule. It is these large mailers, however, who are the most price sensitive  
3 and cost conscious. They treat saturation mail services as a commodity and will  
4 freely switch from mail to other distribution media if the price is right. A typical large  
5 advertiser may be a grocer or mass merchandiser who views all consumers in a  
6 major metropolitan area as potential customers.

7 From the advertiser's perspective, the chief benefit of a saturation mail  
8 program is its ability to reliably reach all households in the defined area desired by  
9 the advertiser. Larger advertisers have more alternatives when it comes to mass  
10 media methods to reach consumers. For the small business, however,  
11 geographically targeted saturation mail may be the only cost effective choice.



12 If viewed as a pyramid, the base of business for most saturation mailers is  
13 our small business customer. Individual advertisers, service providers, tradesmen,  
14 and home-based businesses comprise 70% to 80% of our customers. This  
15 category includes employment, real estate, auto, personal and classified ads placed  
16 by individuals, and is where the self-employed, building, home improvement and  
17 other trade and service persons go to market their goods and services.

1           Next on the pyramid is the small service business that may buy a larger  
2   classified specialty section, or partial page display ad. The local optician, dentist,  
3   chiropractor, hair stylist, drycleaner, house and carpet cleaners, lawn and garden  
4   services are among these typical customers.

5           Local retailers are important display ad customers. For a one or two location  
6   store, the targeted shared mail program provides a way to remind customers that  
7   the store is in their neighborhood and has something worthwhile to offer. The family  
8   restaurant, the tire and auto repair shop, the furniture store, the neighborhood deli  
9   and ethnic grocery all need a forum to let consumers comparison shop their goods  
10   against those of their big store competitors.

11          For most shared mailers our corporate mission is focused on meeting the  
12   needs of our individual and small business customer. Free papers, coupon mailers  
13   and shared mailers all pursue the small advertiser and offer more than just print  
14   distribution services. To capture and serve the needs of small business, we offer a  
15   turnkey advertising service to help the littlest of customers make the greatest impact  
16   with their advertising message.

17          Shared mail programs provide valued and needed service to small  
18   businesses by acting as their public relations, advertising and marketing  
19   department. Shared mailers help small businesses understand and define their  
20   market area. We look at prior sales to determine where a business gets its  
21   customers. We may recommend ways of getting additional sales data, by reviewing  
22   credit card receipts or asking customers for zipcode information, to improve and  
23   target marketing efforts in the future. We use maps and demographic data by zone  
24   to identify our advertisers' best market.

25          Most shared mail providers have a trained sales force with expertise on the  
26   needs of small business. We help each customer design a program that will fit its  
27   needs and budget. The new business or professional with a freshly hung shingle

1 might need a special offer to lure customers in the door. For an auto service store  
2 we might suggest a grand opening promotion with a free car wash with every  
3 service. For the new dentist in town we might recommend offering a free cleaning or  
4 free x-rays to help build a patient base. New category and product information is  
5 available to help us, and our customers, on the types of ads and offers that work  
6 best by business category. For food stores, industry research shows a BOGO "buy  
7 one, get one free" offer may drive the best customer response. For the house  
8 painter or home remodeling contractor who suffers from low sales in the winter  
9 months, we may recommend offering a limited time savings of 20% for interior work.  
10 When business rebounds, leads may be generated by a smaller discount of 10%.

11 With our small business customers, we are not just competing with other  
12 media. We are also competing with the other demands on their limited resources.  
13 For many of our customers, their pocket book and the business check book are the  
14 same. Where should they spend their money this month? Rent? Groceries? Or  
15 Advertising? Although advertising may be essential for the success of their  
16 business, it is one of the few expenses that is discretionary. This is one of the  
17 reasons that shared mailers are so sensitive to cost increases. When our costs go  
18 up, whether for postage, newsprint or labor, our small business customers are  
19 reluctant to pay more. In the face of a price increase, a small business is likely to  
20 respond "I won't run an ad this month" or "can't you just make my ad smaller?"

21 Other shared mail advertisers include larger chain retailers, franchises and  
22 national advertisers. National advertisers, like food and consumer product  
23 manufacturers, and check and label printers and other direct response advertisers,  
24 may use the mail to distribute coupons and drive a response to a 1-800 phone  
25 number or the internet. This category probably makes up less than 1% of all  
26 saturation advertisers.

1           As stated earlier, most shared mailers depend on maintaining a mix of large  
2   and small customers to have a viable share mail program. This mix is important  
3   both from the standpoint of revenues needed to cover postage and printing and to  
4   provide consumer household and readers with the mix of large and small local  
5   business and service information they want. Shared mailers get the best response,  
6   in terms of patronage of their advertisers and response to reader surveys, when  
7   consumers have the opportunity to comparison shop and find good values in one  
8   convenient place. For shared mailers to have a "win, win, win" solution for our  
9   business, our advertisers, and consumers we need to offer cost-effective advertising  
10   services for small, medium and large businesses alike.

**C.    Saturation Mail Competition**

11           Although individual and small business advertisers are the primary  
12   customers we serve, the long term viability of the shared mail industry depends on  
13   the extent to which we can compete for retail advertising preprints of the medium to  
14   large store customer. The competition for these larger, highly sought retail  
15   advertisers is intense. Since I last appeared before the Postal Rate Commission, I  
16   believe the competitive scale has tipped against shared mailers and in favor of hand  
17   delivery options.

18           Focusing on two markets with which I am familiar, the New York and  
19   Philadelphia markets, almost every major retail preprint advertiser has switched  
20   from mail delivery to private carrier or a combination thereof. Why? Pricing. The  
21   equation is like a teeter totter. Retailers are concerned about two factors when it  
22   comes to the delivery of preprint advertising: credibility of the delivery versus cost.  
23   Historically, mail has been the most credible form of delivery. But it has always been  
24   the most costly. Private carrier, or alternate delivery has always been the least  
25   costly, but lacked credibility.

1 Rising costs for saturation mail, combined with the artificially contrived,  
2 excessive pound rate, have tipped the teeter totter to favor hand delivery. In major  
3 metropolitan areas, where retailers have competitive choices, the major preprint  
4 advertisers are not using shared mail services. Daily newspapers, non-postal  
5 TMCs, and private carrier companies are dominating the delivery of retailers'  
6 preprints.

7 The unwillingness of the big advertisers to pay the high distribution costs for  
8 mail has forced many shared mail companies to take a hard look at switching part  
9 or all of their distribution system to alternate delivery.

10 I realize skeptics on the Commission and staff may ask "Haven't we heard  
11 this before" or "Shouldn't we wait until there is hard evidence of shared mailers  
12 leaving the USPS before we take action?" From the standpoint of the long term  
13 viability of the shared mail industry, and the dependence of the Postal Service on this  
14 business for predictable revenue and volumes, I certainly hope the Commission  
15 takes action now.

**D. The Need For A Lower, More Reasonable Pound Rate**

16 Hand delivery, in newspapers, in TMCs, and by private carrier forces, is  
17 gaining an ever increasing portion of the distribution market for retail preprints. As  
18 retailers leave shared mail programs, this has a domino effect forcing mailers to  
19 consider switching all or part of their circulations to private delivery.

20 Although I am no postal costing expert, I have owned and operated a shared  
21 mail and private carrier paper and I know what happened to my costs as weight  
22 increased. Under current rates for saturation ECR mail, the postage rate for pieces  
23 above the breakpoint increases on an almost one-to-one ratio with weight. This  
24 makes shared mail noncompetitive for the delivery of heavier preprint inserts. It also  
25 forces mailers with a successful paper or shared mail program to take a hard look  
26 at establishing their own private carrier force.

1           This was my experience at Newport Media. Our lighter papers were  
2 customers of the Postal Service. Our biggest paper, and the one carrying the most  
3 retail preprints, was delivered by our own carriers. The ability of our private carrier  
4 paper to generate incremental profits by selling additional pieces at heavier weights  
5 was substantial. We could deliver our basic paper for 50% of the cost of mail.  
6 Additional inserts could be sold into the paper at a very low distribution cost to us  
7 and produced significant profits.

8           Our private delivery paper didn't just compete for business that might have  
9 gone into other shared mail programs or daily newspapers. We were also able to  
10 compete against the Postal Service and draw advertisers out of the mail and into the  
11 pages of our hand delivered paper.

12          The current high pound rate is causing many shared mailers to think twice  
13 about becoming postal service competitors. Major retailers and franchises are  
14 increasingly receptive to hand delivery as a credible distribution method for print  
15 advertising.<sup>2</sup> At the moment, the "teeter totter" is tilted strongly in favor of hand  
16 delivery for the distribution of retail preprints. The modest reduction in the pound  
17 rate proposed by the Postal Service will not substantially change this balance.  
18 However, it will help shared mailers retain some of the business we need from

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<sup>2</sup> One of the reasons hand delivery is now perceived as a more credible method of distribution is the increasing number of recognized businesses that offer private carrier delivery as an option. The days when most private carrier companies were perceived as underemployed "vagrants" or "door-to-door winos" are gone. Consolidation among media companies, falling newspaper subscriptions, and retailer demands, have led many large, credible businesses to go into the private delivery business. Many large newspaper companies now have a private delivery subsidiary, or subcontractor, that is a reliable hand delivery provider. Circulation and delivery audit companies provide services to measure the reliability of hand delivery and ratings confirm delivery of 90% or more. Few mailers today sell against hand delivery by questioning the reliability or credibility of its delivery. Indeed, the only selling point that many mailers now have against hand delivery is the fact that many consumers, particularly in areas where there is snow, do not welcome advertising material hung on their door that announces to the world that they are not home or in their drive way where it may clog the snow blower.

1 medium to large customers and be more competitive for the distribution of lighter  
2 weight preprint pieces.

3 The lower pound rate will help the Postal Service preserve, and perhaps build,  
4 saturation mail volumes. Because saturation mailers can become significant  
5 competitors of the Postal Service when they leave the mail, it is enlightened self-  
6 interest for the Postal Service to establish a rate structure that does not artificially  
7 drive mailers out of the business and into competition with the Postal Service.

8 The chief reasons, however, for lowering the pound rate are that it is totally  
9 unrelated to the incremental cost of piece delivery and is inconsistent with how other  
10 businesses that compete for the delivery of print advertising charge. Shared  
11 mailers, suburban and community newspapers, and other media companies  
12 across the country are looking at ways to expand their advertising delivery market.  
13 From the standpoint of the Postal Service, this is a logical source of core business  
14 that could provide revenue to support its overhead and delivery point network.

15 Advertisers need and want a way to get shopping news into the hands of  
16 customers near their stores. Consumers want and value this information. The  
17 market will find a way to link advertisers and consumers together. Members of the  
18 Saturation Mail Coalition have been trying to provide this service for small and large  
19 customers alike through saturation shared mail programs. The current,  
20 noncompetitive, non-market based pound rate is making this task more difficult and  
21 is forcing many mailers to reevaluate and weigh our long-term future, either as  
22 Postal Service customers or competitors.

CERTIFICATE OF SERVICE

I hereby certify that I have on this date served the foregoing document upon all participants of record in this proceeding in accordance with section 12 of the Rules of Practice.



Thomas W. McLaughlin

May 22, 2000