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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  
ROGER MERRIMAN  
ON BEHALF OF THE  
SATURATION MAIL COALITION

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## DIRECT TESTIMONY OF ROGER MERRIMAN

### INTRODUCTION AND BACKGROUND

1 My name is Roger Merriman and together with my wife, Helen, and son, Curt,  
2 I have owned and operated Merriman Printing and Publishing, Inc., the publisher of  
3 the *Farmer and Rancher Exchange* since 1977.

4 Beginning with a circulation of 12,000 in 1981, the *Farmer and Rancher*  
5 *Exchange* has grown to 42,000 households in South Dakota, Nebraska, Wyoming,  
6 North Dakota, and Montana.

7 The *Farmer and Rancher Exchange* is the largest weekly advertising  
8 publication distributed free in the upper midwest region. We are primarily an  
9 agricultural publication and are regarded as the buy and sell bible for farm families  
10 and agricultural businesses in a five state area. Most of our circulation is  
11 distributed by saturation mail. However, due to the popularity of our publication and  
12 in response to requests, we also mail by standard and first class mail to readers  
13 outside our circulation area including the States of Minnesota, Iowa, and Colorado.

14 Our circulation coverage is exclusively rural and midwestern small towns.  
15 We exclude from our circulation the big metropolitan areas of South Dakota, like  
16 Sioux Falls and Rapid City, where consumers may not be tied into the agrarian  
17 economy and advertisers have a range of media choices to reach their customers.

18 Because of our large rural geographic footprint, we and other rural saturation  
19 mailers are different from other metropolitan-area free papers, shoppers, and  
20 newspapers in that we truly are a captive customer of the USPS. There are  
21 multiple newspapers and shoppers in the metropolitan areas we do not serve that  
22 can cost-effectively use their own private carriers. For our publication and  
23 approximately 2,500 regular advertisers who rely on us to reach agrarian  
24 households and businesses in our market area, the USPS is the only game in

1 town. I have attached to my testimony a map of our circulation area to give a picture  
2 of the broad geographic territory we reach. To put this in further perspective for  
3 Washington, DC-based Commission members and staff, let me note that a typical  
4 DC suburb has a higher population than our entire circulation area covering  
5 270,000 square miles.

6 My family has a farming background and has been involved in operating a  
7 family farm for five generations. I belong to, and participate in, several trade and  
8 business associations relating to the publishing and shopper industry, local  
9 business and mail advertising, including the Independent Free Papers of America,  
10 the Midwest Free Papers Association, the Alliance of Independent Store Owners  
11 and Professionals, and the Saturation Mail Coalition. We also belong and actively  
12 participate in the local business chambers operated by the Cities of Pierre, Rapid  
13 City, Winner, Chamberlain, Belle Fourche, and Mitchell.

14 My family also has had a longstanding relationship with the USPS. For 70  
15 years, and four generations, a member of our family has operated a star route for  
16 rural delivery.

#### PURPOSE OF TESTIMONY

17 I am testifying on behalf of the Saturation Mail Coalition, a group that  
18 includes numerous free paper publishers like me, because affordable rates for  
19 saturation mail advertising are absolutely essential to the survival of my business.  
20 I wholeheartedly endorse the USPS's recommendation to modestly reduce the  
21 pound rate charged for ECR mail over the break point. My testimony aims to:

- 22 1. Describe the importance of a mailed free paper to a rural community.
- 23 2. Explain why my paper, and the advertisers and consumers I serve,  
24 would benefit by the USPS's proposal to lower the pound rate. The  
25 USPS would also benefit by more sensible pricing that would help it  
26 increase its pound rate revenues.

**THE IMPORTANCE OF A MAILED FREE PAPER  
IN A RURAL COMMUNITY**

1           For the agrarian households that receive our paper, the *Farmer and Rancher*  
2 *Exchange* is the "buy-sell bible." Although we promote our publication as 100%  
3 advertising, to our readers it is essential business information to help them  
4 productively run their businesses and their lives.

5           The rural nature and consumer value of our publication is not unique within  
6 the saturation mail industry. There are many other saturation mailers that serve  
7 rural areas in the south, the midwest, and throughout the nation. All saturation mail  
8 programs provide valuable consumer information. However, I believe that this  
9 value is especially important in rural markets, because of the geography and  
10 demographics of rural areas. We do not serve affluent suburbs that have a vast  
11 array of nearby shopping opportunities. Many of the rural households that we and  
12 other saturation mailers serve live on tight budgets, and depend on the consumer  
13 values our publications offer to help make ends meet. For these households,  
14 shopping is not a spur-of-the-moment daily stop at the neighborhood store, but a  
15 well-planned weekly excursion to a distant store where every dollar saved is  
16 important.

17           As the number of family-owned farms has decreased, the market area for  
18 our consumers' shopping patterns and advertisers has become increasingly large.  
19 You will not find a Ford dealership or a combine service shop in every little town.  
20 Auto, equipment, and implement dealers may draw on a market area 400 miles  
21 away. Farm machinery and equipment dealers often offer a service radius of 200  
22 to 300 miles. Our advertisers and readers depend on the information we provide.  
23 Our paper's run of press (ROP) pages run from 32 to 64 pages.

24           The ROP pages of the paper include display ads, livestock advertisements,  
25 and classifieds that reach our entire circulation. For insert advertisers, we are able

1 to offer partial coverage that is defined by advertiser needs and postal delivery  
2 areas. Our advertisers are able to buy insert coverage by carrier route and can  
3 purchase insert distribution for as few as 200 pieces.

4 I believe our publication performs a valuable service for businesses and  
5 consumers in the five state rural area we serve. The *Farmer and Rancher*  
6 *Exchange*, together with the postal carriers, provide an essential information  
7 highway, or rural route web if you will, for this vast rural community.

8 By keeping postal rates for saturation distribution of our paper reasonable  
9 and stable over the past five years, the Postal Service and the Postal Rate  
10 Commission have helped our advertisers and readers. Our ability to expand  
11 circulation, thus allowing our advertisers to reach more households, is a direct  
12 result of reasonable distribution costs. How does this translate into value for our  
13 advertisers and consumers? Let me illustrate:

14 Most of our readers cannot run to the mall or the corner store for their  
15 shopping needs. Buying groceries, hardware, and other consumer goods can  
16 mean a lengthy road trip. Even before fuel prices were on the rise, our readers  
17 would study the specials found on the pages of our insert advertisers, like  
18 Menards, K-Mart, Country General, Wal-Mart, farmer cooperative stores and grain  
19 elevators, grocers, and general stores, in planning a buying trip.

20 A somewhat sad, but important component of our advertiser mix is the farm  
21 auction. Consolidations, estate, and going out of business sales regularly appear  
22 on our pages. Eager buyers shopping for the best deal think nothing of driving six  
23 to eight hours to attend a good farm auction. For the selling family, our ability to  
24 help them reach a large and interested audience brings them the best price  
25 possible for a sale that often represents the end of several lifetimes of farm labor.

26 We call our publication the "buy and sell bible" because buyers and sellers  
27 study it for pricing and market information. "What can I charge?" "What should I

1 pay?" Our paper helps agricultural buyers and sellers be efficient in the  
2 marketplace. In the past, we ran livestock and commodity price information at  
3 below cost prices as a public service to our advertisers and readers. (This  
4 information is like the NASDAQ of livestock and commodity markets.) Increases in  
5 postal rates, and the rates we must pay when we exceed the break point, have  
6 caused us to increase our charges for these ads. But this is still our lowest  
7 advertising rate and barely covers our printing and distribution costs.

8 Most of our *Farmer and Rancher Exchange* readers may also be  
9 advertisers. A rancher who wants to sell 10 bulls can reach potential customers in  
10 a five state area through a classified ad that costs only \$9.00 for up to 30 words.  
11 Without us, the same advertiser would need to be in seven to ten different  
12 publications to cover the same geographic area and, in the case of daily or weekly  
13 papers based in the major cities, the advertiser would have to pay for reaching  
14 households that are not potential buyers.

15 I know our paper is read and valued by consumers. Recently, our paper  
16 participated in an audit conducted by an independent audit company to verify our  
17 circulation delivery numbers and readership. The verified audit report concluded  
18 that our paper has 86% readership! This number is off the charts for both the free  
19 paper industry and subscription papers and periodicals.

#### **IMPACT OF POSTAL RATES**

20 The stable postal rates of the last five years have been beneficial to my  
21 business, our advertising customers, readers, and the USPS. These have been  
22 the years of the greatest circulation growth in our saturation mail base and growth  
23 in our requester circulation for distribution outside our saturation coverage area.  
24 This has brought additional revenue to the USPS.

1           After 20 years in this business, I can tell you what happens to free papers  
2 when there are unreasonable increases in postal rates. For papers in  
3 metropolitan and suburban areas, alternate delivery for all or part of the circulation  
4 is a viable option. In the 1980s, when postal rates for third class mail experienced  
5 big hikes, many free papers set up their own delivery force. In my years of  
6 attending trade association meetings, I have heard other publishers describe how  
7 they would follow the USPS letter carrier to design the best distribution routes.  
8 Publishers switching to alternate delivery would "cherry pick" their coverage areas.  
9 The first circulation switched from the mail to private carrier is the easy-to-deliver,  
10 dense urban areas. For areas that are not cost-effective to deliver, like spread out  
11 suburban or rural areas, papers might maintain this circulation with the USPS.  
12 Publishers who made the switch to private carrier would boast they were now  
13 better able to compete with newspapers for the delivery of insert advertising and  
14 that they could often pick up additional pieces and revenue from advertisers that  
15 were using the mail.

16           For rural publishers, switching to private carrier is not a choice. Unreason-  
17 able postal rate increases force us to cut back on our saturation circulation, reduce  
18 or charge for requester distribution, and do what we can to raise prices. This  
19 means our advertisers pay more and get less and households requesting free  
20 delivery of our paper must be refused. At best, we switch more of our circulation to  
21 racks located in stores or public buildings. It is a poor substitute, but it is what rural  
22 free papers must do in the face of unreasonable increases in postal costs.

23           Speaking from my own experience over the past 20 years, I can tell you how  
24 we responded to postal rate increases. In the 1980s when postal rates for third  
25 class mail increased steeply on two separate occasions, we were forced to steeply  
26 increase our advertising prices. Our circulation growth was stagnant. In response  
27 to one postal rate increase, we cut back on saturation distribution.



1           In 1995 when postal rates went up for us by approximately 14%, we had to  
2 change our policy on requester circulation. Prior to 1995, we would mail our paper  
3 for free to persons outside our circulation area. We now charge a subscription rate  
4 fee to readers outside our saturation mailing areas.

5           I ask that the Postal Rate Commission recommend rates for saturation flats  
6 that are no higher than the USPS proposed rates and I greatly urge the Postal Rate  
7 Commission to approve the requested reduction in the pound rate.

### **BENEFITS OF A LOWER, MORE REASONABLE POUND RATE**

8           I believe a modest decrease in the pound rate for ECR saturation mail would  
9 benefit mailers, our advertising customers and consumers, and the USPS.

10           I would estimate that all but six issues a year of our paper are at the pound  
11 rate. We have many insert advertisers including major chains and smaller regional  
12 or local stores that want to be distributed in our publication. With the high pound  
13 rate, papers that are routinely into the pound rate in urban areas may have to  
14 "celebrate" their success by switching all or part of their distribution from postal  
15 distribution to private carrier. As discussed above, our geographic market does not  
16 give us that choice. Although the USPS has kept our business, it has lost the  
17 business of other heavier shoppers and remains at risk that successful mailed  
18 free papers may become private carrier competitors as their paper size grows.  
19 Although we have remained with the USPS, the existing high pound rate has a  
20 detrimental impact on our advertisers and consumers.

21           We are the only weekly shared mail option for insert advertisers to reach  
22 farm and ranch households in parts of a five state area. However, these major  
23 advertisers are very sensitive to the weight-related prices we must charge. Our  
24 plant is constantly getting calls by advertisers wanting to change format, circulation  
25 coverage, reducing page count and size, and other inquiries all aimed at allowing

1 them to reduce the weight-related/distribution costs of inserting their ad into our  
2 paper. These same advertisers are also doing inserts into private carrier free  
3 papers or newspapers that have circulation in metropolitan areas, like Rapid City  
4 or Sioux Falls, that we do not cover. These advertisers do not have to pay such  
5 finely tuned weight-related advertising costs to distribute their inserts with  
6 nonpostal distributors. Some of our advertisers do not understand the difference  
7 between mail distribution and private carriers. We receive frequent complaints  
8 from advertisers asking why our insert rates are so much higher than the rates  
9 charged by newspapers or free papers that use their own carriers. I have to explain  
10 the weight-based postal rates I pay the Postal Service. The great differences in  
11 pricing between private carrier newspapers and free papers and shared mailers  
12 creates more work and headaches for our advertisers and our paper.

13 As a result of this, many of our advertisers do a different version of an insert  
14 ad for our mailed paper, that is shorter and lighter than they would do that same  
15 week, for circulation in papers delivered by private carriers in metropolitan areas.  
16 The high pound rate results in rural readers getting smaller and lighter flyers than  
17 their cousins in the cities, that provide less shopping information so vital to  
18 consumers in our rural market area. In addition to our readers getting less  
19 advertising information than the consumers in the city and suburban areas, this  
20 also puts us at a competitive disadvantage.

21 From a market standpoint, the USPS's charges for heavier pieces are out of  
22 kilter with the charges of private carrier companies, newspapers, and shoppers  
23 that use alternate distribution. I cannot speak to the USPS's internal costs for  
24 heavier pieces of mail. But I can tell you what my fellow publishers do officially, or  
25 in practice, when it comes to how they compensate their carriers and how they set  
26 prices with their big advertising customers. From a cost standpoint, many of my  
27 fellow publishers pay private carriers to do both the inserting and delivery of their

1 free paper. It is not uncommon for carriers to be paid one cent or less to both  
2 insert the piece and deliver it. The same penny is commonly paid regardless of the  
3 size or weight of the piece for anything from a single sheet up to 16 or even 32  
4 pages. Papers that distribute by private carrier do not need to concern themselves  
5 with paper stock, cut and size of the paper, or other issues about the insert that  
6 impact weight.

7 Private carrier newspapers and free papers are also free to set their  
8 advertising prices with little or no regard to weight. Although most prices are  
9 individually negotiated with the advertisers, with appropriate discounts for  
10 frequency and volume, my fellow publishers with private carriers usually set their  
11 prices (both on the rate card and individually negotiated "off the rate card" prices)  
12 based on the number of pages without regard to weight. For example, some  
13 private carrier shoppers that distribute in Iowa might charge \$40 per 1,000 for eight  
14 pages and \$50 per 1,000 for twenty-four pages. These are the rate card rates. An  
15 advertiser committing to high volume coverage and frequency could certainly  
16 negotiate for lower prices. Free papers that distribute by private carrier have price  
17 setting freedom that mailers do not enjoy. They do not face a last minute shuffle,  
18 as publishers do who distribute by mail, when the advertiser chooses a paper  
19 stock that is a little too heavy and is suddenly surprised to find its postal distribution  
20 costs are much higher than the inserting rates it is paying a shopper with a private  
21 carrier force or a newspaper.

22 Even under the USPS's proposed new pound rate, there will still be  
23 significant disparities in costs between what private carriers pay for delivery, the  
24 weight-insensitive rates they charge to advertisers, and the rates mailed  
25 publications will pay. But the modest reduction proposed by the USPS will help our  
26 advertisers.

1           A reduction in the pound rate will also be beneficial to consumers and the  
2 communities we serve. One of the problems with the present pound rate is that it  
3 makes every free paper publisher think twice before printing pages that take you  
4 from under the break point to over the break point. We can and must charge our  
5 insert advertisers for the costs associated with their pieces that require us to pay  
6 more postage. But when the weight costs are related to the pages in our paper, it  
7 always comes out of our pocket. The consequence of this dilemma is that  
8 publishers at or near the break point think twice about giving away "free" advertising  
9 space to charities, community events, and other local and social causes.

10           This has been the case for our publication. In the past, we printed  
11 commodity and livestock pricing information at greatly reduced prices. This was  
12 information of great value and interest to our readership. We now charge  
13 advertisers the lowest rates we can afford to print this information but it still costs  
14 them more. As a result of these charges, consumers get less information, and get  
15 it less often.

16           We are constantly approached by local charities, fund raisers, and  
17 community event sponsors for free promotional space in our paper. The rates I  
18 must pay for our paper when it is overweight have caused me to cut back on the  
19 amount of free space I give these events. We still run a number of such spots,  
20 particularly when they are unique to our community. For example, farming and  
21 ranching can be a dangerous business. Every year, we have helped with fund  
22 raisers for injured farmers to raise funds for their medical expenses and families. I  
23 would resume doing more for community events and charities if the pound rate for  
24 heavier pieces was reduced.

25           Speaking for other publishers in the industry that use the mail, I can attest  
26 that my experience is not unique. In addition to community events and charities,  
27 many other free paper publishers give away reader ads where consumers can run

1 up to something like 15 words for free to sell household items, place a pet for  
2 adoption, and other non-commercial purposes. Consumers love these "reader  
3 ads" and it helps a paper build its readership and extend its shelf life. But,  
4 needless to say, this free space is the first to be cut or reduced as a free paper  
5 gets big enough to start paying pound rate postage.

### CONCLUSION

6 Years ago, farm and ranch families were able to buy food and services  
7 locally. There no longer is a Main Street or "town" for the areas we serve. Most  
8 towns on our map have little more than a bar, a post office, and a few signs  
9 memorializing the public buildings that used to be there. Our readers need to look  
10 far and wide to find out about household and business goods and services. We  
11 provide essential information to shorten the search. I know what our paper means  
12 to our readers. In the years our family has handled delivery for a USPS star route,  
13 we have seen people standing by their mailbox waiting to get our paper. Our paper  
14 helps farm and ranch families, and the businesses in our community, exchange  
15 essential information. The modest reduction proposed in the rates we must pay  
16 for heavier pieces would help us get more information in the hands of our readers.

17 In order for publications like ours to continue to serve vast rural areas, postal  
18 rates must remain fair and competitive. The farmer and ranch families in the rural  
19 areas we serve want and need to receive the service we provide. The present high  
20 pound rate makes our task of linking advertisers and farm families together more  
21 difficult. I urge the Postal Rate Commission to approve a reduction in the current  
22 pound rate proposed by the USPS and to recommend rates for saturation flats that  
23 are no higher than the USPS proposed rate.

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