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POSTAL RATE COMMISSION
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BEFORE THE
POSTAL RATE COMMISSION
WASHINGTON, DC 20268-0001

AISOP-T-1

POSTAL RATE AND FEE CHANGES, 2000

Docket No. R2000-1

DIRECT TESTIMONY OF

RICHARD SMITH

ON BEHALF OF

THE ALLIANCE OF INDEPENDENT STORE OWNERS AND PROFESSIONALS

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May 22, 2000

DIRECT TESTIMONY OF RICHARD SMITH

INTRODUCTION AND BACKGROUND

My name is Richard Smith and I am the third generation owner of the Buttercup Dairy, a neighborhood full service grocery store in Terryville, Long Island. Our family business was started by my grandfather as a working dairy farm. As the neighborhood changed, we changed with it. As pastures gave way to development, we converted the old cow barn into a walk-in store offering basic convenient essentials. For the past 20 years, we have depended on advertising in a weekly mailed shopper to advertise our store and to survive in an increasingly competitive environment.

On behalf of my family business, and other small businesses, I want to make the following points for the record before the Postal Rate Commission:

1. Mail advertising is essential to the survival of small business. We cannot afford the mass media used by our big store competitors, with more locations and capital to cost-effectively buy newspaper ads or inserts or electronic media. Although free papers sent by saturation mail to our market area can help us survive, we are already paying more, and get less, than our big store competitors. Any increase in prices makes it harder for us to compete.
2. Our mail advertising is read and welcomed by consumers.

REASONABLY PRICED MAIL ADVERTISING IN LOCAL MAILED SHOPPERS HAS HELPED OUR STORE SURVIVE

My family business has lived, and adapted, through many changing times. I was born just as my grandfather gave up the last of the herd of cows to focus on the milk processing business and home delivery. Buttercup's walk-in dairy store was opened in 1975. When a fire destroyed our packaging plant in 1982, it was evident that rebuilding a local processing plant was not reasonable. We gave up the packaging business and wholesale milk routes to focus on the retail store. We said goodbye to the milkman and came to depend on the mailman.

When we gave up our processing plant, we gave up a competitive advantage. Our competition was also getting bigger and tougher and other locally owned grocers were bought out, or driven out, by big stores and chains. To survive, we had to change with the times and needs of the neighborhood. We added a full line of fresh baked products, a deli department, fresh produce, and a full line of groceries. We became, and are today, a convenient, economical everyday shopping store. People use us for everyday needs and frequent our supermarket competitors less often. Shoppers can buy name brand groceries and perishables quickly and competitively at our store without battling the eight turning lane traffic lights, olympic-sized parking lots, and football field aisles. Consumers like to walk in our store and be able to talk to the owner as they are picking out their apples or having their baloney sliced. Customers enjoy this. It is like watching the small town American dream in action.

But let's not be mistaken. Most of us enjoy seeing owners working, but try charging a higher price for the exact same item, and your business walks out the door. Few shoppers will continue to pay more for the same items.

We can, and do, compete against larger and fiercer competition. For the most part, we can meet or beat our competitors' prices. In 28 years, we have learned to drive hard bargains and stand up for our rights even if we are a single store independent. I've quoted the Robinson Pattman Act more times than I can count. We also have efficiencies and opportunities for savings that the big guys don't. We have less layers of administration. We work harder. Being an independent retailer is not a job, it's a way of life. You don't run your business, you live it. You either build your life around the business or you will fail. In a typical week where things run smoothly and there are no holidays, I work six days a week, 70 hours, and 51 weeks a year. My wife, Coleen, and our children have integrated their lives into our business.

We keep our margins low. We own our buildings and the land we work. Most of our competitors cannot claim that. The big companies lease and move as profit projections change.

We can certainly meet and beat the competition in service. We know our customers by name and follow through with personalized service.

The principal area where we cannot compete with the majors is in advertising. We are a single store in a very small demographic area. Although a customer who travels 20 miles for a holiday pie makes a great story, and is a boost to our ego, our everyday business comes within a two to three mile range.

For us, finding a way to cost-effectively advertise and compete with the big stores is our biggest competitive disadvantage. We can match their prices, beat their service, but we do not have their range of advertising choices and efficiencies. We have experimented with radio, cable television, and larger daily newspapers. But production costs are prohibitive and coverage is wasteful. Coupon mailings are effective, but generally are only available monthly or quarterly. Grocery shoppers, and grocery providers, need a weekly advertising program.

For the past 20 plus years, 80% to 90% of our advertising and promotion budget has gone into a mailed shopper. At the present time, we do not do any other advertising or media besides shopper ads. We place the same ads in two separate mailed shoppers that provide zoned coverage in our trade area. We do one or two zones of advertising a week, in each shopper, 52 weeks a year. Approximately 35,000 households receive our ads each week. We advertise the same way we do chores. Week in and week out, we run shopper ads. We run an average of a half page ad per week in two zones per paper. We may do larger ads, or more areas, if there is a holiday or special event.

The format of our ad is also predictable and consistent. Each week we announce four specials from our deli department, four from our produce department, and four general grocery

values. Our outdoor signage is also coordinated with our weekly ad so informed customers can drive by and check our weekly deals.

We consider ourselves lucky to be able to afford this consistent advertising. New businesses and start-ups could not make this type of commitment and might never get off the ground. I am grateful that the Postal Rate Commission and the United States Postal Service have kept postal rates for saturation mailers, like free papers, shoppers, and coupon mailers, reasonable and consistent over the past few years. This has helped us maintain the consistent coverage that our business needs, and consumers want. Unlike our competitors, we cannot just switch media when our prices go up. The last time our mailer experienced a sizeable rate hike was in 1995. Our prices went up more than we could afford. We continued to be weekly shopper advertisers, but it forced us to cut back on the number of zones we could do in each paper.

When you compare our advertising to that of our competitors, we spend more and get less. As a percentage of our gross operating profits, we are spending a little more than one percent a year on our advertising and promotion budget. For that expense, we get a half page ad, with two colors, in the mailed shoppers that are distributed to consumers in our trade areas. Although my competitors do not share their books with me, industry statistics would suggest they are paying one percent or less for their advertising. There are at least 50 Walbaum's groceries in Suffolk County, Long Island where my store is located. With Walbaum's advertising budget, it can do a 6 to 8 page ad that is inserted in the local paper, or delivered to homes through a newspaper delivery program, and buy extensive TV and radio spots. Their splashy ads can display hundreds of items compared to my 12 specials and they are able to do it in full color. On TV and radio, they are able to do it to music with professional talent.

Even with reasonable postal rates, we will never be able to compete with the advertising reach and variety of our big store competitors. But if we can get our message out, the careful consumer who is shopping for service, sales, and quality will give us a chance.

OUR ADS ARE GOOD FOR CONSUMERS AND THE COMMUNITY

I know consumers read and value our advertising. We offer a call-in service where customers with deli orders can avoid waiting in lines by calling in with one hour's notice. Our loyal shoppers look for the weekly ad and use it in an informational way. When they call and order in advance, they know the weekly sales and seasonal specials. Through our consistent advertising program, we have captured new customers and trained the old customers to use our services more effectively.

Consumers look for our ad to plan their shopping. I use the ad to let customers know of good deals I might get that the big stores miss. For example, I can get a call on Friday morning from a vendor with a deal on local strawberries. I can have this special appear in people's homes when the mail is delivered the following week. My chain store competitors, with a vice president of purchasing on each coast, cannot act this fast.

I know consumers plan their shopping based on our ad because of the response and inquiries we get when papers are not delivered. Years ago, one of the shoppers we use was bought by a new owner. There was a period of disruption and we put a hold on our advertising for a few weeks. We received numerous calls from our regular customers telling us they missed the ad and wanted to know when we would resume publishing. For shoppers not delivered or delivered late, our deli department gets callers asking for information on our weekly specials.

As a matter of public policy, I would ask the Postal Rate Commission to consider the needs of businesses like ours in keeping rates affordable for mailed free papers and their small business customers. If Commission members were to study the pages of the free papers I use, they would see that the vast majority of its advertising customers are all small, locally owned businesses like mine

or individual classifieds. These small businesses and consumers, like me, cannot cost-effectively use other media. Although family businesses like mine are declining in numbers, we still are important parts of our local community. In addition to our advertising, we promote our business by being good business citizens of our community. As working owners, we are very approachable for every cause, charity, or event in the neighborhood. We provide everything from money, food products, sponsorship, and sometimes just a safe place to sell raffle tickets to the schools, scouts, religious organizations, kids' sports teams, and charities in our community.

Each year we run an event called Zoo Day. This event was originated by us during tough economic times when we felt there was no place you could take a family for a couple of hours without spending a small fortune. We hired the petting zoo, asked our vendors to throw in snacks and drinks and raffle prizes, and created a day where people could come with the family and not have to open their wallets. Our local shopper has given us free advertising space to promote this event. In the past, we worked with one of the shoppers we used to co-sponsor an annual breakfast for the homeless.

Although we have many loyal customers and consumers who actively watch for our ads, we need to keep our name, and the values we offer, in front of the customers in our community on a weekly basis. I get a kick out of the old timers who come in my store and tell me how they knew my grandfather and remember when I would stand on an upside down milk case to reach the register and help make change. (Incidentally, I learned to count by helping my grandfather roll coins from the old milk machines.) But the community old timers are getting fewer and fewer. Most people move every five to seven years. When people move into the condos next door that were built on our old pastures, they are not sentimental about the Buttercup Dairy heritage. We have to attract their attention and fight for their business. We need a way to constantly and effectively advertise to an ever changing population.

CONCLUSION

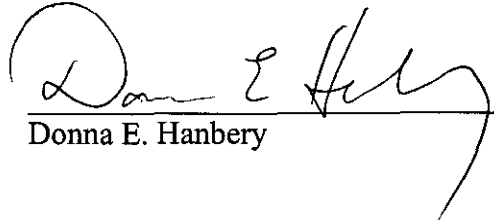
Small businesses like mine can compete with our big store competitors and chains in terms of the prices we charge and service. Our biggest competitive disadvantage in competing with the majors is our choices of advertising media, and the costs we must pay to reach consumers in our market area.

Advertising mail can be a lifeline for businesses like mine. Mailed free papers and coupon programs can help us target the customers in our market area without wasted coverage. I believe we are already paying more, as a percentage of our gross sales or operating profits, to do our weekly advertising. When our costs go up, it is harder for us to absorb price increases. If cost increases are great, we cannot switch media but must cut back. This hurts our business and our customers.

Reasonable rates for saturation advertising mail can help small businesses like mine stay in business and compete. Thank you for considering the needs of businesses like mine in considering the postal rates for saturation mail advertising.

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.



Donna E. Hanbery

May 22, 2000