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POSTAL RATE COMMISSION
OFFICE OF THE SECRETARY

BEFORE THE
POSTAL RATE COMMISSION
WASHINGTON, DC 20268-0001

POSTAL RATE AND FEE CHANGES, 2000

Docket No. R2000-1

DIRECT TESTIMONY OF

ORLANDO BARO

ON BEHALF OF

THE ALLIANCE OF INDEPENDENT STORE OWNERS AND PROFESSIONALS

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May 22, 2000

DIRECT TESTIMONY OF ORLANDO BARO

PERSONAL BACKGROUND

My name is Orlando Baro and I am the Director of Sales for *The Flyer*, a free paper publication in South Florida, and one of the Harte-Hanks shoppers. I have worked in the free paper industry since 1982, both for *The Flyer* in Miami and for *The Tampa Flyer*, an independently owned publication that I watched grow from a start-up to a weekly mailed circulation of over 750,000.

My family came to the United States when I was three years old from Havana, Cuba. My parents were well educated with degrees in business. My father was the Senior Vice President for the Bank of Havana. My parents did not speak English. Before we left, everything we owned was taken. My mother's wedding rings were removed. We arrived with only the clothes on our back. But like many recent immigrants to this country, and many of the advertising customers I serve, my family had a work ethic and a drive to succeed that helped us overcome the lack of assets or English.

I grew up poor in a family that worked very hard. My mother and father each worked two separate jobs for most of my young life. Years later, my parents were able to resume careers that reflected their education and abilities.

I have spent the last 18 years of my life helping small businesses get in business, stay in business, and grow through cost-effective advertising in a shopper sent by saturation mail. I passionately believe that free papers and reasonably priced postal rates are essential to the success and survival of America's smallest, and in many cases newest, businesses.

I began working in retail while I was still in school. I started at *The Miami Flyer* in 1982 as a sales representative. I left Miami in 1989 to become the Director of Sales for a new paper in Tampa. My responsibilities over the years included all aspects of operations but with a primary focus in sales, recruiting, and training. In 1999, I returned to my original United States home taking the Director of Sales position at *The Miami Flyer*.

The Miami Flyer has a weekly saturation mail circulation of 1,175,000. There are 97 separate zones with a different version of our paper in each zone. I supervise 50 persons in outside sales. The customers we seek and serve are the local merchants that typically buy a single ad going to a single zone of approximately 12,000 homes.

Through my employment at *The Flyer*, we have belonged to and I have participated in trade associations including Association of Free Community Papers, Independent Free Papers of America, Southeastern Advertising Publishers Association, the Alliance of Independent Store Owners and Professionals, the Saturation Mailers Coalition, National Federation of Independent Business (NFIB), and various Chambers of Commerce including Tampa, South Tampa, Brandon, Miami, and Coral Gables.

PURPOSE AND SCOPE OF TESTIMONY

I am testifying for the Alliance of Independent Store Owners and Professionals (AISOP) because I welcome the opportunity to tell the Postal Rate Commission how important it is to maintain reasonable rates for Standard A Enhanced Carrier Route (ECR) mail, the kind of mail used by hundreds of free papers in this country, like *The Flyer*. The purposes of my testimony are to:

1. Describe the importance of advertising mail, and the services provided by saturation mailers like free papers, to the small business retailer, service provider, professional, and home-based business.
2. Show the price sensitivity of saturation mail. This section will show the different ways small and large customers respond to price increases and how small businesses are more dependent on the mail while larger concerns have other media choices.
3. To show how consumers value our paper.

HOW FREE PAPERS SERVE CUSTOMERS

Free papers provide geographically targeted advertising services to local merchants. Although the circulation of *The Miami Flyer* is large, our paper is divided into zones that are designed by shopping and traffic patterns with an average circulation of approximately 12,000 homes per zone. The heart, soul, and bulk of our business is the neighborhood “mom and pop” business. Approximately 75% of our business comes from customers with only one or two stores. We depend on them and they depend on us.

Free papers work by providing every household in a community with a predictable source of shopping and advertising information from local businesses. A shopper works best when it offers consumers a mix of advertising news and values from small, medium, and large businesses.

Our core customers are small businesses that need the targeting ability that a shared mail shopper provides to focus their limited advertising dollars on the households in their trade area--the ones more likely to patronize their businesses. It is this targeting ability that makes our mailed free paper cost-effective for small business.

But being cost-effective does not mean that our mail advertising is cheap. When calculated on a cost per thousand basis, advertising by mail is a premium priced mass media advertising method. For chain stores or franchises with multiple locations, everyone in the metropolitan area is a potential customer. Because of postal rates, the most cost-effective mass media ad program for big stores is usually the media mix that combines TV, radio, and newspapers.

Medium and larger advertisers may continue to use our paper in their most productive zones, for new store openings, and seasonal or special sales. But they also use other, less expensive media. For national retailers and chain stores, our costs are too high to even be in the running as a mass media choice. You will not find K-Mart, Wal-Mart, or national grocers in our paper.

We cater to the needs of the small business advertiser. For us to succeed in winning their business, and to hold onto some of our medium and large customers, we need to do more than just sell advertising space and distribution services.

We succeed by offering service and solutions. For *The Flyer* and our customers to succeed, we need to become our customer's advertising partner.

As a trainer, and a salesman, I can speak for the entire sales organization of both *The Tampa Flyer* and *The Miami Flyer*. We take a consultative, relationship building approach to sales. The first time we call on a customer, we do not try to sell an ad. We go in and ask about their business. What do you do? What do you sell? What are your goals in the future?

Most small business owners are experts on their products and their services. It is rare that a local merchant has any expertise in marketing.

With a new customer, our typical advertising sale does not occur until the third or fourth call. We invest time in the first one to three visits learning about the business. Who are their customers? How far do they drive? Where do they come from? Who is their competition? I teach our sales force to put themselves in the advertiser's shoes. We do not ask for an opportunity to do a presentation to a potential customer until we think we can design a good offer that will produce sufficient sales to cover their investment in advertising so that they will want to do business with us again and again.

The Flyer and our sales force serve as the marketing department for thousands of local businesses. We help our customers define their existing and potential customer base, design an offer that will draw those customers, create and print the ad. Just as we are our customers' partner in marketing, we strive to partner with the Postal Service in operations, preparation, and drop shipment of the mail so that we, and our customers, can earn the lowest possible postal rates.

Our consultative approach to selling includes services to show the merchant how to integrate our print advertising with other promotional efforts. Suggestions as basic as showing the merchant how to move an item featured in their ad from the back of the store to the front with a large display can help produce sales. We teach our advertisers how to get the most bang from their limited ad bucks. Running a special in *The Flyer*? We help them design a placard that displays their *Flyer* ad in their front store window to help draw walk-in customers. Opening a new store and doing an insert? We do overrun printing that the advertiser can place on the store's counter, place on cars in a mall parking lot, and mail to their regular customers.

We do a lot for our customers. We need to, to keep their business and their loyalty. Miami is a large and dense metropolitan market. Our small business customers depend more on cost-effective advertising mail than big business to stay in touch with consumers. We and other saturation mailers are all dependent on the Postal Service keeping its basic saturation rate affordable so that we can help small business get in touch and stay in touch with their customers.

PRICE SENSITIVITY OF SATURATION MAIL

In 18 years of dealing with advertisers, I have had ample opportunity to see how the market responds when prices go up. Small and large customers react differently when prices change. Significant price increases hurt small businesses the most. They simply do not have more advertising dollars to spend and are forced to cut back or eliminate their advertising. This hurts their business.

Our large customers have more media choices. When postal rates go up, we hear about the attractive deals they are offered by our nonpostal competitors. This is when we are most vulnerable to lose the medium to large customers that are also important to our paper. Because our distribution costs are based on postal rates and weight, we cannot cut prices and offer special deal to our biggest customers. As businesses grow and have the capital and multiple geographic locations for mass

media advertising, they are likely to pull more of their advertising budget out of the mail and into cheaper forms of distribution.

It is hard to tell a small business customer about a price increase. In most cases, our small business customers are already paying a higher percentage of their revenues to advertise than their big business competitors. For home-based businesses, service personnel, and tradesmen, advertising may be the single highest expense next to the business owner's "salary" or draw. Every increase in our ad rates comes right out of their pockets. For a retail location with only one or two stores, advertising may be the owner's second or third highest cost. It is not atypical for a retailer to pay as much for advertising as for rent. If a price increase is modest, we may succeed in persuading customers to continue their existing ad programs.

In prior years, when we saw double digit postal increases, we were forced to pass on our higher costs to our customers. Our small business customers simply refused to pay the higher prices. They did not have the money. Many of the start-up and home-based businesses (who were already buying our smallest one or two line commercial classified ads) dropped out of our paper. The majority of our other small business advertisers responded by telling their sales rep to "reduce the size of my ad." Their advertising budgets stayed the same in spite of our price increases. Our salespeople were directed to reduce the size or frequency of the ad program to stay within the small business budget.

For the medium to large size advertisers in our paper, they have more choices when postal rates go up. They will bargain hard to get the best deal they can from us, but they will also shop other media choices. Although *The Miami Flyer* is a big Postal Service customer, we do not get any discounts for volume or frequency. In other media, the bigger you are the more you save. Big stores have the power to bargain for and receive volume discounts in their printing, distribution, and frequency costs. Big stores can afford the production costs associated with electronic media and can

design a media mix that combines electronic and print media to reach all or most of their customers at the lowest combined costs.

I can best illustrate the price sensitivity of saturation mail advertising with a *Flyer* success story. When I first started at *The Flyer*, one of my customers was Martino Tire. Martino Tire is an auto repair store and Goodyear dealer. It was started by two Haitian immigrants, Andy and Sal Martino. When I started on their account, they had two locations. They could not afford newspaper distribution as it would cost too much and reach people that were outside their stores' trade areas. With *The Flyer's* targeted, zoned coverage, we were able to help them make a big impression at a price they could afford.

In the initial years of Martino Tire's business, *The Flyer* had their entire advertising budget. The Martino brothers worked hard and built the business. When a new store would open, we would help them design a promotion to have a big impact in their new neighborhood. They would buy a full page ad and would often buy the cover page. With our cover pages, and with other selected pages in the paper, we offer color. We can help small and modest size businesses look like big fish in their neighborhood pond.

Today, Martino Tire is the biggest Goodyear distributor in the State of Florida. They have 15 locations. Although the Martino brothers attribute much of their success to *The Flyer*, the bulk of their print advertising budget is now in the daily newspapers. As a big business, they no longer need to pay the higher prices per thousand of circulation for targeted distribution by mail. The basic insert price per thousand is cheaper in the daily newspaper for big volume customers than we can make available to our customers. Because newspapers do not price based on weight, the Martino brothers can design bigger, multi-page circulars, featuring more products and services, with newspaper inserts than we must charge for a run of press page, or an insert, in *The Flyer*.

The success of a free paper, and that of our advertising customers, depends on a mix of individual advertisers, small businesses, and medium to large businesses. Unreasonable price increases make us, and in turn the Postal Service, vulnerable to losing our larger customers to other media. This hurts postal revenues, mailers like *The Flyer*, and is the hardest on our smallest advertisers who have no other media choice. I hope the Commission's recommendation for saturation rates are no higher than the increase requested by the Postal Service. I also support the requested reduction in the pound rate as it would help us be more competitive in retaining our medium to large advertisers.

CONSUMERS LIKE AND VALUE FREE PAPERS

The Flyer works for our advertisers, because it is liked, read, and welcomed by consumers who watch for our weekly paper in their home mailbox. What do we do that consumers like? Let me give some examples as well as excerpts from readers' letters:

1. We are free. Readers do not have to pay anything to get shopping information from stores and individuals near their homes. The daily newspaper in our community, *The Miami Herald*, just raised its prices to \$1.25. Although subscription rates may be cheaper, many of our readers live in demographic areas where every dollar counts. Low income households, single parents, and seniors need to stretch their dollars and shop for savings. They cannot afford subscription papers or magazines. With *The Flyer*, they do not have to spend money to save money.

2. We are a neighborhood publication that reflects the diversity of each community. The shoppers in the affluent Coconut Grove area have different needs and tastes than consumers in the more blue-collar Opa Locka area. Readers in Coconut Grove may be looking for a pool cleaner. Opa Locka readers may be more interested in the help wanted ads. Our papers reflect the needs and tastes of each unique neighborhood. Many of our papers are bilingual and we offer discounts to advertisers who want to run an ad in both English and an additional language.

3. Our publication helps consumers save time and money and is convenient to carry. In the words of one of our readers, "Your magazine is free, direct delivery to our homes, small enough to handle in the house as well as to take with you in our purse. Busy working mothers like I am do not have the time to stop, pay and pick up the unmanageable newspaper when you have tired kids in the car. I am glad our city has *The Flyer* which offers a valuable service in both Dade and Brower Counties to our daily trade/buying/selling needs. We are a struggling busy society and your magazine makes a continued effort to keep us buying/selling direct, we all save, we all gain."

4. As the testimonial above illustrates, many of our customers are both advertisers and readers. Our classified pages serve as an affordable flea market bazaar for new and used consumer goods, autos, and services.

5. *The Miami Flyer*, like most free papers, contributes free space for community events and readers. We run ads from our readers for free where consumers can announce a garage sale, give away kittens, or sell a dusty treadmill. We regularly sponsor and provide space to local community theaters and nonprofits. Recently, we partnered to raise money for MS by promoting the Break Away to Key Largo bike tour.

6. *The Flyer* is the consumer's best source for information on home repair and improvement services. Do you want to hurricane proof your windows? Stubborn weeds in your yard? Want an estimate to fix your air conditioner before you just give up and buy a new one at some big box appliance store? *The Flyer* provides answers and solutions for these common consumer questions.

Most consumers like, in principle, to spend their money at locally owned stores to keep their dollars working in our communities to pay for local taxes, services and schools, preserve jobs, and promote diversity. Given the choice, many would like to give the little guy a chance and would patronize the locally owned merchant rather than the national chain. But even the most community

conscious consumer does not want to pay more or get less. Consumers want to make informed choices and they turn to advertising information to plan how to spend their money. The big stores will always be able to dominate the traditional mass media markets of T.V., radio, daily newspapers, and magazines. Our locally targeted *Flyer* helps readers comparison shop between local businesses and the big guys. Given the opportunity to have their goods and services compared to their big store competitors, our advertisers can compete and can give consumers both value conscious and community conscious choices.

CONCLUSION

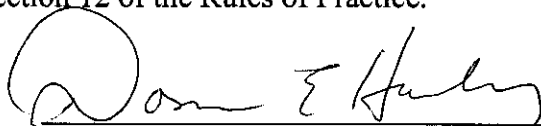
For my family, Florida was the new world. A land of challenges and opportunities where we started our lives over again. The State of Florida, and many other parts of this nation, have experienced an influx of new immigrants who are living the American dream of starting and building their own businesses.

The *Flyer* papers in Miami and Tampa have succeeded and grown by nurturing and serving these new and emerging businesses. Affordable postal rates help free papers, as well as coupon envelope and other shared mailers, serve as the needed marketing department for America's smallest retailers, service providers, professionals, tradespersons, and home-based businesses. Our services, combined with reasonable postal rates, can help level the playing field between big business and small business when it comes to contacting consumers with a cost-effective advertising program.

I appreciate the opportunity to address the decision makers who will be setting the postal rates that are so important to *The Flyer* and our customers. I respectfully ask that you consider the importance of affordable saturation mail advertising to small business in your decision in this case.

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.

A handwritten signature in cursive script, appearing to read "Donna E. Hanbery", is written over a horizontal line.

Donna E. Hanbery

May 22, 2000