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POSTAL RATE COMMISSION
OFFICE OF THE SECRETARY

TESTIMONY OF

LOUIS J. MILANI

ON BEHALF OF

ALLIANCE OF NONPROFIT MAILERS,

AMERICAN BUSINESS MEDIA,

AND MAGAZINE PUBLISHERS OF AMERICA

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May 22, 2000

1 My name is Louis J. Milani. I am Senior Director—Business
2 Affairs and Strategic Marketing, Consumers Union, with offices at 101
3 Truman Avenue, Yonkers, NY 10703-1057. 914-378-2220. My duties
4 include responsibility for operating expenses such as paper, printing and
5 distribution of Consumers Union publications. I joined Consumers Union
6 45 years ago, and have held my present position for over 20 years.

7 Consumers Union is a member of the Alliance of Nonprofit
8 Mailers (“ANM”), the Direct Marketing Association (“DMA”), and the
9 Magazine Publishers of America (“MPA”). On behalf of Consumers Union,
10 I serve on the board of directors of ANM, and on MPA’s Postal Committee.
11 This testimony, submitted on behalf of ANM, MPA and American Business
12 Media, describes how the rate increases proposed by the Postal Service
13 in Docket No. R2000-1 for nonprofit periodicals mail will affect Consumers
14 Union.

15 Consumers Union is an independent nonprofit testing and
16 consumer protection organization. Since 1936, we have been a compre-
17 hensive source for unbiased reporting about products and services,
18 personal finance, health and nutrition, and other consumer concerns. We
19 are tax exempt as an educational organization under Section 501(c)(3) of
20 the Internal Revenue Code, and we have been authorized to use nonprofit
21 postal rates for many years.

22 Consumers Union tests products in 50 state-of-the-art labs
23 at our 24-acre national testing and research center in Yonkers, New York.
24 Our product ratings are based on lab tests, controlled use tests, and
25 expert judgment by our technical and research staff. To determine the
26 longer-term reliability of consumer products, we also conduct an annual

1 survey of our subscribers. The survey, with over 500,000 responses each
2 year, has one of the largest respondent bases of any survey in the United
3 States after the Census. The survey yields data on the reliability of
4 hundreds of auto models, and of products such as appliances and elec-
5 tronic gear. Reader survey data also help us to report on other consumer
6 services.

7 To preserve our objectivity, Consumers Union accepts no
8 advertising in our publications from third parties. We buy our tested
9 products off the shelf, and we accept no free samples. We do not let any
10 company use our reports or ratings for commercial purposes, and we do
11 not provide our subscriber list to other entities through sale or rental.

12 Consumers Union fulfills its educational mission through a
13 variety of media. Our flagship publication is *Consumer Reports*, which
14 appears 13 times yearly. With over 4 million paid subscribers, *Consumer*
15 *Reports* is one of the ten largest circulating magazines in the United
16 States. Other Consumers Union periodicals are *Zillions* (a bimonthly
17 consumer education periodical for children), and two monthly newsletters,
18 *Consumer Reports on Health* and *Consumer Reports Travel Letter*.

19 Consumers Union also disseminates information by
20 publishing books and monographs. Titles currently in print include *Best*
21 *Buys for Your Home 2000*, *Best Travel Deals 2000*, *Complete Drug*
22 *Reference 2000*, *Guide to Baby Products*, *Home Computer Buying Guide*,
23 *House and Home Buying Guide 2000*, *How to Plan for a Secure Retire-*
24 *ment*, *Money Book*, *New Car Preview 2000*, *1999 New Car Buying Guide*,
25 *Sport Utility Special 2000*, and *Used Car Buying Guide 2000*. Consumers
26 Union also publishes special reports on public policy issues affecting

1 consumers. Several dozen titles are currently in print. See
2 <http://www.consumersunion.org/resources/publications.htm> (listing titles).

3 Consumers Union also publishes *Consumer Reports Online*
4 (www.consumerreports.org). With 421,000 paid subscribers, this is the
5 largest paid subscription magazine on the World Wide Web. As the costs
6 of magazine production increase, we will continue to market aggressively
7 the online edition.

8 Consumers Union is a major customer of the Postal Service.
9 We pay postage on approximately 200 million pieces of mail per year:
10 roughly 70 million pieces of Periodical mail, 120 million pieces of Standard
11 A mail, and ten million pieces of First Class mail. After salaries, postage
12 is our largest expense, representing about \$30 million of our \$147 million
13 annual budget. On average, each one-penny increase in postal rates
14 increases our expenses by about \$2 million.

15 Consumers Union has performed increasing amounts of
16 worksharing in recent years. We presort *Consumer Reports* to the highest
17 possible level: 80-85% is presorted by carrier route; the remainder is bar-
18 coded and presorted to maximum extent possible. To minimize bundle
19 breakage, we palletize *Consumer Reports* as well. We barcode and truck
20 our Standard A mail for entry at multiple destinations. (We do not truck
21 our periodicals for entry at multiple destinations: the destination entry
22 discounts for publications with less than ten percent advertising matter are
23 too low to cover the trucking costs.)

24 Despite the size and sophistication of our mailing operations,
25 our postage expenses have continually outpaced inflation in recent years.
26 Rate increases for nonprofit periodicals mail have been especially trouble-

1 some.

2 Docket No. R97-1 increased the cost of nonprofit postage for
3 our periodical publications by ten percent. For nonprofit publications with
4 little or no advertising, the resulting rates were higher than even the corre-
5 sponding *commercial* periodical rates. Our nonprofit educational publica-
6 tions, which accept no paid advertising and rely solely on subscriptions
7 and donations for funding, began paying higher rates than for-profit publi-
8 cations with a high percentage of advertising content.

9 Confronted with this anomaly, the Postal Service and the
10 Commission agreed in Docket No. MC99-3 to allow nonprofit periodicals
11 to pay the lower of commercial or nonprofit rates. While this relief was
12 welcome, it still failed to restore any nonprofit rate differential for nonprofit
13 publications with little or no advertising. Since MC99-3 took effect,
14 Consumers Union has entered most of our periodical mail at commercial
15 rates.

16 In tandem with the present case, the Postal Service has tried
17 to rectify this anomaly by proposing legislation that would restore a rate
18 preference of five percent for the nonprofit periodical subclass. Consum-
19 ers Union and the three sponsors of this testimony strongly support this
20 legislation. A discount of five percent does not provide the same rate
21 reduction for nonprofit mail that prevailed when the Revenue Forgone
22 Reform Act was enacted in 1993, however. Furthermore, the nonprofit
23 periodical rates proposed by the Postal Service, which assume the
24 enactment of this legislative reform, would still produce an 11.5 percent
25 increase in the annual postage bill paid by Consumers Union for its
26 nonprofit publications. While this increase would be less than the

1 increases of 15 percent or more facing the average commercial periodical,
2 it is still higher than the rate of inflation since Docket No. R97-1.

3 If the legislation fails to pass in time, the result would be
4 even worse. CU could be forced to reduce its product testing, consumer
5 education and advocacy. Some projects may be cut in scope, with fewer
6 products tested. Other products may be scrapped entirely.

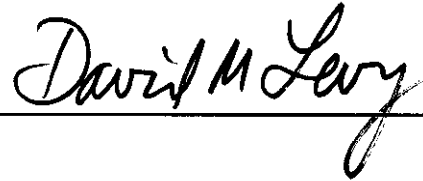
7 For these reasons, I support the legislation proposed by the
8 Postal Service, with the support of nonprofit and commercial mailers, to
9 cap nonprofit rates at levels below commercial rates. But I also ask the
10 Commission to take the following steps.

11 First, carefully scrutinize the costs that the Postal Service is
12 proposing to attribute to periodicals and Standard (A) mail, and hold the
13 Postal Service to its burden of showing that the proposed cost increases
14 are a realistic likelihood.

15 Second, in setting the coverage ratio over attributable costs
16 for periodical mail as a whole, I respectfully ask the Commission to recog-
17 nize the educational value of periodicals publications. Periodicals still
18 remain one of our society's most important information highways for edu-
19 cational, scientific and cultural matter. But periodicals will continue to play
20 this vital role only if publishers can afford to publish them, and potential
21 readers can afford to read them.

CERTIFICATE OF SERVICE

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



May 22, 2000