

**BEFORE THE  
POSTAL RATE COMMISSION  
WASHINGTON, D.C. 20268-0001**

**NNA-T-1**

**Postal Rate and Fee Changes**

**Docket No. R2000-1**

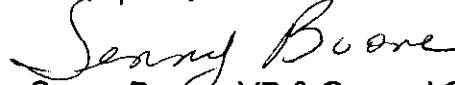
POSTAL RATE COMMISSION  
OFFICE OF THE SECRETARY

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**Direct Testimony of Max Heath  
On Behalf of the National Newspaper Association  
(NNA-T-1)**

Respectfully Submitted,



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## AUTOBIOGRAPHICAL SKETCH

1           My name is Max Heath. I am vice president/executive editor for Landmark  
2   Community Newspapers, Inc. (LCNI), Shelbyville, KY, a division of Landmark  
3   Communications, Norfolk, VA. I am responsible for editorial and circulation  
4   development and postal issues. I am also involved with recruitment, public  
5   relations and press association activities. LCNI has 48 paid weekly and daily  
6   newspapers in 12 states with a total of 278,000 paid circulation, 465,000 free  
7   newspaper and shopper circulation and 30,000 free specialty publication  
8   circulation. We have recently also acquired a group of collegiate sports  
9   publications operating in six states with 88,000 circulation.

10           I also am chairman of the National Newspaper Association (NNA) Postal  
11   Committee and have served in that capacity for 12 years. I am its representative  
12   on the Mailers Technical Advisory Committee (MTAC) and, in that role, have  
13   served on a variety of service improvement and cost reduction teams within  
14   MTAC, focusing upon the Postal Service's ongoing problems in meeting the  
15   needs of periodical mailers. I testified before the Commission in R97-1 for NNA.

16           I am the community newspaper industry's principal trainer on the use of  
17   postal services and understanding mail preparation and requirements. I conduct  
18   approximately 10 seminars and workshops each year within the industry and  
19   serve informally as a consultant to NNA members and others with postal  
20   problems.

**DIRECT TESTIMONY  
OF  
MAX HEATH**

**1 I. PURPOSE AND SCOPE**

2 My testimony has three purposes:

3 1. I will explain NNA's ongoing concern about the accuracy of Revenue,  
4 Piece and Weight reports with respect to in-county mail volumes.

5

6 2. I hope to add to the Commission's understanding of community  
7 newspapers' use of exceptional dispatch. With NNA witness Elliott, I will provide  
8 the information needed for the Commission to recommend extending the DDU  
9 entry discount to these small volumes of critical mail. I will explain why changes  
10 made to assist exceptional dispatch mailers in R97-1 have not been adequate to  
11 meet the need. In relation to the need for the Exceptional Dispatch discount, I will  
12 discuss the mail processing practices of the Postal Service with relation to  
13 newspaper mail.

14

15 3. I will generally discuss the impact of the Postal Service's proposed  
16 rates upon newspapers, particularly in light of continued service problems.

2     **II.     The Accuracy Of The Volume Figures Produced In FY 98 And FY99**  
3     **Must Be Treated Skeptically By The Commission.**

4             In R97-1, I presented NNA's concerns with the accuracy of the Revenue,  
5     Piece, and Weight Report with respect to In-County volumes. As we regarded a  
6     period of 10 years in which the piece totals of our subclass appeared to decline  
7     from 1.738 billion in 1986 to 877 million, in 1996, we were concerned.

8             The Commission recognized our problem by adjusting the reported RPW  
9     volumes for in-county mail and urged the Postal Service to work with us to  
10    resolve our questions.

11            I have been part of two meetings with the Postal Service's RPW staff  
12    since R97-1. We have asked questions about the methodology of compiling the  
13    volume totals; particularly focusing upon the rural post offices where we believe  
14    much of our members' mail is entered. We offered our views that weekly  
15    newspaper circulation is increasing and that the eligible mail for the in-county  
16    mailstream also should be growing.

17            It is unclear to me whether our meetings have resulted in any  
18    improvements in the RPW system. However, they did result in a demand by the  
19    Postal Service for NNA to present counter trends or other information to prove  
20    the use of in-county mail is not in decline, essentially shifting the burden of proof  
21    to us.

22            Creating statistically-valid studies on a matter as sweeping as nationwide  
23    mail practices is a costly enterprise for a small association like NNA, but I  
24    persuaded our board of directors in 1998 to undertake just such a study. We

2 conducted a fund-raising campaign to gather enough resources to perform the  
3 study. Project Performance Corporation was retained to carry out the study, in  
4 which we looked at mailing data from a wide sample of newspapers, both weekly  
5 and daily, NNA members and non-members, to see whether their use of in-  
6 county appeared to be increasing or decreasing.

7         Gathering the data from busy publishers who are inundated with survey  
8 requests on a daily basis (including many who are not NNA members) proved to  
9 be as great a challenge as we feared it might. But, because of widespread  
10 industry concern about the trends in newspaper mail, high rates, and declining  
11 service, we got a better response than we expected.

12         Witness Elliott of Project Performance Corporation appears in this case as  
13 an NNA witness to attest to the results, which indicate that newspaper mail has  
14 grown over a time when the Postal Service shows major volume declines in in-  
15 county mail. From our results, it appears that newspaper mail may constitute half  
16 of the in-county mailstream.

17         I am not a statistician. Nor am I knowledgeable about all types of  
18 publications that may use in-county mail. But I have been involved in NNA's  
19 postal affairs since 1986. During that time, I have never seen another organized  
20 group appearing to defend in-county mail, nor have I encountered any other type  
21 of publication group that claims to be heavy users of the mail. I believe that if  
22 there were another industry group with a strong usage pattern in this subclass,  
23 another voice would have been heard in all of these years. Therefore, I think it is  
24

2 reasonable to assume that newspapers, and in particular, weekly newspapers,  
3 drive this mail subclass. For our volumes to have grown while the subclass total  
4 was dramatically declining, other publications would have had to have been  
5 abandoning the mailstream at a rapid clip. Nothing I know of Periodical trends  
6 explains a decline of this magnitude.

7       It is surprising to me that the Postal Service has taken so little interest in  
8 determining the reasons for this decline. As its inattention to the mail processing  
9 needs of newspapers becomes increasingly obvious to me, I wonder whether the  
10 Postal Service believes that carrying this mail—its longest-standing commercial  
11 product—is no longer critical to universal service.

12       I remain skeptical about the accuracy of RPW. I understand from  
13 testimony in this case that only 25 post offices out of more than 26,000 non-  
14 automated offices are asked to submit volume data, which must then be “blown  
15 up” to produce totals. To a non-statistician like myself, 25 out of 26,000 looks  
16 pretty anemic. I also understand the panel of post offices used to produce the  
17 base year is infrequently refreshed, making it difficult to capture volumes that  
18 may have appeared in the mid-term years.

19       I believe there remains substantial reason to question the manner in which  
20 rural post office data is collected. Since our data show the opposite trend, I am  
21 recommending that the Commission adjust the volume data for within county to  
22 the highest supportable number. Furthermore, I believe the questions about  
23 RPW must be resolved and I urge the Commission to insist upon improvements  
24 in the RPW data collection system.



### **III. NNA Proposes Extending the DDU Discount Rate to Exceptional**

#### **2 Dispatch Mail, with Appropriate Limitations**

3           In R97-1, NNA asked the Commission to recommend a discount  
4   equivalent to the DDU rate for periodicals volumes utilizing exceptional dispatch.  
5   In this case, I am renewing my request, suggesting some limitations that may  
6   resolve misgivings about this proposal, and offering additional information that  
7   may help the Commission to evaluate the need for this discount.

8           The Commission heard testimony in R97-1 from me and from Patsy  
9   Speights, publisher of the Prentiss (MS) Headlight. We explained that current  
10   exceptional dispatch mail was being carried by mailers at their own expense,  
11   without compensation through a discount for bypassed transportation and mail  
12   processing functions.

13          The Commission did not recommend the discount, but urged the Postal  
14   Service to work with NNA to improve options for Plant Verified Drop Shopping  
15   (PVDS). It also agreed to the Postal Service's request to lower the additional  
16   entry fee from \$85 to \$50, to assist community newspapers in overcoming entry  
17   barriers to achieving DDU discounts.

18          In this case, I offer further information to explain how exceptional dispatch  
19   works today and why the prescriptions suggested in R97-1 have not achieved the  
20   improvements the Commission may have hoped for. I explain why exceptional  
21   dispatch provides both the mailers and the Postal Service with important  
22   protections and why a DDU discount would add no new costs to the system, but  
23   would also open no new risks for the Postal Service. I further explain that in  
24   today's periodicals processing environment, it behooves both the Postal Service

2 and the newspaper industry to attract more short-haul mail into exceptional  
3 dispatch.

4 In response to the Postal Service's past resistance to NNA's proposal, I  
5 suggest that the Commission recommend allowing a DDU discount for  
6 exceptional dispatch type mail when these conditions are met:

7 a. Exceptional dispatch is authorized by the postmaster to meet time-  
8 sensitivity needs

9 b. The distance of the haul from entry office to destination office is no  
10 greater than 100 miles

11 c. The piece volumes from issue to issue do not vary more than 2%,  
12 unless a new application is filed and granted.

13 I believe these limitations will protect the Postal Service from any abuses  
14 of the system that it may have feared in the past. They will still provide  
15 community newspapers with a comfortable margin for distribution flexibility. They  
16 will also extend an important discount that may help to move some newspaper  
17 mail out of processing plants, where the Postal Service has demonstrated a  
18 deficiency of ability to handle our mail efficiently.

19 **A. Exceptional Dispatch is for Small Volumes and Short Distances**

20 It is important for the Commission to understand how important  
21 exceptional dispatch is, and how exceptional dispatch is successfully used today  
22 to assist both mailers and the Postal Service in achieving reliable service. The  
23 Domestic Mail Manual in Section D210 authorizes postmasters to permit  
24 publishers to deliver copies of a time-sensitive Periodicals publication from the

2 post office of original or additional entry to other post offices. DMM D210.3.1.  
3 Exceptional dispatch is permitted only for short haul distances, and neither  
4 Centralized Postage Payment nor plant-verified drop shipment may be used in  
5 these cases. DMM210.3.2-3.

6 Under exceptional dispatch, a publisher maintains entry privileges and  
7 deposit accounts in an entry post office. Mailing statements and marked copies  
8 are filed in that office. But small volumes of mail that require special attention in  
9 order to achieve timely delivery will not be dropped at the entry office's dock with  
10 the main volume of each issue. Instead, as the publisher (or printer) drops the  
11 main mailing off at the entry office, he or she drives small bundles or sacks to  
12 another office in the area, usually a very small rural office, where it first enters the  
13 mailstream. This work is done at the publisher's expense and is not  
14 compensated at all, except by the reward of allowing the Postal Service to meet  
15 its service standards. The pieces entered in this manner are claimed on the  
16 postage statement at the entry office and postage deductions from the deposit  
17 account are made at the entry office.

18 Often, the drop is made on a split second schedule that permits the mail to  
19 arrive at the carrier just in time for delivery.

20 In some cases, the drop is made in the afternoon for delivery the following  
21 day. But even in those cases, the publisher could not take the time to stop in  
22 each additional entry office, file the statement and the marked copy, wait for  
23 verification and have the postage statement scrutinized so that the proper

postage can be deducted. In the real world, the mail is dropped at one time  
2 and the financial settlements are made at another.

3 The Postal Service has resisted the extension of the logical DDU discount  
4 to this mail, largely on the grounds that the mail is not verified. But I believe the  
5 risk it fears is virtually non-existent.

6 The Postal Service has long recognized the realities of newspaper mail  
7 by not requiring a mailing-by-mailing verification. In fact, the mail of each of  
8 Landmark's community newspapers is verified only once a year. This practice  
9 works for us, and it works for the Postal Service. It saves time for us and gives us  
10 back valuable minutes that are essential to meeting demanding weekly  
11 deadlines. The Postal Service is protected from abuse by the mailer by  
12 requirements in the DMM that exceptional dispatch is granted only on  
13 authorization of the postmaster. It additionally requires that if the pieces  
14 qualifying for exceptional dispatch vary by more than 2 percent, an amended  
15 application must be filed with the postmaster. DMM D201.3.5. This protection  
16 avoids potential problems of a publisher's possibly adding a great many pieces to  
17 the dropped container without claiming the additional postage back at the entry  
18 office. If the system is abused, authorization is withdrawn.

19 It is important for the Commission to recognize that NNA is not requesting  
20 anything new from the Postal Service in an operational sense. Exceptional  
21 dispatch is being done today. It works fine today, with ample protection for the  
22 Postal Service. It is used by time-sensitive publications only for short-haul  
23 distances because publishers simply must have that option in today's  
24

2 environment of troubled service. The testimony in this case further persuades me  
3 of its critical importance to newspapers in the mailstream.

4 **B. Exceptional Dispatch Mail Relieves the Postal Services of**  
5 **Processing And Transportation Costs**

6 The testimony presented in this case confirms what I have observed in my  
7 MTAC work. The Postal Service has not met its obligation to handle newspaper  
8 mail efficiently, effectively, and in a timely fashion.

9 In mail processing, in particular, I believe several factors are creating  
10 particular problems for newspaper mail.

11 **1. The Postal Service Has Refused Thus Far To Equip Its FSM**  
12 **1000s With Optical Character Readers**

13 The FSM 1000 was touted by the Postal Service as the answer to all the  
14 flat mail that was unmanageable in the FSM 881. Newspaper mail, in fact, can be  
15 handled on the FSM 1000. However, that machine was not equipped with OCRs  
16 from the beginning, which in my view was a mistake. Bar code readers were  
17 added later, but for most of their history, the FSM 1000s have required keying of  
18 addresses. I understand the Postal Service may be considering retrofits of the  
19 1000s to help to solve this problem.

20 **2. Even When Barcoded, the Full Automation of Newspapers**  
21 **Eludes the Postal Service**

22 I have jumped on the bandwagon, and I am urging others to join me in the  
23 use of automation. I have written in Publishers' Auxiliary, the leading training  
24 newspaper for newspaper publishers interested in better mail delivery, articles

2 urging our industry to begin barcoding. I have had great success in that  
3 endeavor. My own company is more than halfway to its goal of achieving fully-  
4 bar-coded newspaper mail. My visits around the country indicate other  
5 publications are making progress on this front as well. That is no small hurdle for  
6 a publication with weekly deadlines and little down time, because it requires  
7 software and printer conversions.

8 I have been chagrined to learn that so much of my effort has been wasted.  
9 The Postal Service continues to use expensive manual labor to sort a lot of  
10 barcoded periodicals. Furthermore, it seems to want to blame mailers in this case  
11 for its uncontrolled mail processing costs. It does not take a statistician to note  
12 that if low-productivity and high-cost manual labor is used to sort newspapers  
13 that should have been and could have been on automated sorters, our costs will  
14 rise.

### 15 **3. Low-Density Mail Continues To Be A Problem For The Postal** 16 **Service**

17 When small volumes of low-density mail must travel through mail  
18 processing, problems are sure to follow. In my observation of the Postal  
19 Service's handling practices, every time a mail piece has to be brought into a  
20 facility, handled and sent out again, there is an additional opportunity for delay  
21 and unnecessary cost.

22 In the early days of my career, newspaper mail was trucked by the Postal  
23 Service from entry offices to area facilities on more direct routes than are now  
24 used. Now, newspaper mail often leaves the county of entry and travels

2 hundreds of miles to an Area Distribution Center to be worked before it comes  
3 slowly back home to an office perhaps only a short distance from the original  
4 entry. This roundabout path has been made necessary by the establishment of  
5 new transportation and sorting hubs built to take advantage of the machines. But  
6 the new path has done nothing for newspapers but to slow them down.

7 All three of these elements lead to my conclusion that the Commission  
8 would be wise to give publishers every possible incentive to bypass mail  
9 processing and to truck their own mail short distances. It is no longer just a  
10 question of meeting readers' needs for timely delivery. It is now a question of  
11 bypassing a badly designed system that is not well equipped for our mail.

12 **C. Attempts To Force Publishers Into Additional Entry Have Not**  
13 **Worked In The Past, But Publishers Continue To Save The**  
14 **Postal Service Money By Bypassing Steps That Are Not**  
15 **Compensated With Work-Sharing Discounts**

16 Witness Elliot testifies for NNA on the similarity between exceptional  
17 dispatch mail and additional entry mail. He explains how the avoided costs of  
18 each of these types of mail are virtually identical. The main difference between  
19 them is that the Postal Service extends compensation to the publishers for  
20 additional entry, in recognition of their time and expense in short-hauls of mail. It  
21 does not recognize the identical contribution by exceptional dispatch. Oddly, the  
22 Postal Service grants the SCF discount for exceptional dispatch mail, (DMM  
23 D210.3.4). But rather than extend that same logic to the DDU rate, the Postal  
24 Service has persisted in demanding that small newspapers either apply for

2 additional entry in order to qualify for the discount or enter into Plant Verified  
3 Drop Shopping Agreements, which lead down the same path.

4 But the additional entry path merely puts unneeded hurdles in the way of a  
5 small publisher, without providing any essential protection for the Postal Service.

6 **1. Additional Entry Applications Require Payment of a Fee**

7 Even at \$50 per office, the additional entry fee is a barrier for a community  
8 newspaper. Many of these newspapers have a total circulation of 2,000-3,000  
9 copies per week. In order to earn a 2¢ discount on each copy, a newspaper  
10 would have to enter 48 copies at each office each week, just to recover the entry  
11 fee. In my experience, many newspapers will haul as few as 10-15 copies to a  
12 distant office because some small town nearby simply does not receive adequate  
13 service without the extra haul.

14 **2. Deposit Accounts, Mailing Statements, And Marked Copies**  
15 **Are Required**

16 In order to use additional entry, the publisher would have to create a  
17 deposit account in each office and to file a mailing statement and a marked copy  
18 at each office with each mailing. While these requirements may not seem  
19 burdensome to the Postal Service, to a small town publisher the additional hours  
20 in filling out and filing forms, measuring advertising and news on multiple copies,  
21 writing extra checks and reconciling additional accounts adds up to a significant  
22 amount of time. That time, and the lost opportunities in advertising or subscriber  
23 revenue, must be measured by the publisher and added to the entry fee in order  
24 to justify the expense of additional entry.



### **3. PVDS Is Not The Answer**

2 The Postal Service has suggested that additional entries would be  
3 permitted, without the additional deposit accounts and statement filings, if Plant  
4 Verified Drop Shipping were used. Since the DMM prohibits PVDS in exceptional  
5 dispatch, this approach is simply one more route to getting these small volumes  
6 into the additional entry channels. However, in R97-1, we explained that one  
7 problem with PVDS is that so few rural postmasters understand it. The  
8 Commission attempted in R97-1 to help newspapers by urging the Postal Service  
9 to improve its training in PVDS.

10 Since R97-1, I have seen not a single new effort by the Postal Service in  
11 this area. The rural post offices with which I deal are still as unaware of and  
12 disinterested in PVDS as ever.

13 It's important, however, for the Commission to understand that one reason  
14 for this disinterest may be lack of demand by publishers. Even if PVDS were  
15 universally available, it would not be practical for most small newspapers. On  
16 short deadlines, it is a near impossibility to stop the production and delivery  
17 process to allow for PVDS clerks to do their work. The split second schedules--  
18 ones with which our publishers and the postmasters are familiar--have little  
19 tolerance for an additional step, which may slow down the mailing process by  
20 several hours and cause the delivery window to be missed. The Postal Service  
21 has done a good job of recognizing this need in the field and I believe the system  
22 works well in that respect, but I cannot see any reason why the publisher's  
23 contribution to cost-avoidance should remain unrecognized.

**D. NNA Proposes DDU Rate For Mail Delivered Within A 100 Mile**

**Radius Of Entry Office, Under Same Rules As Apply In Existing DMM  
Regs**

I believe the Postal Service's major reservation about the discount for exceptional dispatch is an unproven possibility that it could be abused by larger mailers and used somehow as an end-run around additional entry. Indeed, the DMM articulates that fear by specifying that exceptional dispatch may not be used to circumvent additional entry. DMM D210.3.2.

In my work with MTAC and with my own national publications, I believe the Postal Service's fears are unfounded. Exceptional dispatch makes economic sense only when the distances are short and the volumes of mail stable enough to remain within the 2 percent limitation of DMM210.3.5. Moreover, the postmaster has to grant the initial usage, so the Postal Service remains fully in control of this process. However, in light of the history of this issue, I am suggesting that the Commission recommend the discount for exceptional dispatch mail delivered within a 100-mile radius of the entry office. It appears to me that suggesting this limitation in the context of the rate and urging the Postal Service to adopt it as part of the Domestic Mail Manual regulations would be sufficient to accomplish the necessary goals and that no classification changes are needed. It is apparent to me, however, that unless the Commission recommends this discount, it will not occur from the Postal Service's action alone.

2 **IV. The Impact Of The Proposed Rates Upon In County And Regular Rate**  
3 **Mail Will Be Severe And It Will Drive More Volume Out Of The Mailstream**

4  
5 **A. The Postal Service's Estimates Of The Percentage Increases For**  
6 **Periodicals Are Understated**

7 The Postal Service in its filing has requested an average rate increase of  
8 6.4%, a figure that is surprising enough in an era of low inflation. The announced  
9 average increases for regular rate periodicals were 13.5% and for in-county  
10 8.5%.

11 However, the true impact of the proposed rates upon newspapers within  
12 Landmark Communications newspapers ranges from 9.8 percent for in-county  
13 mail to 16.2 percent for regular rate mail. Our high editorial products are  
14 particularly disadvantaged. I can see the dramatic impact upon, in particular, our  
15 collegiate sports publications, which tend to have high editorial content. This is a  
16 short list of the increases that I calculate for parts of this group within Landmark:

17  
18 Cat's Pause, University of Kentucky, 16.5%

19 Osceola, Florida State University, 15.6%

20 Gator Bait, University of Florida, 15.4%

21 Inside Indiana, Indiana University, 15.2%

22 Carolina Blue, University of North Carolina, 14.8%

23 Huskers Illustrated, University of Nebraska, 13.2%

2 Increases of this magnitude, particularly so soon on the heels of the increases  
3 from R97-1, can have no effect but to drive mail out of the mailstream that would  
4 otherwise be there. I believe that the benefit of the rising newspaper circulations  
5 discussed in Witness Elliott's testimony (NNA T-2) will be lost to the Postal  
6 Service if increases of this magnitude continue to emerge from the Postal  
7 Service.

8 **1. Newspapers Cannot Recover the Costs From Their Own**  
9 **Customers**

10 Newspapers cannot increase rates in times of low inflation. Neither  
11 subscribers nor advertisers will tolerate the increases—up to four or five times  
12 the rate of inflation—that would have to be passed on to them in order for our  
13 newspapers to recover costs. The inevitable result of attempting to pass along  
14 these monumental increases would be a loss of business for newspapers, which  
15 in turn will lead to a dampening effect upon the Postal Service. The fact that, in  
16 our view, newspapers' actual mailstream usage may not have fallen off as much  
17 as it might have is the simple fact that circulations are growing at a healthy clip.  
18 But that does not mean an increase in the 10-15% range can be tolerated.

19 **2. The Inevitable Result Will Be Fewer Newspapers in the**  
20 **Mailstream than the Postal Service Should Enjoy in a**  
21 **Healthy Economy**

22 As witness Elliott testifies here and I have testified in both this case and  
23 R97-1, weekly newspaper circulations show healthy growth. In a normal cost  
24 environment for the Postal Service, the result should be steady increases in mail

2 volume. But these rates will deprive the Postal Service of the benefit of the  
3 circulation growth.

4       There are two likely results from this sort of impact. Since many  
5 newspapers will not be able to manage a full passthrough, one result is to reduce  
6 profitability to our companies. The other, and a sad one for a devoted print guy  
7 like myself, is that the Internet will pick up more business from us. In fact, our  
8 collegiate papers are actively pursuing an Internet strategy, offering the Internet  
9 issues for now in conjunction with the printed paper. On the first day of offering  
10 by the Cat's Pause in Kentucky, we sold 10 subscriptions. Other Landmark  
11 community papers are also online, and I believe many readers are going to  
12 decide in time they would rather read it there than to deal with the other problems  
13 that come with mail delivery. A certain amount of this diversion is inevitable for  
14 the Postal Service, but in this case, it seems to me as if some parts of the Postal  
15 Service are standing at the loading docks, trying to wave us off.

16       **B. Signals In This Case Are Unfriendly To Unfriendly To Newspapers**

17       **1. Service Remains A Major Problem, But It Is Clear To Me That**  
18       **Postal Service Efforts To Address This Problem Are Not At The**  
19       **Root Of Cost Trends**

20       I testified in R97-1 about the severe decline in reliable service. At the time,  
21 NNA was beginning work through my MTAC position on the National Periodicals  
22 Service Improvement Team, where commitment to improve service without  
23 creating new cost was the first order of business. Postal Service employees  
24 such as Paul Vogel and Tony Dobush have made a genuine and wholehearted

2 effort to achieve the mission of this team. We were heartened during our work to  
3 learn that Postmaster General Bill Henderson considers newspapers and  
4 magazines to be the "anchor stores" in his vision of the postal mall of the future.

5 Process management teams, such as those in the DV Daniels plant in  
6 New Jersey and some Chicago area plants have demonstrated the techniques  
7 for lowering cost and improving periodicals service. I am persuaded it can be  
8 done, and the Commission should not encourage inefficient management by  
9 requiring mailers to pay for failures to undertake these sensible approaches to  
10 service improvement.

11 Witnesses O'Tormey and Unger offered testimony in this case that  
12 achieving periodicals' service expectations was one reason for the rising mail  
13 processing costs. I do not believe their testimony is credible on this point for the  
14 following reasons:

15 I have worked with newspapers in the mailstream since 1985. During that  
16 time, our expectations for the Postal Service to achieve service standards have  
17 been unchanged. We are not asking for miraculous delivery, or heroic efforts, or  
18 for all facilities to be disrupted if we miss our entry times. All we have ever asked  
19 for is the meeting of the service standards. No reader should receive the paper a  
20 week late. No reader should receive two or three issues in a clump. No reader  
21 should have to forego an opportunity to keep up with hometown news just  
22 because she goes to Florida to escape the snow in Indiana. But all of that has  
23 happened repeatedly during my years of NNA and MTAC service.

24

2 While some of the actions taken by the Service Improvement Team have helped  
3 in some circumstances, the only action that will cure these persistent problems  
4 over time is the application of process management tools. I associate my  
5 testimony on this point with that of witness O'Brien for Time-Warner. I agree with  
6 his assessments of the service matter and I hope the Commission will look with  
7 skepticism upon any suggestion that demands for on-time service are at the root  
8 of the rising costs in this case.

9 **2. Skin Sacks Are Not A Root Cause Of Rising Costs**

10 The Postal Service has implied in this case that increasing numbers of  
11 "skin sacks," or sacks that hold fewer than the minimum number of pieces are a  
12 culprit in rising costs.

13 Because I have been a proponent of some limited use of skin sacks over  
14 the years, I feel called upon to respond to this point. I am persuaded from a  
15 review of my own company--which is one that I can fairly reliably require to follow  
16 my advice--that skin sacks are not on the increase.

17 Newspaper mailers use skin sacks for only one reason: the Postal Service  
18 cannot move the issue through the facilities and to its intended destinations in  
19 time to meet its standards. It has had persistent difficulties with low density, small  
20 volume mailings where the mailer has not essentially already done the work: that  
21 is, pieces that are not sorted to 3-digit or 5-digit bundles or containers.

22 Newspapers sometimes must resort to a skin sack to keep from losing readers.

23 However, to the extent that was true in 1998, it was equally true in 1996,  
24 1993 and every other base year of a rate case in my memory. I have reviewed

2 Landmark's practices in this area and I find a) skin sacks have not increased and  
3 b) we use them only as a last resort.

4 I have another reason to be skeptical of the skin sack argument.

5 I have also become fairly knowledgeable about mailing software. I  
6 encourage our publications to use products I am familiar with, but for many  
7 reasons, the array of software options continues to dazzle me. Most of them  
8 have one interesting characteristic that tends to defeat the skin sack argument:  
9 they will not produce a skin sack.

10 A few programs used by newspapers have an alternative table that a  
11 circulation manager may opt to use, which will permit a skin sack to be generated  
12 and a tag to be created. Most do not. Therefore, circulation managers do not  
13 create the skin sacks. They suffer with the delivery problems instead.

14 I have not done an extensive review of all the software used by NNA  
15 members, but I have visited many plants and conducted many seminars. I am  
16 confident that, despite the fact that I have personally encouraged use of skin  
17 sacks in chronic cases of bad delivery, most of my advisees have not done it  
18 because the complexities of the software make it too difficult.

19 **3. When Pushed, The Postal Service Sometimes Wants To Solve**  
20 **A Problem By Redefining It**

21 I have been involved in postal affairs long enough to remember the Postal  
22 Service's wanting to lower service standards so it claim to meet them.

23

24



2 In this case, it proposes to solve another mailing problem by eliminating it. I am  
3 referring to the proposal to eliminate the subclasses for nonprofit and classroom  
4 mail to solve the problem of what it calls "rate anomalies."

5 NNA has not taken a position on legislation proposed to eliminate the  
6 subclasses and I do not have an opinion on the options of nonprofit mailers to  
7 support or oppose this option. I observe, however, that some of the problems in  
8 capturing accurate volumes and costs for small volume mail that these  
9 subclasses have faced are shared by in-county mail.

10 The Postal Service's approach to solving these problems in this case has  
11 sent an inevitable signal to some that the price of complaining is annihilation. It is  
12 simply too close to home for me to notice this salvo being fired without wondering  
13 if in county is next.

14 Finally, putting the substance of the proposal aside, I find the postal  
15 Service's new legislative approach to postal rate-setting perplexing. It seems an  
16 attempt to place an issue now properly before the PRC in the hands of another  
17 decision-making body with little predictability on a favorable outcome since  
18 legislation can often take years. I hope this is not a new trend in postal rate  
19 requests.

#### 20 **4. The Mail Processing Cost Trend Is Alarming**

21 NNA is a member of the Periodicals Coalition and supports testimony of  
22 witnesses Glick, Stralberg, O'Brien and Cohen, who have observed a variety of  
23 areas where costs in the test year should be recalculated. I support their  
24 recommendations.

2 I want to add a couple of observations about newspapers and mail processing  
3 that may assist the Commission.

4 First, I have already mentioned my disappointment that the Postal Service  
5 did not add Optical Character Readers to FSM 1000s when the machines were  
6 developed. I believed at the time that decision was short-sighted and my belief  
7 has proven correct. However, I have taken a lead in encouraging use of  
8 barcodes and, despite the fact that the Postal Service has failed to take  
9 advantage of our contribution, I will continue to do so. I believe our industry has  
10 done what it could to meet the Postal Service halfway. Furthermore, I understand  
11 the OCR retrofit will occur shortly and I believe it will make a substantial  
12 difference.

13 Second, I have supported the Postal Service's decision that Line of Travel  
14 sequencing is necessary for Periodicals mail. Although much of our mail is carrier  
15 route sorted and walk sequenced and I will continue to recommend walk  
16 sequencing for our newspapers, the LOT requirement will create an additional  
17 cost and burden for some NNA members. I believe our industry is willing to  
18 undertake the responsibility if it will help to reduce costs further.

19 Finally, I have supported the carrier routes sacks changes proposed by  
20 the Postal Service, as well as the L001 changes described by witness Cohen and  
21 others. While many of those changes will not affect community newspapers  
22 much, there will be some incidental impact. It is one I believe our industry is  
23 willing to bear, if it is necessary to improve mail processing and reduce cost.

24

2 However, I want to note that once again, these changes are in the direction of  
3 impacting mailer behavior, and not in impacting postal processing behavior.  
4 Because I have become a disciple of the process management approach taken  
5 by the various MTAC industry/Postal Service teams, I believe changes in Postal  
6 Service behavior can and must be made in order to avoid continuing devastating  
7 impact upon mailers in this and future rate cases.

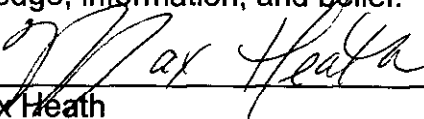
## 8 **V. CONCLUSION**

9 Commission should reject much of USPS's justification of costs in this  
10 case and produce rates that are in line with system averages for Periodicals. It  
11 should make adjustments in volume totals for in-county mail in recognition of  
12 serious and abiding questions about the accuracy of RPW. (Volumes appeared  
13 to increase slightly in FY '98 to 923 million, but had fallen again in FY '99 to 893  
14 million.) It should grant DDU entry rates for Exceptional Dispatch, with the  
15 limitations suggested by NNA, both to recognize the publishers' contributions and  
16 to assist the Postal Service in diverting mail away from the troubled periodicals  
17 processing environment. It should use its pricing signals to encourage USPS to  
18 use process management tools that reduce cost. It should accept the testimony  
19 of the various Periodicals witnesses in this case to recognize changes in  
20 Periodicals costs that will occur before the test year.

21 This case may prove to be a watershed case for the relationship between  
22 newspapers and the Postal Service. Anchor stores or not, newspapers will not be  
23 able to serve their own customers if their delivery partner, the Postal Service,  
24 cannot serve them.

### DECLARATION

I, Max Heath, declare under penalty of perjury that the foregoing testimony is true and accurate to the best of my knowledge, information, and belief.

  
\_\_\_\_\_  
Max Heath

Dated: 5-22-00

### Certificate of Service

I hereby certify that I have on this 22 day of May, 2000, served the foregoing document in accordance with the Commission's Rules of Practice.

  
\_\_\_\_\_  
Alexis Baden-Mayer