

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

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POSTAL RATE COMMISSION
OFFICE OF THE SECRETARY

Postal Rate and Fee Changes

Docket No. R2000-1

**Direct Testimony of Stuart Elliott
On Behalf of the National Newspaper Association
(NNA-T-2)**

Respectfully Submitted,



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AUTOBIOGRAPHICAL SKETCH

My name is Stuart W. Elliott. I am a Senior Analyst at Project Performance Corporation (PPC), a consulting firm based in McLean, VA. PPC provides management, information technology, and environmental consulting services to private and public sector clients.

I attended Columbia University, where I received a B.A. in Economics, summa cum laude, in 1985. I also attended the Massachusetts Institute of Technology, where I received a Ph.D. in Economics in 1992. In graduate school, my major fields were labor economics and industrial organization. I received postdoctoral training in Experimental Psychology at Carnegie Mellon University from 1991 until 1994.

Following my formal education, I was a Research Fellow at Carnegie Mellon University from 1994 until 1999, where I studied the impact of computers on jobs and productivity. During the 1997-98 academic year, I was also a visiting scholar at the Russell Sage Foundation. I joined PPC in 1999, where I have worked primarily on analysis related to postal economics.

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I. PURPOSE AND SCOPE

4 The purpose of my testimony in this docket is to discuss two issues
5 related to the Postal Service rates for periodicals as they are applied to
6 newspapers.

7 First, I present the results of a survey of newspaper use of the in-county
8 periodicals subclass. This study shows increasing in-county volume among
9 newspapers from 1992 to 1998.

10 Second, I describe the calculation of the Destination Delivery Unit (DDU)
11 discount and its applicability to newspaper mail entered under exceptional
12 dispatch.

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2 **II. A SURVEY SHOWS INCREASING IN-COUNTY VOLUME AMONG**
3 **NEWSPAPERS FROM 1992 TO 1998**
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5 For a number of years, the National Newspaper Association (NNA) has
6 been puzzled by the discrepancy between the circulation growth of its member
7 newspapers and the Postal Service's RPW figures showing a persistent decline
8 in the use of in-county mail. To help explain this discrepancy, the association
9 contracted with PPC to conduct a survey in 1999 about the circulation and
10 delivery methods of community newspapers.

11 The survey was sent to a stratified random sample of newspapers drawn
12 from NNA's database. This database consists of weekly and daily newspapers
13 that belong to the association or have a potential interest in membership. The
14 database attempts to capture all newspapers, but the association recognizes
15 some potential omissions of daily newspapers that are not likely to be interested
16 in membership, nor in the association's interest in postal affairs. The
17 association's primary membership focus is on newspapers with an editorial
18 emphasis on the local community. These newspapers tend to be the ones that
19 use in-county mail, since larger newspapers are ineligible for in-county mail
20 because of their size and geographic reach. Periodicals must have a circulation
21 under 10,000 or be distributed primarily within their county of origin in order to be
22 eligible for this subclass. The survey sample was stratified by frequency and size
23 of newspaper, with four strata of daily papers and five strata of weekly papers.
24 As shown in Table 1, we sent out 1,016 surveys and received 340 responses. In
25 analyzing the responses, we focused on newspapers that provided circulation

1 figures by delivery method for both 1992 and 1998. Out of the 340 returned
 2 surveys, 161 provided information on both years.

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Table 1
Number of Papers and Responses by Stratum

Stratum (By Circulation Per Issue)	Total Number of Papers	Number Surveyed	Surveys Returned	Response Rate	Complete Surveys
Daily Papers					
Under 5,000	238	60	20	33%	7
5,000 to 10,000	289	60	19	32%	9
10,000 to 25,000	340	60	24	40%	9
Over 25,000	317	60	20	33%	15
Subtotal	1,184	240	83	35%	40
Weekly Papers					
Under 1,000	647	78	28	36%	11
1,000 to 3,000	2256	271	93	34%	45
3,000 to 5,000	1270	152	49	32%	16
5,000 to 20,000	1790	215	68	32%	40
Over 20,000	483	60	19	32%	9
Subtotal	6,446	776	257	33%	121
All Papers	7,630	1,016	340	33%	161

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8 Table 2 shows the changes in circulation from 1992 to 1998, projecting
 9 from the sample responses to the entire set of newspapers in NNA's database.
 10 The table shows that total circulation remained relatively constant over the
 11 period, with an increase of 0.2 percent. Out of a total annual circulation in 1992
 12 of about 10 billion newspapers, dailies represented 78 percent of the total while

1 weeklies comprised the remaining 22 percent. Underlying the stable circulation
 2 for newspapers in aggregate, the two types of papers show different trends: the
 3 dailies showed an average decrease of 3 percent in total circulation over the
 4 period, whereas the weeklies showed an average increase of 9 percent.

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Table 2
Estimated Total Annual Circulation Change, 1992 to 1998

Stratum (circulation per issue)	1992 Circulation (millions)	1998 Circulation (millions)	1992-98 Change (millions)	Standard Error of Change (millions)	Change as Percent of 1992 Circulation
Daily Papers					
Under 5,000	202.46	199.59	-2.87	23.86	-1.42%
5,000-10,000	570.01	540.74	-29.26	15.17	-5.13%
10,000-25,000	1,597.97	1,596.36	-1.60	52.12	-0.10%
Over 25,000	5,231.72	5,056.51	-175.21	89.94	-3.35%
Subtotal	7,602.15	7,393.21	-208.94	107.73	-2.75%
Weekly Papers					
Under 1,000	23.32	23.93	0.61	2.17	2.60%
1,000-3,000	273.02	324.09	51.08	40.36	18.71%
3,000-5,000	236.59	249.01	12.41	8.99	5.25%
5,000-20,000	766.13	819.27	53.14	42.08	6.94%
Over 20,000	797.70	870.39	72.69	49.36	9.11%
Subtotal	2,096.76	2,286.69	189.93	76.95	9.06%
All Papers	9,698.91	9,679.89	-19.01	132.39	-0.20%

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10 Table 3 shows the changes in newspaper in-county mail volume from
 11 1992 to 1998. Overall, the survey results show an increase of 3 percent in in-
 12 county mail volume over this 6-year period. As with total circulation, there is a

1 broad contrast between daily and weekly papers: daily papers show a 14
 2 percent decrease in in-county mail, whereas weekly papers show a 7 percent
 3 increase.

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 5 **Table 3**
 6 **Estimated Change in Newspaper In-County Mail Use, 1992 to 1998**
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Stratum (circulation per issue)	1992 In-County Mail (millions)	1998 In-County Mail (millions)	1992-98 Change (millions)	Standard Error of Change (millions)	Change as Percent of 1992 In-County Mail
Daily Papers					
Under 5,000	47.79	46.33	-1.46	4.49	-3.05%
5,000-10,000	29.95	31.62	1.67	1.33	5.57%
10,000-25,000	5.28	3.30	-1.99	0.83	-37.58%
Over 25,000	26.67	13.60	-13.08	5.74	-49.03%
Subtotal	109.69	94.84	-14.85	7.45	-13.54%
Weekly Papers					
Under 1,000	12.20	11.71	-0.49	1.10	-4.04%
1,000-3,000	106.55	114.79	8.25	5.56	7.74%
3,000-5,000	73.42	76.07	2.64	3.23	3.60%
5,000-20,000	193.32	234.02	40.70	37.42	21.05%
Over 20,000	26.63	5.27	-21.37	21.25	-80.23%
Subtotal	412.12	441.85	29.73	43.52	7.21%
All Papers	521.81	536.69	14.88	44.16	2.85%

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 10 Table 3 shows that about 80 percent of newspaper in-county mail is sent
 11 by weekly newspapers, precisely the type of newspapers showing circulation

1 increases. A comparison of tables 2 and 3 shows that the growth in in-county
2 mail volume for the weekly newspapers is keeping pace with the overall growth in
3 their circulations. In contrast, the daily newspapers show a decline in in-county
4 volume of 14 percent that is substantially larger than their 3 percent decline in
5 total circulation. This difference reflects a substantial shift away from the use of
6 in-county mail by the larger daily papers. However, since the larger dailies make
7 up only 6 percent of newspaper in-county mail in 1992, this shift away from in-
8 county mail had only a moderate effect on total newspaper use of in-county mail.

9 The NNA survey shows that the use of in-county mail by newspapers is
10 strong and even increasing. For the smaller papers that the subclass was
11 designed to serve, in-county volume has kept pace with their substantial
12 increases in circulation over the period. The survey does show that larger
13 papers reduced their use of in-county mail. However, the increased in-county
14 use by the smaller papers easily made up for the decreased in-county use by the
15 larger papers, resulting in a net increase in newspaper in-county volume.

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2 **III. THE DDU DISCOUNT PROVIDES A REASONABLE ESTIMATE OF THE**
3 **COSTS AVOIDED BY EXCEPTIONAL DISPATCH**
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5 Under current Postal Service regulations, publishers are able to receive
6 the Destination Delivery Unit (DDU) discount for periodicals that are dropped at
7 the delivery unit under additional entry. However, publishers are not able to
8 receive the DDU discount for periodicals that are dropped at the delivery unit
9 under exceptional dispatch. As a result, two publications with the same original
10 entry office that are both dropped at the same delivery unit will pay different rates
11 if one publication is dropped under additional entry and the other is dropped
12 under exceptional dispatch.

13 As explained by Witnesses Crum (USPS-T-27) and Taufique (USPS-T-
14 38), the DDU discount is based on estimates of the mail processing and
15 transportation costs that the Postal Service avoids when publishers deposit their
16 mail at the delivery unit. Witness Crum estimates the mail processing portion of
17 the costs avoided. The costs avoided when mail is dropped at a delivery unit are
18 calculated on top of the costs avoided when mail is dropped at the SCF. The
19 SCF analysis is based on avoiding one handling in a transfer hub and a possible
20 additional handling in a non-destination SCF/ADC. USPS-T-27 at page 18. The
21 delivery unit analysis is based on avoiding another handling through an SCF
22 about 97 percent of the time, in addition to the handlings avoided in dropping at
23 the SCF. USPS-T-27 at page 20. Crum's analysis shows a savings in mail
24 processing unit costs of \$0.0301 for Periodicals Regular mail and a savings of
25 \$0.0159 for Periodicals Nonprofit mail. USPS-T-27 at page 21.

1 Witness Stralberg provides further analysis of the delivery unit discount on
2 behalf of Time Warner. He argues that Witness Crum's analysis does not
3 include unloading costs at the delivery unit and does not take into account the
4 types of pallets eligible for dropshipping. Recalculating the DDU mail processing
5 savings with these two corrections, witness Stralberg derives a total savings of
6 \$0.0374 in unit costs.

7 Witness Taufique proposes the piece and pound discount associated with
8 dropshipping at the delivery unit. This proposed piece discount is based on a
9 decision to allocate 75 percent of the mail processing cost savings to piece-
10 related discounts and 25 percent to pound-related discounts. The DDU pound-
11 related discount also includes the transportation savings resulting from
12 dropshipping at the delivery unit.

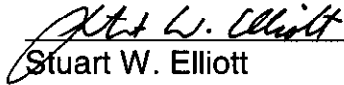
13 The same mail processing and transportation savings result when
14 publishers drop their mail at the delivery unit, whether that mail is dropped under
15 additional entry or under exceptional dispatch. Therefore, it is appropriate to
16 extend the same DDU discount to this mail both under additional entry and under
17 exceptional dispatch.

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DECLARATION

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



Stuart W. Elliott

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