

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

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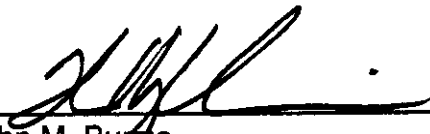
POSTAL RATE AND FEE CHANGES, 2000

Docket No. R2000-1

RESPONSES OF SATURATION MAIL COALITION WITNESS  
MERRIMAN TO INTERROGATORIES OF ASSOCIATION  
OF ALTERNATE POSTAL SYSTEMS (AAPS/SMC-T2-1-10)

The Saturation Mail Coalition hereby submits the responses of witness Merriman to interrogatories AAPS/SMC-T2-1-10, filed on June 16, 2000. Each interrogatory is stated verbatim and is followed by the response.

Respectfully submitted,


  
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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.

  
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Thomas W. McLaughlin

June 30, 2000

RESPONSES OF SMC WITNESS MERRIMAN TO AAPS INTERROGATORIES

AAPS/SMC-T2-1. At page 2, lines 24-26, you state the "more sensible pricing" would help the Postal Service increase its pound rate revenues.

- a. By "more sensible," do you mean that the pound rate should be lower?
- b. If the pound rate were reduced, would the pound rate revenues from your publication be increased? Explain.

RESPONSE:

- a. Yes.
- b. Yes, I am confident that they would. As I explained in my testimony, we have a number of advertisers that "lighten up" their mailed inserts because of the high pound rate. With a lower pound rate, I expect they would add pages to their inserts to display more products and provide more consumer information, similar to the larger inserts used in more populated areas served by daily newspapers. In addition, I believe that we would generate some new advertisers or encourage existing advertisers to increase their frequency of distribution.

RESPONSES OF SMC WITNESS MERRIMAN TO AAPS INTERROGATORIES

AAPS/SMC-T2-2. At page 4, lines 8-10, and at page 5, lines 20-24, you praise the "stable" postal rates paid by your publication over the past five years and state that the stable rates have resulted in your greatest circulation growth and additional revenues to the Postal Service. Would these benefits be diminished if rates were to remain stable over the next three years? Explain any negative answer.

RESPONSE:

No, however, I believe a more reasonable pound rate would further enhance these benefits.

## RESPONSES OF SMC WITNESS MERRIMAN TO AAPS INTERROGATORIES

AAPS/SMC-T2-3. Why, as you testify at page 8, line 6, is switching to a private carrier not an option for rural publishers? Would the cost be higher if they switched?

### RESPONSE:

Switching to private carrier in whole or in part is an option for some rural publishers. Of course, the further apart homes are the higher our costs. In my own experience, I formerly had approximately 120 carriers working for me to deliver our paper in the more concentrated population areas of our circulation. I could still save costs by maintaining a carrier force in these limited areas, but postal rates are now reasonable enough for me to pay the higher costs. For most of our circulation area, where homes are very spread out, it would not be cost-effective for us to use a private carrier force. Although I have personal experience with operating private carriers, I do not hold myself out as an expert on this subject. I can quote Joe Green, who was a witness for your association in the last postal rate case, on the "rule of thumb" he gave at a meeting I attended of free paper publishers. He told publishers that were thinking of switching all or part of their mail distribution to private carrier that, in general, private carrier would not be cost-effective for routes where there are four homes or fewer per mile. The most optimum routes for private carrier were 28 homes per mile. The exception he described to this "rule of thumb" was for heavier papers where postage costs would be so high that having a thinly populated rural carrier force could still be worthwhile. This is what I explain in page 6 of my testimony where I describe how publishers "cherry pick" their coverage area. They use the USPS for the higher cost, less dense areas, and establish their own carriers for the easy to deliver, densely populated areas. Certainly, there are some portions of the geographic area we cover that are so thinly populated that it would not be cost-effective for us to serve them by private carrier.

RESPONSES OF SMC WITNESS MERRIMAN TO AAPS INTERROGATORIES

AAPS/SMC-T2-4. (a) If the ECR rates proposed by the Postal Service were implemented, by how much would you reduce the rate charged to your insert mailers?  
(b) If the ECR rates proposed by the Postal Service were implemented, by how much would you reduce the rate charged to your classified advertisers?

RESPONSE:

(a) Because our insert customers are weight and price sensitive, we would adjust our prices to reflect the changes in the basic piece pound rates we pay. I cannot tell you what our rates would be or how much we would reduce our rates.

(b) Because our basic piece rate would increase by over 5%, and our classified advertising rates are already a fraction of the cost charged by our competitors (see my answer to NAA/SMC-T2-1 where I demonstrate that our rates for classifieds are 6% of the cost to buy a classified ad in the shared mail option offered by a joint purchase in the community papers covering our area), I doubt we would reduce the rate we charge our classified advertisers.

RESPONSES OF SMC WITNESS MERRIMAN TO AAPS INTERROGATORIES

AAPS/SMC-T2-5. You refer at page 7, line 23, to the "weight-related prices" you charge to your major insert advertisers. Please provide a rate schedule showing those prices or, if such a schedule is not available, describe the rates applicable to inserts.

RESPONSE:

See my answer to NAA/SMC-T2-8.

We do not have a rate schedule. We do individual quotes for advertisers wanting to send inserts.

The prices we charge are determined based on the pound rate we pay for postage, our inserting and handling costs, and a charge to reflect our overhead and profit. This latter mark up would be adjusted depending on the volume and frequency commitments the advertiser is willing to make and competitive conditions. Our starting point, however, for determining our price would always be the pound rate we must pay the USPS for postage.

## RESPONSES OF SMC WITNESS MERRIMAN TO AAPS INTERROGATORIES

AAPS/SMC-T2-6. If as you state at page 8, lines 6-12, the prices that must be charged by free papers that use the mail must be so much higher than the rates charged by free papers that are delivered outside the mail, why are there free papers in urban areas (such as the Miami Flyer described by AISOP witness Baro) in the mail?

### RESPONSE:

I cannot speak for the individual decisions made by all mailed free papers in urban areas but I can offer some insights based on my experience in operating a carrier force and my observations.

As I discuss in my answer to AAPS/SMC-T2-3, I could save some dollars today by operating my own carrier force in limited areas. I am willing to pay the higher cost for postal distribution to allow me to focus my business on publishing a paper. It is convenient to deal with a single source for distribution that offers reasonably consistent universal delivery. There are many headaches with having to manage a delivery system, not the least of which is having a one day a week labor force, getting calls and complaints from consumers at night when a paper is stuck in a tree or in a snow blower, and worrying about the safety of carriers. Many daily newspapers, and some free paper carrier forces, appear to be subject to exceptions in child labor laws where very young children can deliver papers. Designing routes that keep children off of busy roads and worrying about safety are worries I believe many publishers want to avoid. This has been a particularly sensitive area in South Dakota where a child carrier for the Sioux Falls Argus Leader was murdered while working on a route. In many urban areas, I am certain free papers do not want to be responsible for any employee or subcontractor's safety in particular parts of the city.

## RESPONSES OF SMC WITNESS MERRIMAN TO AAPS INTERROGATORIES

AAPS/SMC-T2-7. You state at the bottom of page 8 and the top of page 9 that carriers working for "private carriers" are often paid one cent or less to insert and deliver an advertisement, and that this payment "commonly" applies even up to 32 pages. Please provide all of your support for these claims, including specifically an identification of the "private carriers" that pay one cent or less to their carriers for inserting and delivering 32-page inserts.

### RESPONSE:

I have attended meetings of my local and national free paper association where private carrier publishers describe their private distribution costs. Speaking from my own experience when I had private carriers that delivered our paper, with all the inserting done by us at our plant, my fixed price per paper was 6 cents regardless of weight.

I do specifically recall attending a meeting at a free paper conference where publishers who used private carrier talked about the per piece rates they paid independent contractors for delivery of the paper and the task of doing insertion of advertisements and delivery of the paper. I did not write down the names of individual attendees or their papers. There was a consensus among several publishers at this group that they were able to find and hire independent contractors in city areas to pay rates, on average, of 4 cents per paper and rates of one-half cent to one cent per insert. Higher rates were paid for rural routes and different rates for motor carriers. I can remember thinking that I wished I could pay that little for inserts regardless of weight. I do remember that Joe Green, who was a witness for your association in the last rate case, was a speaker at one of these meetings. He stressed that one of the benefits of private carrier delivery for free paper publishers was that publishers would not have to worry about the weight of their inserts and that there were "great margins" for insert delivery. I also recall Ed Marks, a publisher that has owned free papers throughout the country, talking about his experience and how publishers could pay half a cent to carriers to insert a single sheet and one cent for all other pieces.



## RESPONSES OF SMC WITNESS MERRIMAN TO AAPS INTERROGATORIES

AAPS/SMC-T2-8. You state at page 10, lines 2-4, that the present pound rate causes publishers to "think twice" before adding content that takes the piece above the break point. (a) If the added content is advertising, doesn't that advertising produce additional revenues? (b) In 1999, what percentage of the content of the Farmer and Rancher Exchange was advertising? (c) Would publishers think only once if the pound rate proposed by the Postal Service were adopted? (d) At what pound rate would this supposed problem disappear?

### RESPONSE:

The problem I am describing with the present pound rate being too high is that it creates incentives for free papers to stop giving away free advertising space to charities, community events, and other local and social causes. Most free papers do have some of this information in their papers. As the free paper becomes larger and starts paying postal rates over the breakpoint, and finding our paper is less competitive with other nonpostal media, we are tempted to cut our costs by giving away less free or subsidized space. In 1999, 2% or less of the pages in our paper was "free" or community event or charity space. Approximately 6% to 10% of the pages in our paper were reports relating to livestock market information that is published by us at a subsidized rate. In the past when more of my paper was delivered by my own private carrier force at a fixed rate of 6 cents per paper and inserts regardless of weight, I would not think "once" or "twice" about giving away free space to good causes and I did not charge for publishing the livestock market information at the rates I need to charge today. A reduction in the pound rate would make me focus less on the money I am taking out of my pocket when we run reduced rate information or give away free space.

## RESPONSES OF SMC WITNESS MERRIMAN TO AAPS INTERROGATORIES

AAPS/SMC-T2-9. At page 10, lines 16-24, you testify about giving space to charities and community events. (a) In 1999, what percentage of the run-of-press space in your publication was donated for this purpose? (b) In 1999, what percentage of the inserts were used for this purpose? (c) Is it your testimony that publishers will give space to charities only if there is no additional postage cost associated with that space? (d) Please quantify the amount by which you have "cut back" on free space and specify the time period during which that cut back took place. (e) Please confirm (or explain why if you cannot) that donating run-of-process space to a charity generally does not affect the weight of the piece (because it does not cause an increase in the page count or weight of the page) and therefore, while it might prevent sale of that space to a paying advertiser, it does not affect the postage.

### RESPONSE:

(a) See answer to AAPS/SMC-T2-8.

(b) None.

(c) No. It is my testimony that we will give less space, or cut back space, when our papers exceed the break point and pay at the pound rate and we can measure a precise, additional cost in adding pages or inserts to our paper.

(d) I cannot precisely quantify how much we have cut back or give exact time periods for when the cut backs took place. I can say in general that as the demand for our paper has grown, and we find most of our mailings at the pound rate, that these cut backs have occurred. In the past, when some of the circulation of our paper was delivered by 120 private carriers (that delivered our paper at a fixed price of 6 cents per paper regardless of weight), approximately 15% to 20% of the pages in our paper went to nonpaid space.

(e) Not confirmed. We do vary the size of our paper and the number of pages based on the amount of advertising we have. We seldom have any open space. We do not need any "filler."

RESPONSES OF SMC WITNESS MERRIMAN TO AAPS INTERROGATORIES

AAPS/SMC-T2-10. At the bottom of page 10 and the top of page 11, you discuss giving away reader ads. (a) Please confirm that these ads would typically be run-of-press ads, not inserts. (b) In 1999, what percentage of your publication's run-of-press content was devoted to free reader ads? (c) In 1999, what percentage of your publication's run-of-press content was "filler."

RESPONSE:

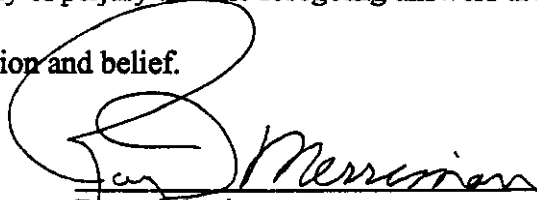
(a) Confirmed.

(b) Zero.

(c) See answer to AAPS/SMC-T2-9. There is great demand for our paper. We do not run any "filler."

DECLARATION

I, Roger Merriman, declare under penalty of perjury that the foregoing answers are true and correct, to the best of my knowledge, information and belief.

  
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Roger Merriman

June 27, 2000