

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

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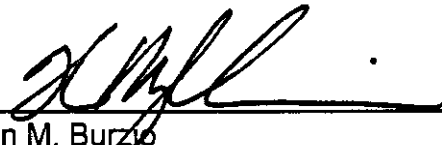
POSTAL RATE AND FEE CHANGES, 2000

Docket No. R2000-1

RESPONSES OF SATURATION MAIL COALITION
WITNESS MERRIMAN TO INTERROGATORIES OF
NEWSPAPER ASSOCIATION OF AMERICA (NAA/SMC-T2-1-10)

The Saturation Mail Coalition hereby submits the responses of witness Merriman to interrogatories NAA/SMC-T2-1-10, filed on June 19, 2000. Each interrogatory is stated verbatim and is followed by the response.

Respectfully submitted,

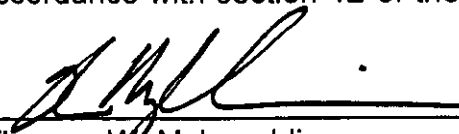


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CERTIFICATE OF SERVICE

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.



Thomas W. McLaughlin

June 30, 2000

RESPONSE OF SMC WITNESS MERRIMAN TO INTERROGATORIES OF NAA

NAA/SMC-T2-1. Please refer to page 1, lines 5-6, where you state that the Farmer and Rancher Exchange is distributed in South Dakota, Nebraska, Wyoming, North Dakota, and Montana. Please also refer to lines 16-17, of your testimony, where you state that excludes the larger metropolitan areas of South Dakota, where "consumers may not be tied into the agrarian economy and advertisers have a range of media choices to reach their consumers."

a. Does the Farmer and Rancher Exchange also exclude the "larger metropolitan areas" of Nebraska, Wyoming, North Dakota, and Montana?

b. Are you aware that, according to the web site for state press associations (accessible at <<http://www.naa.org/hotlinks/searchResult.asp?category=5&name=Press+Associations&City=1&State=1>>), more than 539 local newspapers--dailies and weeklies--circulate in South Dakota, Nebraska, Wyoming, North Dakota, and Montana?

c. Excluding newspapers in the larger cities in that region--Sioux Falls, Rapid City, Cheyenne, Casper, Billings, Great Falls, Missoula, Fargo, Grand Forks, Bismarck, Minot, Omaha, and Lincoln--at least 526 newspapers serve the needs of the rural citizens in the rural areas of these five western states. Do you agree that these approximately 526 rural newspapers provide the same type of advertising information to their readers that your Exchange does, plus additional editorial information?

d. Do you agree that these newspapers give consumers a "range of media choices" in these rural areas?

e. Please refer to page 7 of your testimony, where you state that *The Exchange* is the only shared mail option for insert advertisers to reach farm and ranch households in parts of five state areas. Is it your testimony that none of those 526 newspapers have shared mail programs or shopper programs that provide mail options for insert advertisers?

RESPONSE:

a. Please see the map of our coverage I attached to my testimony. The Farmer & Rancher Exchange is not in any large metropolitan area of any of these states. The only coverage we have in an area that could be considered a large metropolitan area is Rapid City, South Dakota.

b. I am not aware of this. Our service area covers most of South Dakota but only small portions of the four adjacent states. I can state that for the geographic area my paper covers there are 57 weekly papers, one true daily, and one five day a week daily.

c. No. The daily and weekly community papers that are in the rural area covered by the Farmer & Rancher Exchange do not provide the same type of advertising information that we do and they provide little additional editorial information.

Most of the weeklies that exist in this area have little, or nothing in the way of editorial or reporting staff. They survive as advertising publishers by qualifying as legal newspapers that have a monopoly on the publication of legal notices. In South Dakota, no free publication (even if it has better circulation and readership than the newspapers) can qualify to publish legal notices. The bread and butter of the small community papers in the rural community I serve is publishing legal notices that must be published, at standard advertising rates, by law for the county, school, federal government, township, states, and private citizens. Examples of such notices include school board meetings, county commission meetings, political notices and announcements, minutes of school board meetings, sheriff's sales, bankruptcies, service of papers, land transfers, incorporations, corporate filings, assumed name registrations, insurance company information and annual reports. These papers also carry advertising in the form of local notices like obituaries and birth and marriage announcements. This is not the same type of agricultural or ranching advertising information that our readers look for and find in the pages of the Farmer & Rancher Exchange. The biggest paper you would find in this area would be the Rapid City Journal. The Rapid City Journal offers little in the way of agricultural editorial coverage and may average three or four agricultural or ranch related classifieds per issue.

Most of the community papers in our geographic coverage area do little in the way of original reporting and simply reproduce materials they receive off of wire

services and materials they receive from local government and school boards and agencies. I do not mean this as a critique of any of the local papers. Given the very small size and population of the towns in our geographic area, one could not expect more. Some of the 50 community papers in the area we serve are papers like the Bonesteel Enterprise, circulation 305, Edgemont Tribune, circulation 630, Murdo Coyote, circulation 675, and Isabel Dakotan, circulation 586. If it was not for the state-granted monopoly on the publication of legal notices, I question that many of these small papers would be able to survive.

d-e. I agree that these newspapers give consumers a "range of media choices" but I would stress that these are not cost-effective choices. Let me give an example. If an advertiser wanted to run a help wanted ad of up to 30 words for a ranch hand, it could buy a classified in the Farmer & Rancher Exchange for \$9.00. This would reach over 42,000 households and more than 110,000 readers. If the advertiser committed to run the ad for four weeks, we would give the advertiser a discounted rate of \$30 for the classified.

If the same advertiser wanted to do a combined advertising buy through the joint advertising program offered by the community papers that serve our area, the cost for a 30 word classified ad would be \$150 per week with no discount for running the ad for multiple weeks.

The 57 weekly papers that serve the same general community I do offer a combined advertising buy to purchase run of press ads that appear in all of their papers. Although the circulation methods of these papers vary, most are sent by second class mail at the favorable, subsidized in-county rates available to local newspapers. If an advertiser purchased a 1/4 page display ad in these 57 papers (excluding coverage in the Rapid City Journal, the cost of the ad would be \$5,130. If

the advertiser wanted the coverage area offered the Rapid City Journal, this would cost an additional \$1,000. The same ad in our paper would cost \$332.

I do not believe these papers offer any combined shared mail or private carrier insert options. I am aware that the Rapid City Journal does have a mailed insert program but that it does not offer its advertisers customized zone options as advantageous to smaller advertisers as we do.

RESPONSE OF SMC WITNESS MERRIMAN TO INTERROGATORIES OF NAA

NAA/SMC-T2-2. With respect to The Exchange,

- a. How many individuals are on staff of The Exchange?
- b. How many of the individuals on the staff of The Exchange are reporters or editors serving the needs of rural America?
- c. What percentage of the space in your paper is devoted to news and other editorial matter of interest to rural America?
- d. Does your advertising revenue cross-subsidize the news and editorial activities of your paper?

RESPONSE:

a. 40

b-d. We do not have reporters or editors as such but as explained in pages 3 to 7 of my testimony, we believe our paper does a better job of serving the "needs of rural America" than the local community papers or the daily newspapers in surrounding larger metropolitan areas. Please see my answer to NAA/SMC-T1-1. Most of the news and editorial matter carried in the community papers in our area is merely reproduced news off of wire services and local announcements.

The Farmer & Rancher Exchange does have three salespeople who are located out of our central office in the smaller communities we serve. This allows them to give personalized and better services to our many small business customers.

Our paper does print at reduced rates livestock reports and other market information of great interest to rural America. I would estimate that approximately 6% to 10% of the pages of our paper contain this type of information that is offered at reduced rates designed to cover our direct costs. Our other advertising revenues subsidize the reproduction of this information. This advertising revenue also cross-subsidizes the space we give for free to local charities, community events, or other local and social causes.

RESPONSE OF SMC WITNESS MERRIMAN TO INTERROGATORIES OF NAA

NAA/SMC-T2-3. You suggest that free shoppers have left the postal system to go to private carriers and raise the specter of many more poised to change to private delivery if saturation ECR postal rates are not lowered, Please provide all evidence you have to support this claim, including specific names and dates of shoppers leaving the postal system for private delivery.

RESPONSE:

I would take issue with your characterization of my testimony that I "raise the specter of many more [free shoppers] posed to change to private delivery if saturation ECR postal rates are not lower." Page 5 of my testimony was based on 20 years in business where I state, "I can tell you what happens to free papers when there are unreasonable increases in postal rates. For papers in metropolitan and suburban areas, alternate delivery for all or part of the circulation is a viable option. In the 1980s, when postal rates for third class mail experienced big hikes, many free papers set up their own delivery force." I do not believe I am raising the "specter" that many free papers are poised to leave the USPS if "saturation ECR postal rates are not lowered."

I would state that based on my experience and association with other publishers that in the 1980s more than 50% of the publishers who belonged to IFPA (Independent Free Papers of America) distributed their paper through the USPS. Many of these publishers left the USPS in the 1980s and I would estimate today that approximately 75% of IFPA members have their own private carrier force.

The best evidence that I can submit to show that free papers can and will leave the USPS if prices are too high, and that free paper publishers are constantly comparing and evaluating the benefits of private carrier distribution costs with postal delivery, is to point to at least three different businesses or persons I know of that help publishers "convert from postal delivery to carrier home delivery." I am attaching to this interrogatory answer a copy of a brochure put out by Smith Associates, a business I understand to be affiliated somehow with Gannett Company, Inc., that was

distributed at an association meeting of free paper publishers. The brochure represents that Smith Associates can help free papers "convert from postal delivery to carrier home delivery; convert employee delivery force to independent contractors, reducing employment-related costs; and can help "increase pre-print profits." I have heard from other publishers that Smith Associates has represented that this conversation from postal delivery to carrier home delivery can be accomplished for some publishers "for free" as Smith Associates gets paid out of the savings the publisher realizes when it ceases to use the USPS. Another business that I understand can and does help publishers convert from postal delivery to private carrier is Advertiser Postal Service Corp. out of Gaylord, Michigan. Another person who I know provides services to assist publishers from switching from the USPS to private carrier is Joe Green, who submitted testimony on behalf of AAPPS in the last postal rate case. Green publishes a number of shoppers but also operates a private carrier business. I have attended meetings where Green has appeared as an expert and resource to publishers who want to switch all or part of their distribution from the mail to private carrier. At one of the meetings I attended, Green and one of his customers discussed how the conversion was going and how the costs for private carrier delivery were substantially less than the former postal costs she paid. I did not take down the names of the persons or shoppers who said they had left the USPS in whole or in part for private delivery. Speaking from my own experience, I can attest that it is more impractical and unlikely that highly spread out or rural areas, like the area I cover, will find it cost-effective to switch completely from the mail to private delivery. Green provided a rule of thumb that the most optimum route for private carriers would have 28 homes per mile. In the past, I had approximately 120 private carriers that did private delivery for us in the portions of our circulation area that were more dense. After reclassification, I switched to the mail as a matter of convenience, I

could still save from \$400 to \$500 a week by doing my own carrier delivery in the more densely populated areas.

Free paper publishers, like me, will continue to evaluate the cost benefits of having our own private carrier with postal delivery. I can name some publishers that do a mix of both that are SMC members including The Reminder of Coventry, Rhode Island, Decker Advertising, Inc. of Delhi, New York, Antigo Area Shoppers Guide, Inc. of Antigo, Wisconsin, the Berkshire Pennysaver of Lee, Massachusetts, the County Pennysaver of Massena, New York, and the Oneida Madison Pennysaver of Clinton, New York. A specific example of one of the publishers who attended an association meeting that mentioned switching from the mail to private carrier because of postal rates and in particular the pound rate was the Pennysaver of Plymouth, New Hampshire.

FRANCIS J. SMITH

"19 Years of Circulation Management Experience"

Gannett Company, Inc.
Norwich Bulletin & USA Today
Norwich, Connecticut

The Transcript-Telegram
Holyoke, Massachusetts

The Home News
New Brunswick, New Jersey

New Haven Register
New Haven, Connecticut

Waterbury Republican-American
Waterbury, Connecticut

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Circulation Cost Reduction & Efficiency

- ▶ Convert from postal delivery to carrier home delivery.
- ▶ Convert employee delivery force to independent contractors, reducing employment related costs.
- ▶ Restructure routes to maximize marketing potential.
- ▶ Hands-on route cost analysis.

Circulation Efficiency Evaluation

As part of our overall review, we will note areas of needed improvement and help you implement the changes you desire.

New Revenue Services

- ▶ Achieve circulation revenue while continuing to distribute a "free" newspaper.
- ▶ Increase pre-print profits.
- ▶ Introduce or improve a single sheet "print & deliver" program.
- ▶ Implement a product sample distribution program.
- ▶ Create an order fulfillment program and product delivery system.
- ▶ Provide demographic sales tools with lifestyle and consumer buying habits for your market.
- ▶ Develop address-specific delivery capability which matches your readers to your advertisers.

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Fax: 860-872-4614

RESPONSE OF SMC WITNESS MERRIMAN TO INTERROGATORIES OF NAA

NAA/SMC-T2-4. Please refer to page 4, lines 8-9 of your testimony. Please explain what you mean when you say that postal rates for saturation distribution of your paper have remained "reasonable" over the past five years.

RESPONSE:

The postal rates that we have paid since 1996 have been reasonable in the sense that we have been able to offer our advertising customers reasonable prices. Reasonable in the advertising business generally means cost-effective. With the exception of the problem I explained in my testimony with the pound rate, our postal rates have allowed us to offer print advertising, distributed by mail, to the advertisers we serve at cost-effective advertising rates.

RESPONSE OF SMC WITNESS MERRIMAN TO INTERROGATORIES OF NAA

NAA/SMC-T2-5. Please refer to page 4, lines 8-9 of your testimony. Please explain what you mean when you say that postal rates for saturation distribution of your paper have remained "stable" over the past five years.

RESPONSE:

I believe the meaning of my statement is clear in the context of my testimony between pages 5 and 8. Although our rates went up by over 14% in January, 1995, there was a partial offsetting reduction in our rates through reclassification in 1996. The basic rate I pay for saturation pieces increased by 2.2% in January, 1999.

RESPONSE OF SMC WITNESS MERRIMAN TO INTERROGATORIES OF NAA

NAA/SMC-T2-6. Please look at page 5 of your testimony. You say that your verified audit shows an 86% readership (or .86 readers per copy) and that this number is off the charts for subscription papers and periodicals. Are you aware that the average readership of a newspaper is 2.148 readers per copy?

RESPONSE:

Your question is comparing apples and oranges. An audit company conducting a independent survey asked the question, "Do you or someone in your household normally read or look through the Farmer & Rancher Exchange?" 86% of all respondents answered "yes." It has been my experience that when newspapers refer to "readership," they may not be referring to a survey where newspaper recipients or subscribers were asked if they read the paper. Readership statistics as used in the newspaper industry are often extrapolated, without any third party survey or audit, from the census figures for the number of households in a given community times the number of people per household. In our market area, we have 2.67 people per household. Doing the math this way, we can, and do, boast that our paper has more than 110,000 readers with mailed circulation to over 42,000 homes.

One of the reasons newspapers like to cite readership figures is to avoid the questions that arise as their paid circulation decreases. For advertisers, the key question is often penetration. In the one area of our geographic coverage where we compete with a daily newspaper, Rapid City, the number of paid subscribers or the penetration of that paper in the market area it covers is less than 25%.

RESPONSE OF SMC WITNESS MERRIMAN TO INTERROGATORIES OF NAA

NAA/SMC-T2-7. Have you reduced the rates that you charge advertisers, as the ECR pound rate has declined since 1995 in real, inflation-adjusted terms?

RESPONSE:

Our overall rates have not "declined" since 1995 as January, 1995 produced an increase of 14.2% in the saturation rates we pay. In the interests of answering your question fairly and completely, I would volunteer that our insert rates have, thanks in part to the savings of reclassification and the stability of the pound rate, remained substantially the same for the past five years. Our ROP rates have increased since January, 1995 from 14% to 18%. I would point out that during this same period we have increased our circulation by approximately 25% so that the effective rate increase for our ROP advertisers was a wash or a modest decrease.

RESPONSE OF SMC WITNESS MERRIMAN TO INTERROGATORIES OF NAA

NAA/SMC-T2-8. Please describe the basis by which you charge for insert advertising in your shared mail program. In particular, do you charge on a piece per thousand basis, or by some other means?

RESPONSE:

Like our postal rates, we need to charge based on weight. Because some of our advertisers, who primarily use nonpostal media, are not used to charges based on weight, we make it a point in giving price quotes to our advertisers to give them a range of prices based on the estimated size of their advertising tab and to state, "Price is dependent only on weight and not on page numbers or page size." For our more sophisticated, larger advertisers, they are well aware of postal pricing and the effect of weight. For our smaller advertisers, we make it clear we need to see the piece, and weigh it, before an exact price can be quoted. We can quote an advertiser in terms of price per piece or price per thousand. We will allow the advertiser to buy as few as 200 pieces in a single carrier route.

RESPONSE OF SMC WITNESS MERRIMAN TO INTERROGATORIES OF NAA

NAA/SMC-T2-9. Please state your understanding of the extent to which other saturation mailers price advertising on the same basis that you do. Please also provide the basis for your understanding.

RESPONSE:

It is my understanding that other mailers also price their advertising based on weight, which is determined largely based on the postal rates and pound rates we pay. I believe it is common for other mailers to quote their prices based on a price per thousand.

RESPONSE OF SMC WITNESS MERRIMAN TO INTERROGATORIES OF NAA

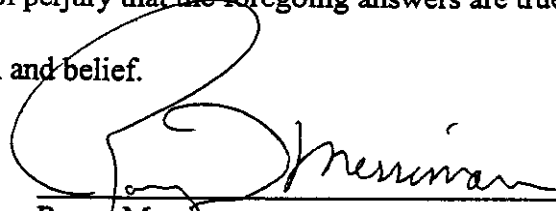
NAA/SMC-T2-10. Do your mailings qualify for destination entry discounts? If so, please state what proportion of your mailings are entered at which level. If not, please explain why not.

RESPONSE:

Less than 10% of our mailings qualify for discounts at the DDU level. It is cost-effective for us to enter this mail by transporting to Mobridge, South Dakota, Rapid City, South Dakota, and Pierre, South Dakota for entry at the DDU as these cities are within 150 miles of our main office and have significant levels of circulation. It is not cost-effective, or practical, for us to transport the balance of our circulation to the sectional centers or delivery unit offices that would serve the balance of our circulation.

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.



Roger Merriman

June 27, 2000