

BEFORE THE
POSTAL RATE COMMISSION
WASHINGTON, DC 20268-0001

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POSTAL RATE COMMISSION
OFFICE OF THE SECRETARY

POSTAL RATE AND FEE CHANGES, 2000

Docket No. R2000-1

RESPONSE OF
AISOP WITNESS ORLANDO BARO
TO INTERROGATORIES OF
NEWSPAPER ASSOCIATION OF AMERICA
(NAA/AISOP-T2-1-20)

Communications with respect to this document may be sent to:

Donna E. Hanbery, Esq.
Executive Director
Alliance of Independent Store Owners
and Professionals
3725 Multifoods Tower
Minneapolis, MN 55402

June 30, 2000

AISOP WITNESS BARO RESPONSES TO NAA

NAA/AISOP-T2-1. In your testimony you portray yourself as a small businessman and *The Flyer* as a small, independent business.

- a. Please confirm that *The Flyer* is owned by Harte-Hanks, one of the nation's leading multi-media companies.
- b. Please confirm that you are an executive of Harte-Hanks (either the main corporate entity or a Harte-Hanks subsidiary).

RESPONSE:

a. I believe pages 1 and 2 of my testimony accurately portrays my background as a salesperson who worked at *The Miami Flyer* until 1989, went to *The Tampa Flyer* for 10 years which I described as an "independently owned publication that I watched grow from start-up to a weekly mailed circulation of over 750,000." Ten years of my recent business life was working for *The Tampa Flyer*, an independently owned shopper that is not owned by, or affiliated with, Harte-Hanks. I testified that I returned to *The Miami Flyer* in 1999, that it was "one of the Harte-Hanks shoppers" and had a "weekly saturation mailed circulation of 1,175,000." I do not believe my testimony portrays *The Flyer* as a "small, independent business." *The Flyer*, and its employees like myself, do make it our business mission to focus on the needs of small, independent business.

I do confirm that *The Flyer of South Florida* is owned by Harte-Hanks, Inc. and that Harte-Hanks was ranked according to an Advertising Age web page of the 100 leading media companies by U.S. media revenue as number 87 for the most recent ranking shown. I would like to point out that according to that same Advertising Age web page the two main newspaper competitors of *The Flyer of South Florida* are *The Miami Herald*, owned by Knight-Ridder, which was ranked as number 14 of the 100 leading media companies with total media revenue for 1998 (the most recent year reported) of \$2,950,300,000. Knight-Ridder's revenues were 11 times those of Harte-Hanks in 1998. Our next significant competitor is *The Sun Sentinel* in the Fort Lauderdale area which is

AISOP WITNESS BARO RESPONSES TO NAA

NAA/AISOP-T2-2.

- a. Please confirm that the circulation of *The Flyer* is approximately 1,175,000.
- b. Are you aware that, according to the *2000 Editor and Publisher International Yearbook*, the Monday-Saturday circulation of *The Miami Herald* is approximately 349,114?
- c. Are you aware that, according to the *2000 Editor and Publisher International Yearbook*, the Monday-Saturday circulation of *The Washington Post* is approximately 714,945?

RESPONSE:

- a. Confirmed.
- b and c. I am not aware of the circulation figures published by the *2000 Editor and Publisher International Yearbook* for Monday-Saturday circulation for either of these papers. I assume by your question that you are referring to paid circulation or subscription numbers. I am aware that both *The Miami Herald* and *The Washington Post* operate TMC programs where insert advertisers can have some advertising delivered in the paper and other advertising delivered to nonsubscribers. *The Miami Herald* reports that its circulation through its TMC program is “approximately 725,000 subscriber and nonsubscriber households in Miami-Dade and Broward.” The geographic area covered by *The Miami Herald’s* TMC program is smaller than the geographic area we cover. *The Miami Herald* also publishes a separate, Spanish language paper named *El Nuevo Herald* that *The Miami Herald* reports reaches “113,000 Hispanic subscriber households” or it can be used to reach “260,000 subscriber and nonsubscriber households.” (Quotes taken from *The Miami Herald* rate card information filed as library reference AISOP-LR-1.

I would point out that when we sell against any daily paper to advertisers they primarily recite their Sunday circulation figures or their “readership” figures. The main source advertisers look to for verified circulation numbers is promulgated by ABC Audit, an independent company that audits and verifies circulation numbers.

AISOP WITNESS BARO RESPONSES TO NAA

owned by The Tribune Company. The Tribune Company was ranked number 19 according to this Advertising Age web page with 1998 revenues of \$2,515,600,000. Harte-Hanks Communications is smaller today than it was in 1998. I believe our two main competitors have grown even larger. Even with 1998 figures, our competitors were 10 times larger than Harte-Hanks Communications or the Harte-Hanks shoppers.

- b. Not confirmed. I am the Director of Sales for *The Flyer* in Miami.

AISOP WITNESS BARO RESPONSES TO NAA

NAA/AISOP-T2-3. With respect to *The Miami Flyer*:

- a. What is *The Flyer's* annual gross revenue?
- b. What is *The Flyer's* annual postal bill?

RESPONSE:

a and b. My employers at *The Flyer* consider information about its annual gross revenues and specific expense questions to be confidential and proprietary. I can state that approximately 27% of the gross revenues of *The Miami Flyer* is spent on postage.

AISOP WITNESS BARO RESPONSES TO NAA

NAA/AISOP-T2-4. Please refer to page 3 of your testimony, where you state that one “will not find K-Mart, or national grocers in our paper.”

- a. Please confirm that *The Flyer*'s carries advertising by Sedano's, South Florida's third largest food store and your number one customer?
- b. What percentage of The Flyer's revenue is from Sedano's?
- c. Will one find K-Mart, Wal-Mart, or national grocers in ADVO shared mail packages?
- d. Please refer to page three of your testimony. You appear to say that your costs are too high to attract K-Mart, Wal-Mart, or national grocers business. Do you know if ADVO typically has the same costs as you do/ If your answer is yes, why is it that in many sections of the nation ADVO can attract that business and you cannot?

RESPONSE:

a and b. Not confirmed. *The Flyer* does carry advertising of Sedano's and Sedano's may be South Florida's third largest food store, depending on how you define the area of South Florida. To prevent this answer or question from being misleading, I would add that if national grocers, or all grocers in Florida are considered, Sedano's would not be considered a large regional or national grocer. Sedano's has 30 stores with 28 in Dade County and two in Broward County. Their market concentration matches our saturation geographic coverage in Dade County and the areas Sedano's wants to cover in Broward County.

Sedano's ranking as a customer of *The Flyer* and our revenue from Sedano's is considered confidential and proprietary. I will acknowledge that Sedano's is one of our largest customers and is a valued and major account.

There is an additional reason why Sedano's favors advertising in *The Flyer* rather than distribution that might actually be less expensive on a cost per thousand basis in the daily paper. Sedano's is owned by Hispanics and caters to the Dade County market that is approximately 70% Spanish speaking people. Many of the products and specials offered by Sedano's are more like a

AI SOP WITNESS BARO RESPONSES TO NAA

local Cuban grocery than a large regional or national grocer. The readership of the *Daily Herald*, and its market penetration, is not strong among Spanish speaking people.

Sedano's also advertises with a light weight piece. If Sedano's did a heavier or larger advertisement, like the larger grocery stores routinely found as an insert in the newspaper, Sedano's might not find *The Flyer's* distribution cost effective.

b. In the ADVO packages I have seen in my market, I have never seen K-Mart or Wal-Mart. I have seen some lighter weight pieces from the major grocery store chains of Winn Dixie, Publix and Albertsons. Most of the national retailers, chain stores, franchises, and stores like the examples I gave in my testimony of K-Mart, Wal-Mart, and national grocers are carried as inserts in the Sunday paper or in a paper's TMC program.

c. I do not know ADVO's cost structure. I presume their postage rates are the same as ours. See answer to 4c above.

AISOP WITNESS BARO RESPONSES TO NAA

NAA/AISOP-T2-5. With respect to *The Flyer*:

- a. Does *The Flyer* typically pay Standard A ECR saturation or high density rates with either SCF or DDU discounts?
- b. What proportion of *The Flyer's* mailings pay the Standard A ECR piece-rate? The Standard A ECR pound rate?
- c. Do you know whether ADVO typically pays postage for its shared mail packages at the same presortation, destination entry discount, and piece-rate versus pound-rate levels as does *The Flyer*?

RESPONSE:

- a. All of our mail is Standard A ECR saturation mail entered at the DDU.
- b. Our weekly mailings typically are 40% at the piece rate and 60% at the pound rate.

At times, as much as 75% to 80% of our mailings are at the pound rate.

- c. I do not know.

AISOP WITNESS BARO RESPONSES TO NAA

NAA/AISOP-T2-6. Please refer to page 6, bottom paragraph, of your testimony, where you complain that you do not get postal discounts for volume or for frequency and that in the private sector, “the bigger you are, the more you save.”

a. Is it your position that government services should be offered on a discounted basis so that the bigger you are, the more you save on government services?

b. Is it your position that you would not object if the government offered ADVO services at fees lower than those the government forced you to pay for the same services?

c. Is it your position that *The Flyer* should have paid more for postage when it was an independent business and less after Harte-Hanks acquired it “since the bigger you are, the more you should save”?

RESPONSE:

I believe the quotation you excerpt from my testimony is out of context. What I said on page 6 is as follows:

For the medium to large size advertisers in our paper, they have more choices when postal rates go up. They will bargain hard to get the best deal they can from us, but they will also shop other media choices. Although *The Miami Flyer* is a big Postal Service customer, we do not get any discounts for volume or frequency. In other media, the bigger you are the more you save. Big stores have the power to bargain for and receive volume discounts in their printing, distribution, and frequency costs. Big stores can afford the production costs associated with electronic media and can design a media mix that combines electronic and print media to reach all or most of their customers at the lowest combined costs. (Emphasis added.)

It is my position that the Postal Service, and the Postal Rate Commission, should take into account the competitive realities of the marketplace where volume and frequency discounts are a fact of life and reflect discounts and savings routinely offered by our nonpostal competitors. Other than the worksharing discounts we earn from the Postal Service, we can do nothing to control or reduce a cost item that makes up 27% of our revenues. This makes us less competitive in holding on to the business of our medium and large customers. Volume and frequency discounts are a matter of common business practice in our industry and most businesses. Cost-effective government services

AISOP WITNESS BARO RESPONSES TO NAA

can and should fairly reflect the efficiencies and cost savings of higher volume, and more predictable, transactions like private providers.

In my experience in the marketplace, discounts or savings based on volume or frequency are not based on the size of the buyer but on the amount of the business done and the cost savings realized by the provider. The Postal Service or the Postal Rate Commission could fashion an approach to postal discounts for volume or frequency that gave local, high volume or frequent mailers cost savings regardless of the size of the mailer. This would be similar to what our nonpostal competitors do when they offer advantageous contract rates for advertisers making agreed to commitments for volume and frequency. Under this approach, *The Flyer*, whether independently owned or after Harte-Hanks acquired it, and a company as big as ADVO, would be on an even footing with the Postal Service at the local level when acquiring postal distribution services and all mailers would be more competitive with nonpostal media in the rates and services we can offer to our advertisers. For the small business customers and consumers, that are the primary customers we serve, they would benefit from a lower cost advertising supplier.

AISOP WITNESS BARO RESPONSES TO NAA

NAA/AISOP-T2-7. With respect to *The Flyer*:

- a. Please list all community newspapers you compete against and their circulation.
- b. Do you compete against ADVO? If yes, what is their distribution volume, and how many zoned areas do they sell?
- c. Who else do you consider the *Flyer*'s competition?

RESPONSE:

b. Yes. I do not know ADVO's distribution volume but I know that ADVO operates a weekly saturation mail program that covers all households in Dade and Broward Counties, the same general coverage area of *The Flyer*. I do not believe ADVO sells zones as such but has the ability to offer advertisers targeted distribution based on the demographic and geographic characteristics of a particular carrier route.

a and c. I could not possibly list all of the various media *The Flyer* competes with in Dade and Broward Counties without spending hundreds of hours researching the topic.

All media are competitors of *The Flyer* for the advertising dollars of our customers. As explained in my testimony, many different kinds of media are not cost-effective competitors for the small business person. For our larger customers, every type of media is a potential form of competition.

For our smaller customers, our competition includes not just other media but all of the other demands placed on the small advertiser's budget. Based on my own experience with new advertisers, I know *The Flyer* is competing with fixed expenses like labor, rent, costs of good sold, and discretionary items for the small business like capital improvements to the store, buying a new truck, or the owner's personal draw.

AISOP WITNESS BARO RESPONSES TO NAA

To answer your question as completely and accurately as possible with the information available to me, I can provide the following as a non-exhaustive list of the "community newspapers" with which we compete and our other competition:

In Dade County where the City of Miami is located, our primary newspaper competitor is the family of papers owned by the Knight-Ridder Media Company (ranked by the Advertising Age web page as #14 on the list of top 100 U.S. media companies by U.S. revenue) doing business as *The Miami Herald*, *El Nuevo Herald*, and a host of special sections, community papers, and editions operated by *The Miami Herald* including special inserts and sections like "The Weekend," "Business Monday," "Miami Herald International," "Domingo Social," "Home Town Herald," "Miami-Dade Neighbors," "TV Week Feature," "Parade Plus," and "Retail Directories." The individual circulation for each of these different sections or editions is not known to me but the published circulation information given out by *The Miami Herald* has been filed by us as library reference AISOP-LR-1.

The Miami Herald operates a TMC program known as "The Herald Values" which it advertises "reaches 725,000 (annual average) subscribers and nonsubscribers through Miami-Dade and Broward Counties." *The Miami Herald* also offers a variety of internet services known as "Herald On-line Services" that offer more than a dozen different on-line sites.

Although *The Miami Herald's* primary market area is in Dade County, it also overlaps our geographic coverage for part of Broward County.

The Flyer's primary print competitor in Broward County is *The Sun Sentinel* owned by Tribune Publishing (ranked by the Advertising Age web page as #19 on the list of top 100 U.S. media companies by U.S. revenue). *The Sun Sentinel* is the major daily newspaper of Broward County and advertises that it reaches "600,000 readers daily and more than 850,000 on Sundays." *The Sun Sentinel* offers advertisers a variety of daily and community-based print media choices and

AISOP WITNESS BARO RESPONSES TO NAA

sections including a local news section, lifestyle section, "Your Business," "Show Time," "City Link," "South Florida Parenting," and a magazine called *Vital Signs*.

The Sun Sentinel offers a total market coverage vehicle called Special Delivery that is delivered through its paid circulation and direct mail. *The Sun Sentinel* has six separate zoned editions in Broward County that have daily circulation ranging from 19,200 to 40,200 and Sunday circulation ranging from 27,300 to 62,900. This information is taken from the published advertising promotional material of *The Sun Sentinel*. *The Sun Sentinel* offers a variety of specialty products in sections within its paper, owns other community papers including *El Semanal*, *The Jewish Journal*, and offers a variety of direct mail services including geographically and demographically targeted TMC services, data base marketing, list services, and other direct mail services. Sun Sentinel Direct Marketing Services states in its promotional materials that it can operate as a "one stop source for all your laser and lettershop service needs."

In addition to the print media offered by *The Miami Herald* and *The Sun Sentinel*, *The Flyer* competes with a large variety of local newspapers, free specialty advertising papers, mailed products, and directories. Some of these print media competitors are listed below. I would point that I have not even attempted to list the competition we have with billboards, specialty advertising, electronic media like local broadcast, cable, and internet advertising. Print media in our community includes: *The New Times*, *The Miami Times*, *The Diario*, *Las Americas*, *El Clarian*, numerous local papers published under the banner of Gazette such as *Kendall Gazette*, *Homestead Gazette*, *Coral Gables Gazette*, etc., *El Sol De Hialeah Exito*, *Homestead Newspapers Inc.*, *The Women's Business Journal*, *La Opinion*, *La Verdad News*, *Courier Newspaper*, *Miami Daily Business Review*, *El Avisador*, *Miami Laker*, *Miami Today*, *Noticias Miami Dade*, *El Saro Newspaper*, *El Nuevo Patrica*, *South Dade News Leader*, *South Florida Business Journal*, *The Weekly News*, *Your Hometown Newspaper*, *The Florida Journal*, *The Key West Citizen*, *The Digest*, *Broward Informer*, *Broward News*, *Coral*

AISOP WITNESS BARO RESPONSES TO NAA

Springs/Parkland Forum, The Sun Post, Miami High Riser, Hialeah-Opa Locka News, Florida Keys Keynoter, Cutler Courier, Coral Springs City News, The Keys Advertiser, Margate/Coconut Creek Forum, Around Town, North Miami News, Tamarac/North Lauderdale Forum, numerous foreign papers including Brazilian Post, Caribbean News, Jamaican Observer, Islander News, Korean American Journal, El Colombiano, etc. Other free papers include Loafer's Choice, The Keys Advertiser, Pennysaver, and The Sun Post. Alternate and specialty publications include City Link, West Side Gazette, Florida Photo News and Image, Seminole Tribune, TWN, Contax Guide, Senior News, South Florida Parenting, and Florida Baby Magazine. Rack and specialty publications include Show and Sell Real Estate, Auto Trader, Car and Truck Buyer's Guide, Harmon Homes, Cordoco Homes, Apartment Rentals, Unique Homes Magazine, and numerous other specialty car, vacation, and travel print media. The primary direct mail media in our area, besides ADVO named above, include Val-Pak, Money Mailer, United Coupon, Super Coups, Tri-Star, Value Pack, The Clipper, The Mailman, and other smaller local mailed products. We compete with major telephone directories, such as The Yellow Pages, and localized directories, Chamber of Commerce monthly newsletters and directories, and other directories or papers put out by schools, community organizations, and nonprofits.

AISOP WITNESS BARO RESPONSES TO NAA

NAA/AISOP-T2-8. Please refer to page 3 of your testimony, where you state that advertisers use other less expensive media.

- a. What are these “less expensive media?”
- b. Please provide a full comparison of their rates and your rates.
- c. If these media are less expensive, why aren’t the small businesses that use your publication using them.

RESPONSE:

I believe you are quoting my testimony out of context. What I say on page 3 of my testimony is, “Medium and larger advertisers may continue to use our paper in their most productive zones, for new store openings, and seasonal or special sales. But they also use other, less expensive media.”

a. Within the context of my testimony, for medium and larger advertisers who can choose from a wide variety of print and electronic media, less expensive media measured on a cost per thousand basis could include ROP or insert advertising in a daily paper, distribution in a newspaper TMC delivered by private carrier or by mail, and electronic media such as radio, television, or the internet. As explained on page 6 of my testimony, larger advertisers can bargain for and receive volume discounts in printing, distribution, and frequency costs. These large advertisers often can afford the production costs necessary to make electronic media costs effective and can design a media mix that combines electronic and print media to reach all or most of their customers at the lowest combined cost.

b. See my answer to NAA/AISOP-T2-7. It is not possible for me to give a “full comparison” of all media with which we compete. In some circumstances these media, particularly for the larger advertisers, will be “less expensive” than *The Flyer*. For many specialty, free publications, like rack distributed give-away publications, such as specialty auto and home buying publications, where our competitors have little or no distribution costs, their media prices will be

AISOP WITNESS BARO RESPONSES TO NAA

cheaper for both small and large advertisers. For comparison of our rates and the rates of *The Miami Herald*, please see library references AISOP-LR-1 and AISOP-LR-2.

c. You are taking portions of my testimony out of context. I am not saying that the media that is less expensive for our large customers is also less expensive for small business. I am making the point that traditional print and electronic media are too expensive for small business and that this is one of the reasons they choose *The Flyer*. Once we have seen a small business grow and develop to a medium or large size business, they are more likely to be called upon and solicited by our competitors and the rates of our competitors for large advertisers, or the combined rates by using different media that a big advertiser can achieve through a well designed media mix, are likely to be less expensive than the cost per thousand we must charge.

AISOP WITNESS BARO RESPONSES TO NAA

NAA/AISOP-T2-9. Please refer to page 3 of your testimony, where you state that free papers provide geographically-targeted advertising services to local merchants.

- a. Do daily metropolitan newspapers, through their paper and Total Market Coverage Programs (TMC), provide geographically-targeted advertising services to local merchants?
- b. Do paid-circulation community newspapers, through their paper and Total Market Coverage Programs (TMC), provide geographically-targeted advertising services to local merchants?
- c. Do free-circulation community newspapers provide geographically-targeted advertising services to local merchants?

RESPONSE:

a, b, and c. Daily metropolitan newspapers, paid circulation community newspapers, and free circulation community newspapers, all have the ability to offer very targeted TMC programs for inserts and zoned ROP advertising services for “local merchants.” It has been my experience that paid circulation daily papers with zoned versions of the paper generally have zones that have circulation coverage that is anywhere from two to four times the zone size available to advertisers in *The Flyer* and have geographic coverage that may be ten times larger than the territory of our zones.

With the exception of some community newspapers and free circulation community papers, I do not believe that daily papers provide “geographically targeted advertising services to local merchants.” In my testimony, I make it clear that we are not order takers. We engage in consultative selling where we cater to the needs of small business. We help them understand their advertising needs, design and plan their ad, and, if cooperative dollars are available, we help them pay for their ad, and provide other advice and assistance to market their business. The daily and larger paid circulation community newspapers may provide services like this to their larger advertisers, but they do not provide this full range of geographically targeted advertising services to the smaller, local merchant.

AISOP WITNESS BARO RESPONSES TO NAA

NAA/AISOP-T2-10. With respect to *The Flyer*:

- a. How many individuals are on the staff of *The Flyer*?
- b. How many reporters or editors are on the staff of *The Flyer*?
- c. What percentage of the space in your paper is devoted to national, and/or local news reporting and sports reporting?
- d. Does your advertising revenue cross-subsidize the editorial activities of your paper?

RESPONSE:

- a. 190.
- b. None.
- c. None.
- d. It does not cross-subsidize news, reporting, and editorial/opinion activities. It does cross-subsidize the community-related and free reader ads we give to consumers.

AISOP WITNESS BARO RESPONSES TO NAA

NAA/AISOP-T2-11. With respect to *The Flyer*:

- a. How far down--i.e., zip code, postal carrier route, zip+4--does *The Flyer* zone ROP ads? inserts?
- b. What is the smallest "buy" an advertiser can make in *The Flyer*?
- c. To the best of your knowledge, how far down does *The Miami Herald* zone for advertising ROP "buys"? For free-standing insert buys?
- d. To the best of your knowledge, what is the small "buy" an advertiser can make in the *Herald*?
- e. To the best of your knowledge, how far down *The Miami Herald's* Total Market Coverage Product (TMC), operated by *Herald Direct*, zones?
- f. To the best of your knowledge, what is the smallest insert "buy" an advertiser can make in the *Herald's* TMC program, operated by *Herald Direct*? If your answer is yes, please provide that information.
- g. To the best of your knowledge, how many copies a week does the *Herald's* TMC program mail?
- h. What is the typical (not rate card) price per thousand for an insert that *The Flyer* charges for one zone?
- i. To the best of your knowledge, what price per thousand for an insert does *The Miami Herald's* TMC program charge for one zone?
- j. What is the price for a 4x4 one zone distribution ROP ad in *The Flyer*?
- k. What is the price of a full-page one zone ROP ad in *The Flyer*?
- l. To the best of your knowledge, what is the price for a 4x4 one zone ROP ad in *The Miami Herald*?
- m. To the best of your knowledge, what is the price for a full-page one zone ad in *The Miami Herald*?
- n. Does *The Flyer* offer or provide for solo mail programs?
- o. To the best of your knowledge, does *Herald Direct* offer or provide for solo mail programs?

AISOP WITNESS BARO RESPONSES TO NAA

RESPONSE:

a. *The Flyer* zones its ROP ads and inserts as finely down as one of our individually zoned shopper booklets. The smallest size zone, in terms of circulation numbers, is less than 6,000 homes per week. As stated in my testimony, we divide our paper into zones that are designed by shopping and traffic patterns with an average circulation of approximately 12,000 homes per zone.

b. An individual line classified ad in a single zone. As noted in my testimony, we run noncommercial ads for individual readers and consumers for free so that the smallest "buy" in our paper may actually be free. A paid classified ad may cost as low as \$5.00.

c, d, e, and f. My best knowledge would all be based on the information printed in *The Miami Herald's* rate card. We are filing a copy of *The Miami Herald* rate card and *The Flyer* rate card as library references AISOP-LR-1 and AISOP-LR-2.

g. I do not know how many copies *The Herald Direct's* TMC program mails. It promotes this program as having 725,000 total circulation in Dade County and portions of Broward County.

h. Because our insert prices must all be based on weight, we do not have a "typical" price per thousand for an insert in *The Flyer* for one zone. This question suggests that our rate cards do not accurately reflect our typical or actual rates. This is not true. Our "typical" rates are the prices reflected in our published insert advertising rates for *The Flyer*. Our insert rates priced per thousand based on weight for a single zone vary from a low of \$20.90 for a piece weighing .05 ounces to a high of \$76.00 for a one ounce piece. Although this is the range of weights shown on our rate card, I would point out that I have never seen a piece with a weight as low as .05 ounces. The "typical" lightest weight single pieces I usually see are for one-fifth or .2 ounces where the lowest rate is \$29.60 for a single zone buy with frequency of 1 to 11 times per year. Because it is so unlikely or rare, due to the high costs of postage, that an advertiser would mail a piece weighing

AISOP WITNESS BARO RESPONSES TO NAA

more than one ounce, our printed advertising rate booklet does not include rates for pieces weighing more than one ounce.

i. According to *The Miami Herald* rate card, a copy of which is being filed by us as library reference AISOP-LR-1, the price per thousand for an insert ad in *The Miami Herald* TMC for a single zone ranges from \$35.00 for a single sheet to \$83.00 for a 44 page tabloid size piece. I would estimate a 44 page tabloid piece (which is substantially larger in outside dimensions than our flexie sized *Flyer* booklet) weighs between four and five ounces. *The Miami Herald's* prices are not based on weight but are based on page count.

j. It is difficult for me to address your question as asked as *The Flyer* does not quote its ROP rates, designed for the use of small businesses, by quoting prices in column inches. Our one-quarter page vertical ad measures 3 1/16th inch by 4 ½ inches and is one-fourth of a page. A quarter-page, one zone, single insertion ROP ad in *The Flyer* pays our highest “open rate” of \$10.00 per thousand. In a typical zone of 12,000 homes, this would translate to a cost of \$120.00 for a quarter-page ad.

k. A full-page, one zone, single insertion ROP ad in *The Flyer* pays our highest “open rate” (with no discounts for multiple zones or frequency) of \$26.00 per thousand for one page. For a typical zone of 12,000 homes, this would translate to a cost of \$312.00 for a full-page ad.

l. It is difficult for me to answer your question as phrased as the rate card I have reviewed for *The Herald Direct* zoned edition known as *Miami-Dade Neighbors* does not show modular ads of 4x4 in its rate card. The closest thing in appearance to a 4x4 ad or a quarter-page ad in *The Flyer* would be somewhere between a buy of 2/10ths of a page (two columns by six inches) or 3/10ths of a page (three columns by six inches). I would like to point out that the same size ad in *The Herald Direct* will make a different impression than the same size ad in *The Flyer*. *The Flyer* is a smaller paper than *The Herald Direct*. An ad of 16 square inches in *The Flyer* will take up much

AISOP WITNESS BARO RESPONSES TO NAA

more of the page than 16 square inches in *The Herald Direct*. To the best of my knowledge, based on my interpretation of *The Miami Herald* rate information, a copy of which has been filed as library reference AISOP-LR-1, rates for zoned ROP ads in *The Miami Herald* will also vary depending on the zone purchased if the advertiser is buying a single insertion, one zone buy, in the Miami-Dade Neighbors section. These zones have circulation running from a low of 21,720 to 46,573 with higher circulations on Sunday. The geographic areas covered by these zones appear, on average, to be approximately 10 times greater than the geographic zones of *The Miami Flyer* (there are 56 Miami-Dade county zones in *The Flyer* and only 5 zones in *The Miami Herald*). I am not able to determine a price for a 4x4 one zone, ROP ad in *The Miami Herald* zoned Miami-Dade Neighbors section based on its published rate information.

m. To the best of my knowledge, the price for a full-page one zone ad in *The Miami Herald* neighborhood sections would run from as low as \$605.15 for the lowest circulation zones of approximately 21,000 to 23,000 to a high of \$1,485.25 for the zones with higher circulation. As I explained in my answer to subparagraph l above, the geographic territory of the 5 zones covered by *The Miami Herald* in Dade County are approximately 10 times bigger than the geographic territory of *The Flyer's* 56 Miami/Dade County zones.

n. No.

o. I do not know.

AISOP WITNESS BARO RESPONSES TO NAA

NAA/AISOP-T2-12. Please provide the answers to the following in table form. Please consider the community newspapers that compete with *The Flyer*.

- a. To the best of your knowledge, how far down do these community newspapers zone for advertising “buy”?
- b. To the best of your knowledge, what is the smallest “buy” that an advertising can make with each of these community newspapers?
- c. To the best of your knowledge, what is the price per thousand for an insert in each of these community newspapers?
- d. To the best of your knowledge, what is the price for a 4x4 ROP ad in each of these community newspapers?
- e. To the best of your knowledge, what is the price of a full-page ad in each of these community newspapers?

RESPONSE:

Please see my answer to NAA/AISOP-T2-7. Because there is so such a large number of community newspapers that compete with *The Flyer* and they have such a wide variety of pricing their products, most of which pricing information is not known to us other than general knowledge, I cannot answer this question for all of the print media that could be considered community newspapers that compete with *The Flyer*.

AISOP WITNESS BARO RESPONSES TO NAA

NAA/AISOP-T2-13. Please refer to page 7 of your testimony, where you state that Martino Tire started out advertising with you, and ultimately shifted to daily newspapers. Would you agree that it is *possible* that Martino Tires shifted advertising venues because it found the different environment of newspaper advertising more suited to their needs than a mailed shopper?

RESPONSE:

No, I would not agree. The owner of Martino Tires told the president of *The Flyer* that the reason he was shifting his advertising from our paper to the newspaper was because *The Herald* was offering Martino Tires a better price for their distribution than we could offer. Martino Tires made the decision to shift their advertising at a time when we were attempting to implement a rate increase that reflected, in part, the higher postal rates we were paying as more of our booklets were being mailed at the pound rate. They refused to pay any higher rates and took much of their insert distribution business to a cheaper provider. Martino Tires does its advertising in *The Herald Direct* TMC program. Many of their ads are not delivered in the “environment” of a newspaper but in a wrap that is more closely akin to the environment of an ADVO mailed piece. Martino Tires switched because it could have its advertising delivered at a lower cost per thousand than we could offer.

AISOP WITNESS BARO RESPONSES TO NAA

NAA/AISOP-T2-14. Might it also be true that K-Mart, Wal-Mart and national grocers are not in *The Flyer* because they have found the environment of Sunday newspapers more conducive to successful sales at their stores?

RESPONSE:

I do not believe this is true. K-Mart, Wal-Mart and national grocers are not choosing the Sunday paper because they like its “environment” but are in the Sunday paper because it has the highest circulation distribution, at the lowest cost per thousand, of the paper for any day of the week. If advertisers had their choice, they might prefer to have their advertisements reach consumers on Thursday, Friday, or Saturday so that readers could plan shopping and home projects based on the advertising information they receive.

AISOP WITNESS BARO RESPONSES TO NAA

NAA/AISOP-T2-15. Please refer to page eight of your testimony, where you state that the *Miami Herald* just raised its price to \$1.25.

- a. Please confirm that the \$1.25 price is the price for a newsstand, non-subscription, single copy sale.
- b. Do you know that the typical price of a subscriber to the *Miami Herald* is less than 34 cents per day?
- c. You say that low income households, single parents, and seniors cannot afford to buy a subscription to a newspaper. What, if any, is the difference in area penetration of *The Miami Flyer* in Coconut Grove versus what you define as “low income households”?

RESPONSE:

- a. Confirmed.
- b. I do not know the “typical price” of an annual subscription to *The Miami Herald*.
- c. My exact statement was:

The daily newspaper in our community, *The Miami Herald*, just raised its prices to \$1.25. Although subscription rates may be cheaper, many of our readers live in demographic areas where every dollar counts. Low income households, single parents, and seniors need to stretch their dollars and shop for savings. They cannot afford subscription papers or magazines. With *The Flyer*, they do not have to spend money to save money.

According to the penetration figures put out by *The Miami Herald*, its penetration in Coconut Grove is 33%. This is substantially higher than its penetration in “low income areas” which may be as low as 2%. In Opa Locka, the community I refer to in my testimony, *The Miami Herald* has penetration of 17%. In other low income areas such as Coral Park and Westchester, its penetration is 10% to 18%. It is 7% in Little Havana and 14% in Grapeland.

I would point out that my reference to these communities was in a section of my testimony where I stated, “We are a neighborhood publication that reflects the diversity of each community,” and “Our papers reflect the needs and tastes of each unique neighborhood. Many of our papers are bilingual and we offer discounts to advertisers who want to run an ad in both English and an

AISOP WITNESS BARO RESPONSES TO NAA

additional language.” One of the reasons many of our advertisers prefer *The Flyer* to *The Miami Herald* is that *The Miami Herald* does not have good penetration or readership in communities that are largely Hispanic.

AISOP WITNESS BARO RESPONSES TO NAA

NAA/AISOP-T2-16. Please refer to page 5 of your direct testimony where you state that you cannot cut prices and offer special deals to your biggest customers. Is it your testimony that your largest advertiser pays the same rate as smaller customers? Please provide a copy of your current rate card, plus written contracts between your company and your top five advertisers, to support your answer.

RESPONSE:

No, it is not my testimony that our largest advertisers pay the same rate as smaller customers. I would hope that when read in context page 5 of my testimony is clear that when postal rates go up, our largest customers are offered attractive deals by our nonpostal competitors that we cannot match due to the fixed costs (27% of our gross revenues) we must pay for postage. We are filing a copy of our advertising rate booklet as library reference AISOP-LR-2. As the charts in our rate booklet show, we offer more attractive rates to advertisers based on their volume and frequency. For example, an advertiser wanting to do an insert of a very light weight single sheet would pay for one-fifth of an ounce at \$29.60 per thousand for a single mailing. Our advertiser would receive a better rate if it increased its circulation and frequency. An advertiser doing a .20 ounce piece for one zone per year who commits to 12 mailings will get a rate of \$24.60 per thousand. If that same advertiser commits to circulation of 200,000 12 times per year, the rate per thousand is \$19.60. These rates are not based on the size of our customers but on the size of their advertising buys with *The Flyer*. Our rate charts range from circulation for inserts of one zone to 200,000 because this is the range of advertising done by the vast majority of our customers. For our largest accounts, where we face the most competition from other media, including nonpostal distribution where the distribution costs of our competitors are lower, rates are not on our "rate chart" but are negotiated and need to reflect our costs. This is where we are at a disadvantage with nonpostal print media because they do not have the high fixed distribution (postal) costs based on weight that we do. We consider these negotiated rates highly confidential and proprietary and will not provide written contracts between our company

AISOP WITNESS BARO RESPONSES TO NAA

and our top five advertisers. Please see my response to NAA/AISOP-T2-13 where I explain that at the time we were raising the rates for Martino Tires we were vulnerable to losing them to competition and, indeed, lost them to the TMC program offered by *The Miami Herald*.

AI SOP WITNESS BARO RESPONSES TO NAA

NAA/AISOP-T2-17. Please compare the ROP and preprint distribution prices that you charged your advertisers in July 1996 with your current prices. In particular, please address whether your prices to advertisers have risen, declined, or stayed the same over the course of that period.

RESPONSE:

The rates at *The Flyer* in Miami for July, 1996 and current rates cannot be addressed without reference to the changes in rates and prices that took place in January, 1995. In January, 1995, paper prices were very high and there was a postal rate increase of over 14%. Although there were variations between classified, ROP, and insert rates, our average rate increases after January, 1995 ranged from 6% to 8%. Although *The Flyer* promptly increased its advertising rates when postage rates went up, it had substantial difficulty passing on these higher rates to major advertisers. In July, 1996 when postal reclassification resulted in a reduction of *The Flyer's* postal rates, *The Flyer* did not change its published advertising rates book (which, as explained in my answer to NAA/AISOP-T2-16, only covers insert buys up to a circulation of 200,000) but promptly had negotiations for rate reductions with our major accounts, who were well aware of the change in our postal rates. Although we consider the individual rates paid by our major accounts to be confidential and proprietary, I would note that the major grocery account, Sedano's, that was the subject of your inquiry in NAA/AISOP-T2-4, is paying approximately 17% less today than it did prior to July, 1996.

AISOP WITNESS BARO RESPONSES TO NAA

NAA/AISOP-T2-18. Please refer to page 6 of your direct testimony. In what “prior years” did you see “double digit postal increases”? Please specify the percentage of the “double digit postal increases.” During these years, how much did the rates that you charge advertisers increase? Please specify your answer in actual dollars and as a percentage based upon the previous year’s rates.

RESPONSE:

In the 1980s, when I was a salesperson at *The Miami Flyer* and at *The Tampa Flyer*, I remember years where there were double digit increases in postal costs that we needed to pass on to our customers and we raised their rates. I cannot recall or specify the percentage of these postal increases or the amount of change in the rates to our advertisers. I can affirm based on my experience at *The Miami Flyer* and *The Tampa Flyer* that in the face of these large increases we experienced a big buy down in advertisers where they would either drop out of the paper or reduce their circulation. Those advertisers that remained in the paper, responded to significant price increases by keeping their advertising budget the same but by reducing the size of their ad, reducing the zones where their ad was run, or reducing their circulation.

I am aware that postage rates went up by over 14% in January, 1995. Although I did not work at *The Miami Flyer* at that time, *The Miami Flyer* responded to this postal rate increase by immediately raising its advertising rates in the range of 6% to 8% and by laying off \$400,000 in payroll to cut its own costs. This was done because major advertisers would not pay large increases, but would switch or threaten to switch to other media, and the small to medium advertisers would drop out of the paper or cut their ads as described above.

AISOP WITNESS BARO RESPONSES TO NAA

NAA/AISOP-T2-19. Please refer to page 7 of your direct testimony. In the top paragraph, you mention that “newspaper distribution. . . would cost too much and reach people that were outside their stores’ trade area.” In the bottom paragraph, you refer to a “higher prices per thousand of circulation for targeted distribution by mail” [presumably a reference to your free shopper] and further state that the “insert price per thousand is cheaper in the daily newspaper for big volume customers than we can make available to our customers.” Does newspaper TMC insert distribution of comparable print pieces “cost too much” or cost less than your *Flyer*?

RESPONSE:

Your question quotes from different paragraphs and portions of my testimony. Yes, it is true that newspaper distribution can cost too much for the small advertiser so that a targeted, geographically zoned mailed shopper is the best, most cost-effective advertising method for small business. This is because the average zone size, and media buy, for the small advertiser is approximately 12,000 homes per zone in our paper. Many daily papers and community papers do not offer any zoned products for their advertisers. For those papers that do offer zoned products, the zoning option may only be available one or two times a week, may be in a section of the paper that is not well read or highly regarded, and generally goes to a geographic area that is approximately ten times larger than the typical geographic zone offered by a free paper. (For example, in Dade County *The Miami Herald* offers five zones in its Neighborhood zoned section. We offer 56.)

For the large advertisers, who want to reach a big geographic area at the lowest cost per thousand, newspaper distribution, either through inserts received only by subscribers or through a TMC product delivered by private carrier or mail, will always have lower costs for the newspaper to deliver than our postal distribution costs. For the small to medium insert advertisers, who are not doing big circulation and are sending light weight pieces, we attempt to offer insert distribution prices that are competitive with daily newspaper distribution. Although our actual costs per thousand are likely to be higher, we are often able to attract these customers because our zoning options are more finely tuned. For the large volume major accounts, that do cover a big circulation

AISOP WITNESS BARO RESPONSES TO NAA

on a frequent basis, our insert prices are likely to “cost too much” for the advertiser. They “cost too much” because the advertiser, like the example given in my testimony for Martino Tires, can get a better deal by taking its larger advertising budget, and regular and predictable frequency program, to a nonpostal competitor and get a better deal. For heavier pieces, our insert prices for all of our customers will always “cost too much” when compared with the daily newspaper because we must price based on weight. It is for this reason that our advertising rate charges do not even include a rate for pieces weighing more than one ounce because we are so uncompetitive for heavier pieces.

AISOP WITNESS BARO RESPONSES TO NAA

NAA/AISOP-T2-20. Please refer to the discussion in your testimony beginning on page 4, second paragraph (“We succeed by offering. . .”) through the second full paragraph on page 5. Please confirm that the services which you describe your sales staff as offering to your customers are excellent selling techniques employed by most professional advertising sales staffs in an effort to acquire and retain the majority of advertisers budgets? If you cannot confirm, please explain.

RESPONSE:

Not confirmed.

I agree that our paper offers our customers “excellent selling techniques” but I strongly disagree that such techniques are employed by “most professional advertising sales staffs.” As I tried to explain in my testimony, the free paper industry, and the papers where I have worked in Tampa and Miami, are highly focused on the needs and success of our small business customers. I consider our business very different from the professional advertising staffs of our major competitors in print, the daily newspapers, and electronic media. In the free paper industry, the advertising staffs of our competitors are often referred to as “order takers” when it comes to all but their largest accounts. Indeed, the corporate mission of *The Miami Flyer* is, “We choose to deliver a level of service that others are either unwilling or unable to deliver.”

Our sales staff does not engage in efforts “to acquire and retain the majority of advertisers’ budgets.” We spend much of our time convincing small businesses that they should create and develop an advertising budget to market their business and grow. Unlike much of our competition, where the professionals are chasing the existing advertising budgets of major accounts, our sales force spends much its time convincing the small store owner that he/she should advertise. We persuade non-advertisers to become advertisers. As described in my testimony, we often make two to three sales calls before we sell the first ad. I do not believe the typical newspaper “salesperson” would spend one hour with a small business to get a \$100 ad. Based on my experience, the typical newspaper salesperson would not bother to create a \$50 spec ad for a customer (which means the

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AISOP WITNESS BARO RESPONSES TO NAA

salesperson would design and create “on spec” an ad for the advertiser to consider running at a cost of \$50) and return to the customer with a sample of the ad in the hopes of getting a \$50 sale.

Free papers cater to and focus on the needs of the smaller advertiser. The majority of our new customers are businesses and individuals that have never advertised before. We are their partners because we persuade them to advertise and will only succeed if they see results from their investment with us.

Our competitors in print and electronic media may spend this type of time and effort on their larger customers, but most large customers already understand advertising and have a dedicated advertising budget. They do not need, or want, assistance in design or laying out the ad, determining their best geographic coverage area, and other marketing techniques. Large customers have their own professional advertising staffs and are shopping different distribution media largely based on price.

This is why it is so frustrating for me to see the small business advertisers that we nurture to become larger, more successful businesses leave our paper because we cannot compete with the lower costs and prices offered by our competitors.

In support of this conclusion, I would point to a statistic cited by Dick Mandt, the original owner and publisher of *The Miami Flyer*. In its first few years, *The Miami Flyer* grew to a \$30 million business. Mandt states that 95% of this business was new business. 5% or less of this business came from existing customers of *The Miami Herald*.

DECLARATION

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

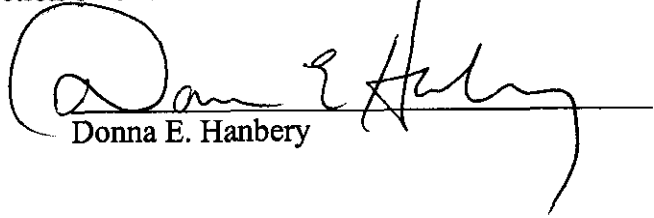


Orlando Baro

June 27, 2000

CERTIFICATE OF SERVICE

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


Donna E. Hanbery

June 30, 2000