

BEFORE THE
POSTAL RATE COMMISSION
WASHINGTON, D. C.

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POSTAL RATE COMMISSION
OFFICE OF THE SECRETARY

POSTAL RATE AND FEE CHANGES, 1997

Docket No. R2000-1

REBUTTAL TESTIMONY OF
BERNARD BRADPIECE
ON BEHALF OF THE
SATURATION MAIL COALITION

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REBUTTAL TESTIMONY OF BERNARD BRADPIECE

AUTOBIOGRAPHICAL SKETCH

1 My name is Bernard Bradpiece and I am the President, CEO, and owner of the
2 Pennysaver Group, a saturation mailed weekly free paper with a circulation of
3 1,300,000 in the States of Maryland and northern Virginia. I am also the owner of the
4 Metro Community News, a 290,000 circulation saturation weekly free paper that is
5 distributed in Erie and portions of Niagara Counties in New York by private carrier.

6 I came to America and bought the Maryland Pennysaver publication in 1996. I
7 moved here from the United Kingdom and sought an entrepreneurial venture that I felt
8 would help me and others pursue the American dream of starting, building, and
9 owning your own business. Before 1996, I worked as an independent international
10 business consultant and provided services commonly known as turnaround work to
11 businesses that included the parent corporation for British Aerospace, Ingersoll
12 Publishing, Ltd. (now known as Midland Independent Newspapers), Royal Worcester
13 and Spode Potteries, and Derby International, the manufacturer of Raleigh bicycles.
14 For each of these businesses, I was responsible for creating and executing
15 strategies to restructure business operations or balance sheets in order to improve
16 operating performance and/or attract new capital.

17 From 1983 to 1991, I worked for various bank groups with positions as Vice
18 President for Citi Bank and culminating in 1991 as the Managing Director for Chase
19 Manhattan Bank, head of UK Corporate Finance. Prior to 1983, I created and owned
20 my own business involving the sale and service of automobiles and operation of
21 petrol filling stations. I have a Masters Degree in Business Administration from the
22 Cranfield School of Management.

23 My papers are members of the AFCP (the Association of Free Community
24 Papers), the Alliance of Independent Store Owners and Professionals, and I am on
25 the Steering Committee for the Saturation Mailers Coalition.

PURPOSE OF TESTIMONY

1 As a newcomer to this country, and the mailed free paper business, I have
2 never tracked or participated in a postal rate proceeding. I have read the testimony of
3 William B. Tye, an economist hired by the Newspaper Association of America, and
4 John White who operates a distribution company owned by a daily newspaper and
5 who is testifying on behalf of the Association of Alternate Postal Systems. It is worth
6 clarifying that Mr. White is in fact employed by a newspaper group. His own
7 description of his position could have led to the unintentional misinterpretation that he
8 represented a small independent business. I do represent a small independent
9 business. The purposes of my testimony are:

10 1. To rebut the NAA and AAPS argument that "the USPS proposal [for Standard A
11 ECR saturation mail] would significantly harm [AAPS members or other competitors]."
12 AAPS-T-1 at p.7. My testimony will show:

- 13 a. Data that compares the costs to deliver a free paper by private carrier
14 and the costs to deliver that same paper under existing and proposed
15 saturation mail rates. Even with the modest pound rate reduction sought
16 by the USPS, the costs of private carrier will still be one-third the cost of
17 USPS distribution.
- 18 b. The high costs I am paying for postal distribution have made my
19 saturation mailed paper less competitive in securing and holding the
20 business of medium and larger advertisers. Our paper has seen a
21 decline in the account base of these customers and we have been
22 largely unable to sustain price increases for the last four years.

23 2. To rebut the NAA position that the record does not show that the USPS is being
24 threatened by ECR competitors or loss of ECR business, I will show the USPS is
25 vulnerable to loss of saturation mail business by saturation mailers acting individually
26 or together with other mailers to convert all or portions of their saturation mail delivery
27 coverage to private delivery. NAA-T-1 at p.45.

I. THE COSTS FOR PRIVATE CARRIER DELIVERY ARE SUBSTANTIALLY BELOW EXISTING AND PROPOSED POSTAL RATES

1 As somewhat of a newcomer to a business relationship with the USPS, I was
2 surprised to find that the statute gives our fiercest competitors standing and authority
3 in determining the business relationship and pricing levels I must pay with my largest
4 vendor. In addition, the newspapers and private delivery concerns have chosen not to
5 provide proper sworn evidence of their own costs to justify the self-serving and
6 unsubstantiated assertions they make about competitive harm.¹

7 In my industry, there are publishers like me who distribute papers both by mail
8 and by private carrier. Because of the great cost disparity between private carrier and
9 mail, and the high pound rate, papers that use the mail are often lighter weight papers
10 or papers in rural, less dense areas, where the cost of setting up a private carrier
11 force are greater.

12 My competitors' testimony in this case has been somewhat coy in criticizing
13 USPS data on costs for "thinness of tallies." It is no wonder to me that there are few
14 examples of saturation pieces mailed at the heavier weights as the cost for mail
15 distribution of heavier pieces is so high and so totally out of proportion to alternate
16 distribution costs for similar pieces.

17 Here is an example from my own experience of the great cost disparity between
18 private carrier distribution and existing and proposed postal rates. I recently
19 purchased a free paper in the area of Buffalo, New York. When I acquired the paper, I
20 had thoughts of converting my distribution to the USPS as I have been satisfied with
21 the service I received from the USPS and prefer to keep my organization focused on
22 publishing and marketing the paper. When I analyzed the distribution costs of my new
23 acquisition, any thoughts of converting to postal delivery vanished.

¹ From my own research, I believe it would be difficult for the newspaper industry to show competitive harm. Because of their significantly lower delivery costs, carrier delivered newspapers enjoy average operating profit margins of 31.56% (Inland Study Press Association 1998--Daily Newspapers Circulation 51,400 to 60,500).

1 Printed on the following page is a chart comparing the private delivery costs to
2 deliver a typical paper with what I would pay under current postage rates and under
3 the proposed postage rates.

4 Some highlights to note in this comparison and the chart:

5 1. The name of the paper is Metro Community News in New York with
6 distribution in Erie County and part of Niagara County. The paper itself is a lightweight
7 piece but has built up a substantial insert distribution business.

8 2. The costs for hand delivery labor reflected below show a set price of
9 \$56.00 per thousand paid to the carrier, as well as a separate fee of \$1.20 per
10 thousand to a route supervisor. The carrier of this paper is paid \$5.60 per thousand
11 for every insert in the paper. This compensates the carrier for actually inserting the
12 piece in the paper and its distribution. The carrier is paid a flat rate per insert. Prices
13 are not set based on weight.

14 3. The rates paid for labor in these counties of New York are on par with the
15 costs a publisher would encounter in other major metropolitan areas. The labor
16 costs in smaller market areas are likely to be less.

17 4. Currently, my starting postage rate for my Pennysaver product with full
18 saturation with destination delivery unit discount up to 3.3087 ounces is \$114 per
19 thousand. The proposed increase on the piece rate will take me to \$120 per
20 thousand or a \$6 per thousand increase. The combined carrier and supervisor cost
21 to hand deliver a paper weighing almost 11 ounces is \$105.84 per thousand
22 compared to the \$120 per thousand for my mailed 3.3087 ounce piece. A dramatic
23 difference.

24 5. That same paper weighing almost 11 ounces under today's postage
25 rates would be \$369.23 for postage plus another \$37.00 for inserting and labeling for
26 a total of \$406.23. The per thousand costs under the proposed postage rates would
27 be \$334.90 for postage plus inserting and labeling for a total of \$371.90.
28

COST COMPARISON OF POSTAL AND PRIVATE CARRIER FREE PAPER

	<u>Product</u>	<u>Piece weight in pounds</u>
Typical Paper with 8 Inserts	Paper	0.084
	Grocery Tab	0.046
	Grocery Tab	0.132
	Grocery Tab	0.084
	Grocery Tab	0.044
	Car Service Flyer	0.010
	Retail Circular	0.020
	<u>Retail Circular</u>	<u>0.022</u>
	Total Weight	0.682 (10.91 oz.)

Hand Delivery Costs			<u>Carrier</u>	<u>Supervisor</u>	<u>Total</u>
			56.00	1.20	57.20 perM
	<u>Carrier</u>	<u>Supervisor</u>	5.60	0.48	6.08 perM
Paper	56.00 perM ¹	1.20 perM	5.60	0.48	6.08 perM
Inserts	5.60 perM	0.48 perM	5.60	0.48	6.08 perM
			5.60	0.48	6.08 perM
			5.60	0.48	6.08 perM
			5.60	0.48	6.08 perM
			<u>5.60</u>	<u>0.48</u>	<u>6.08 perM</u>
			TOTAL		105.84 perM

Postal Costs			<u>Inserting and Labeling Costs⁴</u>	
	<u>Current</u>	<u>Proposed</u>		
Paper ²	114.00 perM	120.00 perM	Paper	9.00 perM
Inserts ³	0.537 per lb	0.450 per lb	Inserts	3.50 perM
	+.003/piece	+.028/piece		

Current Postal Rates			Proposed Postal Rates		
<u>Postage</u>	<u>Insert/Labeling</u>	<u>Total</u>	<u>Postage</u>	<u>Insert/Labeling</u>	<u>Total</u>
369.23	37.00	406.23	334.90	37.00	371.90

Total Costs PerM to Deliver 10.91 Ounce Paper By:

Hand Delivery	\$105.84
Current postal rates	\$406.23
Proposed postal rates	\$371.90

¹ perM = per 1,000

² Plus inserts up to 3.2985 ounces

³ Cost for inserts after paper and inserts exceed 3.2985 ounces

⁴ Labeling costs required by postal regulations--NOT a required cost for hand delivery.

1 AAPS Witness White states in his testimony, "Lowering the pound rate would
2 further damage alternate delivery's ability to compete. . .with prices that could allow
3 shared mail packages to arbitrarily price below our costs, forcing alternate delivery
4 companies out of business." AAPS-T-1 at p.5. AAPS and NAA do not provide any cost
5 data from their industry to support their position that the USPS proposal will hurt their
6 members, let alone allow mailers to price below their costs. It is no wonder that
7 USPS competitors refuse to share their costs with this regulatory body. Even under
8 the rates proposed by the USPS, my postal cost of distribution will still be two to three
9 times higher than my competitors. The reality is that even the proposed postal prices
10 are too high. The USPS should be charged with generating price reductions so that it
11 and its customers can better meet the challenges of the dramatic technological
12 changes we all now face.

13 Based on the evidence, or lack thereof, produced by my competitors and my
14 own analysis of a cost comparison between private delivery and existing and
15 proposed postal rates, it is hard for me to fathom how the USPS proposal "could
16 adversely affect private competitors of the USPS" or tilt the playing field to favor
17 saturation mailers over advertising publishers and distributors who use private
18 carriers.

**II. HIGH POSTAL COSTS MAKE PUBLICATIONS DISTRIBUTED BY MAIL
TOO EXPENSIVE FOR MEDIUM TO LARGER ADVERTISERS**

19 AAPS Witness White maintains that the USPS proposal for ECR saturation mail
20 will "significantly harm" AAPS members. AAPS-T-1 at p.7. Although NAA Witness Tye
21 declines to offer any specific information about the costs, prices, or margins of the
22 newspaper industry, he criticizes the USPS filing for not offering any evidence of the
23 impact of rates on competitors and concludes, "The rate proposals conform to a
24 pattern of an enterprise seeking to use rate levels and rate design to shift volume
25 from private enterprise competitors." Tye accuses the USPS of having a "stealth
26 objective of diverting mail from private enterprise competitors." NAA-T-1 at pp. 21 and

1 47. Both Witnesses White and Tye criticize the USPS for not doing its job in
2 submitting these rate proposals by "considering the impact of rates on competitors."
3 NAA-T-1 at p.46.

4 I understand that this regulatory body has an obligation to consider "the effect of
5 rate increases upon the general public, business mail users, and enterprises in the
6 private sector of the economy engaged in the delivery of mail other than letters," (39
7 USC §3622(b)(4)) but also a desire and an obligation to preserve the long-term
8 health and stability of the USPS as a viable enterprise and competitor in the mail
9 delivery industry. In this section of my testimony, I will show that the present
10 saturation mail rates and the high pound rate have made it difficult for my mailed
11 shopper to be competitive in our market area, which in turn makes the USPS less
12 competitive as a distribution supplier. The USPS proposals in this rate case will
13 provide a small amount of relief to my paper but will have little impact on our
14 competitors. They will certainly not help us, or the USPS, achieve any "stealth
15 objective" of diverting advertising from private enterprise.²

16 The Pennysaver Group free paper is distributed weekly to approximately
17 1,300,000 throughout Maryland and northern Virginia. To serve our advertisers and
18 consumers, we offer complete saturation coverage. We do not distinguish between
19 low income and high income demographic areas, rural, suburban, or metropolitan
20 markets. In the four years I have owned and operated the paper, postal rates may

² As substantiation for Tye's conclusion that the USPS is targeting "the heavier pound rated ECR traffic for diversion," he points to a meeting that occurred between Witness Moeller and representatives of the Saturation Mailers Coalition and the Mail Order Association of America in November, 1998. I recently attended a meeting between Witness Moeller and representatives of the Association of Free Community Papers at the AFCP's annual conference. The mailed free papers in attendance at the meeting were not telling Witness Moeller how the proposed rates would help them divert business from competitors. Instead, many of the mailers in the room were questioning why the USPS rates for saturation papers would still be so high. One publisher, who has a small paper in an area that is largely rural and distributes his circulation 50-50 by mail and private carrier, states that when advertising brokers call him to place advertising in his paper that they comment that they know he must charge them more than they are paying to place advertising in papers that are distributed by private carrier because of the high postal distribution costs he pays. If I was to characterize the message the USPS is hearing from its saturation mail customers, and in particular mailed free papers, it is "if you want to keep our business you need to contain your costs."

1 have been relatively stable but competitive conditions have not. Our marketplace has
2 become increasingly competitive and our medium to large customers are able to
3 demand more for their dollar.

4 As a free paper or shopper, our advertisers can purchase a zoned market buy
5 that fits their pocketbook and trade areas. The shopper business, and our Maryland
6 and Virginia Pennysavers, operate very much as described as SMC Witness Harry
7 Buckel. SMC-T-1 at pp. 6-10. Our core group of customers are the mom and pop
8 small businesses and individuals, like those described by AISOP Witness Orlando
9 Baro. AISOP-T-2 at p.3.

10 For a shopper to be successful, however, it needs a mix of small, medium, and
11 large local businesses. Both advertisers and consumers want a paper with
12 information on a wide variety of the shops and services in their area.

13 In recent years, competitive conditions and high postal distribution costs have
14 made it more difficult for our paper to retain the business of our medium to large
15 customers. The proposed postal rates, and the reduced pound rate, will not
16 substantially change this equation. But it will help stem the erosion of business we
17 have seen from our retail and service advertisers who purchase ROP advertising on
18 the pages of our paper.

19 Once again, I want to give this regulatory body facts, based on my personal
20 experience, to substantiate my position.

21 When I acquired the Pennysaver paper, our advertising revenue was split
22 roughly 75% with display ads and 25% with classifieds. Classified ads include ads
23 placed by individuals and consumers but they are also the ads run by the smallest of
24 businesses including individual service providers and home-based businesses.
25 Display advertisers are, in general, bigger concerns than classified advertisers.

26 Fierce competition for the business of medium to larger advertisers has
27 resulted in an erosion of our display ad customer base. To compensate for this loss
28 of revenue, our paper has focused on consumer and small business customers, and

1 today our pages are divided roughly one-third between classified ads and
2 approximately two-thirds display advertising. High postal costs have made our paper
3 too expensive to effectively compete for any significant volumes of insert advertising.
4 Insert advertising is primarily delivered by private carriers--usually wrapped within your
5 Sunday newspaper. But this loss of the medium size or larger advertiser has
6 extended to our display advertising base and has made us less competitive with
7 privately delivered advertising publications and newspapers.

8 The USPS proposal for saturation rates, and the modest change in the pound
9 rate, will do little to change my paper's competitive position when it comes to the
10 insert advertiser. It will, however, help us keep our overall prices down for advertisers
11 and make us better able to retain the business of our display advertisers. By retaining
12 this mix of advertisers, we can keep our loyal readers interested in our paper and can
13 continue to deliver customers to the smallest of businesses that rely on our low cost,
14 zoned, classified ads to stay in business.

15 Witnesses Tye and White complain that ECR rates, and in particular the pound
16 rate, have not increased in real world terms since 1996. They do not offer any
17 evidence about what their industry has been able to do by way of increasing the prices
18 they charge their customers. On behalf of my saturation mailed shopper, I can tell you
19 that my display advertising rates today are the same as they were when I started the
20 business in 1996.

21 I must grudgingly confess that our prices are not the same today out of charity
22 to our customers or choice. After my acquisition of the business, we attempted to
23 pass on a price increase of approximately 3.5%. We immediately found out how price
24 sensitive our business was in this competitive market. Our small business
25 customers could not or would not pay more. In the face of a price increase, the small
26 advertiser instructed us to reduce the size of the ad, or its frequency or volume to keep
27 the same budget the advertiser had before the price increase. Our medium to large

1 advertising customers responded by showing us they had other media choices. We
2 either kept their prices the same or risked the loss of their business.

3 My experience is the same as other free paper publishers. We have not been
4 able to increase revenues by simply raising prices. In the face of declining margins,
5 we have been forced to increase efficiencies by productivity gains and mechanization.
6 The revenue growth of our paper has come from increasing volumes and productivity,
7 not increasing prices. To fund growth and capital expenses, we have had to make
8 due with compression of our margins. Over the last four years, the Pennysaver Group
9 has seen a 2% decline in our profit margin.

10 From my perspective of the market, the USPS proposal to increase the basic
11 saturation rate by over 5% while modestly decreasing the pound rate will do little to
12 change the competitive playing field between a mailed free paper and other media.
13 My paper in Buffalo will still be distributed by private carrier. For my papers in
14 Maryland and northern Virginia, I would hope that the slight reduction in the pound rate
15 would help slightly offset the significant increase I will be seeing in my overall postage
16 costs at the piece rate.

**III. THE POSTAL SERVICE IS VULNERABLE TO LOSING SATURATION
MAIL VOLUMES FROM FREE PAPERS**

17 NAA criticizes the USPS proposal for ECR mail, and the USPS filing, as being
18 without justification. As a newcomer to these proceedings, and a mailer that depends
19 very much on the USPS, it appears my competitors are petitioning this Commission to
20 raise my postal rates to help them increase their prices and profit margins, and in turn
21 to justify charging their advertisers more. They may attempt to make this request
22 emotionally appealing to the Commission by pointing to the newspapers' editorial
23 role and by pointing to those AAPS members that are not owned by newspapers or
24 other publishers but are "independently owned," but both come to this Commission in
25 the role of asking this regulatory body to keep their mailed competitors' prices as high
26 as possible.

1 NAA Witness Tye asserts that the increase in ECR volumes “undercuts any
2 argument that the USPS is being threatened by ECR competition.” Our newspaper
3 competitors do not choose to share with this Commission how much of these
4 increased volumes might be due to their own TMC programs. I face vigorous
5 competition from mailed TMC programs in my market area and I cannot and will not
6 be able to compete with their prices under existing or proposed ECR rates. Their
7 ability to set insert prices for advertisers by averaging their lower costs of subscriber
8 delivery in the paper with the higher costs of mail will continue to allow them to set
9 prices for inserts that I cannot match in any 100% mailed shopper. Speaking on
10 behalf of my own circulation of 1,300,000 that is currently in the mail, I can assure this
11 Commission that much of that circulation is very vulnerable to being switched to
12 private carrier.

13 As a mailer and a major customer of the USPS, I would hope one of the
14 Commission’s paramount concerns in setting fair and equitable rates is to allow the
15 USPS to continue to provide universal delivery service, at reasonable rates, in the face
16 of a changing communications environment. Certainly, as a business whose primary
17 vendor has been the USPS, I know that postal prices, and the uncertainty of the Postal
18 Service’s future in an internet world, has forced me to consider alternatives.

19 I am happy with the level of service we get from the USPS. But at current prices,
20 and current economic conditions, mailers like the Pennysaver Group and similar
21 publications have to explore other ways to deliver their papers.

22 Under present rates, the Pennysaver Group is paying 23% of its total revenues,
23 and 48.5% of our costs of good sold, to the USPS. With the USPS taking such a big
24 bite out of every sale, I am certainly open minded to considering other ways to
25 accomplish the delivery of my paper.

26 It is my preference to remain a USPS customer for the Maryland and northern
27 Virginia papers. But as my experience in owning a private carrier paper in Buffalo

1 continues, I will be learning about the distribution business and refining a "plan B" to
2 consider if postal rates increase, or competitive conditions change.

3 Through my participation in SMC, I anticipate networking more with fellow
4 mailers that distribute saturation mail advertising. Although our businesses and
5 products may compete in the marketplace, we have come together as an association
6 to represent our industry before the USPS, this regulatory body, and other lawmakers.
7 It is a short and logical step to explore the formation of a cooperative private delivery
8 venture to deliver our papers or other shared mail advertising programs.

9 It remains my preference to be a postal customer. I am participating in this rate
10 case and sharing confidential information about my company to give this
11 Commission a good basis on the record to approve USPS proposals that appear to
12 be based on the USPS listening to the needs of its saturation mail customers. But my
13 paper, and other shared mailers, will identify those portions of our distribution that
14 would be cheapest to convert to, and most cost-effective to service by, alternative
15 delivery. For heavier papers or shared mail pieces, and those in densely populated
16 metropolitan areas, the USPS is very vulnerable to loss of this business.

CONCLUSION

17 Postal distribution costs for saturation mail advertising are already much
18 greater than the comparable private carrier costs for similar pieces. The cost disparity
19 grows as the weight of the piece increases. For heavier pieces, USPS distribution
20 under existing, or proposed, rates is out of the question for all but the most spread out
21 rural and remote parts of this country.

22 Many free papers, like our Pennysaver Group, like the service we receive from
23 the USPS and would like to remain USPS customers. But the existing rate structure,
24 and the high prices we pay as our papers grow and become more successful, tempt
25 us to leave the mail to become competitors of the USPS. I believe the USPS
26 proposals in this case were made as a result of listening to businesses like mine.

1 The USPS is trying to keep our business in the mail. The USPS proposals for
2 saturation mail will help my paper retain customers. It will do little to tilt or change the
3 competitive environment, but it will help.

4 I respectfully request the Commission to approve a rate for saturation mail no
5 higher than the rates proposed by the USPS.

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

August 14, 2000