

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

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POSTAL RATE COMMISSION
OFFICE OF THE SECRETARY

POSTAL RATE AND FEE CHANGES, 1997

Docket No. R97-1

RESPONSE OF UNITED STATES POSTAL SERVICE
WITNESS THRESS TO INTERROGATORIES OF
THE AMERICAN BUSINESS PRESS
(ABP/USPS-T7-1-4)

The United States Postal Service hereby provides responses of witness Thress to the following interrogatories of the American Business Press: ABP/USPS-T7-1-4, filed on August 20, 1997.

Each interrogatory is stated verbatim and is followed by the response.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

Daniel J. Foucheaux, Jr.
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September 3, 1997

RESPONSE OF POSTAL SERVICE WITNESS THRESS
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ABP/USPS-T7-1. At page 46, line 16, you state that "the price of postage represents a relatively minor component of the total cost of preparing and delivering a periodical." Provide (or, if voluminous, merely identify) all information and data on which you relied, and, if not relied upon, all information and data of which you are aware that are relevant to this statement.

RESPONSE:

Initially, I think it is important to understand exactly what role the quote to which you refer plays in my testimony. This quote, that "the price of postage represents a relatively minor component of the total cost of preparing and delivering a periodical," was made as a probable explanation for the observed price elasticity of Periodical Regular mail of -0.143 which I cite at page 46, line 13 of my testimony. Even if this statement is not true in some cases, for certain mailers, however, the fact remains that my best estimate of the own-price elasticity of demand for Periodical Regular mail is -0.143 . In a strict sense, therefore, the data on which I relied for this statement was my own econometric analysis as documented in my testimony at pages 44 through 55, especially pages 46-47 and 52 (see also Workpaper 1, pp. 126-134).

I came to this particular hypothesis about why Periodical Regular mail is relatively price-inelastic based on my personal experiences with regards to the published prices of magazines. For example, the subscription card insert in a recent issue of Time magazine advertised a subscription rate of \$1.15 per issue. In contrast, the average price paid for Periodical Regular mail is 22.56¢ (see, my Workpaper 1, Table 1-17). Even if the full cost of postage were incorporated into Time's subscription rates, this would lead one to conclude that postage costs account for less than 20 percent of the total cost of Time magazine.

In fact, even this estimate of 20 percent is a significant over-estimate of the percentage of the total cost of preparing and delivering a magazine that is spent on postage, because it excludes advertising revenue and revenue from non-subscribers (i.e., newsstand sales), both of which serve to reduce the total share of revenue that is spent on postage costs.

Table 1 accompanying this response uses data on total revenue and circulation of the largest magazines in the United States (from Advertising Age, June 16, 1997) to estimate the percentage of total revenue which is spent by periodicals on postage. Total revenue is used here as a proxy for the total cost of preparing and delivering periodicals. Based on the analysis in Table 1, postage represents just under 7 percent of the total cost of preparing and delivering a magazine. I would characterize the figure 7 percent as "relatively minor."

Advertising Age did not provide a total number of subscribers, but listed only paid circulation (which includes newsstand sales). Hence, the percentages in Table 1 will overstate the share of total revenues that are spent on postage costs to the extent that paid circulation overstates the number of subscribers. For example, approximately one-third of TV Guide's circulation revenue comes from newsstand sales. If the postage costs for TV Guide in Table 1 were calculated using this figure, the percentage of total

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costs for TV Guide in Table 1 were calculated using this figure, the percentage of total revenue spent on postage by TV Guide would fall to approximately 9.5 percent. People magazine receives more than half of its circulation revenue from newsstand sales, suggesting that the percentage of total revenue spent on postage for People magazine may be as low as 2.2 percent.

Of course, the analysis presented in Table 1 focuses only on the largest periodical mailers. Even across the largest periodical mailers, the relative importance of postage as an input cost is quite different, ranging in Table 1 from as little as 1.9 percent of total revenue to as much as 14.2 percent of total revenue. It may, in fact, be the case, that there are certain publications for which the percentage of total revenue spent on postage may even exceed 14.2 percent. Nevertheless, I believe that the 6.9 percent cumulative figure cited in Table 1 is supportive of my general statement that "the price of postage represents a relatively minor component of the total cost of preparing and delivering a periodical."

Taken in totality, the above discussion suggests why I would maintain that the price of postage represents a relatively minor component of the total cost of preparing and delivering a periodical.

**Table 1 Accompanying ABP/USPS-T7-1
Percentage of Total Revenue Spent on Postage
Top 10 Magazines by Gross Revenue, 1996**

Name	Total Revenue	Paid Circulation	Average Delivery Cost Periodical Regular Mail	Approximate Total Postage Cost	Percentage of Total Revenue Spent on Postage
TV Guide	\$1,077,584,000	13,013,938	\$11.761161	\$153,059,025.360	14.20%
People	\$906,431,000	3,449,852	\$11.761161	\$40,574,266.203	4.48%
Sports Illustrated	\$787,342,000	3,173,639	\$11.761161	\$37,325,680.527	4.74%
Time	\$708,146,000	4,102,168	\$11.761161	\$48,246,259.967	6.81%
Reader's Digest	\$543,643,000	15,072,260	\$2.714114	\$40,907,834.453	7.52%
Newsweek	\$532,703,000	3,194,769	\$11.761161	\$37,574,193.867	7.05%
Better Homes & Gardens	\$474,695,000	7,605,325	\$2.714114	\$20,641,720.357	4.35%
PC Magazine	\$348,395,000	1,151,473	\$5.880581	\$6,771,329.904	1.94%
Business Week	\$323,187,000	893,771	\$11.761161	\$10,511,784.992	3.25%
Cumulative	\$5,702,126,000	51,657,195		\$395,612,095.631	6.94%

sources: Total Revenue, Paid Circulation figures come from Advertising Age (June 16, 1997)

Average Delivery Cost, Periodical Regular Mail equals average revenue per-piece (for second-class regular rate mail from GFY 1996 RPW report) times number of issues per year (52 except for Reader's Digest (12), Better Homes & Gardens (12), and PC Magazine)

Approximate Total Postage Cost equals Average Delivery Cost times Paid Circulation

Percentage of Total Revenue Spent on Postage equals Approximate Total Postage Cost divided by Total Revenue

note: Parade Magazine, which is the 7th-largest magazine according to Advertising Age is not included here, because Parade pays no postage costs, since it is bundled with Sunday newspapers.

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ABP/USPS-T7-2. In your testimony at page 46 and your testimony at page 44, lines 14-16, you seem to assume that subscribers pay for all periodicals sent through the mail. Are you aware that periodicals can qualify for the periodicals rate if they are sent to subscribers who request, but do not actually pay for, them? How, if at all, would recognition and inclusion of this fact change your testimony?

RESPONSE:

I am aware that some periodicals, which qualify for Periodical mail rates, are requested by consumers who do not pay for a subscription. This information does not change the basic point made in my testimony at page 44, lines 14-16. On page 44, at lines 16-17, I state that "[i]n addition to affecting the price of newspapers and magazines by being incorporated into subscription rates, the price charged by the Postal Service will also affect the demand for Periodical mail directly by affecting publishers' decisions over how to deliver their periodicals." Hence, even for those periodicals for which no subscription price is paid, the price of Periodical mail charged by the Postal Service may still have some effect on the volume of such periodicals.

For those publications for which the "subscriber" pays nothing, the price of sending the publication through the mail is still borne by someone. This someone may be the publisher, who may be induced to provide fewer free copies or reduce the size of the publication if postage rates were increased. Alternately, some publishers may increase the rates which they charge to advertisers to advertise in their publications, which may, in turn, be passed along by advertisers to the consumers of their products (i.e., the readers of the periodical). Finally, depending on the nature of the publication, the increased cost of postage may be passed along indirectly to the "subscriber". For example, for members of an organization for whom one benefit of membership is a free subscription to a member newsletter or magazine, the price of membership would be expected to implicitly incorporate a "price" of the periodical, so that, if postage rates were increased, the organization may find it necessary to raise membership fees.

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ABP/USPS-T7-3. You claim, at page 46, that changes in postage would have a "relatively modest impact on subscription rates." Would that statement be equally true if the rates proposed by Postal Service witness Bernstein were implemented?

RESPONSE:

It would certainly be less true of a change in rates from the current rates offered by the Postal Service to the rates proposed by Mr. Bernstein, although the impact may still be relatively modest.

For example, consider a periodical with subscription rates of \$1.50 per issue and current postage rate of 22¢, or very nearly the average rate of Periodical Regular mail. According to witness O'Hara, Periodical regular rates will go up by an average of 3.5 percent under the Postal Service's proposal (USPS-T-30, page 29, line 19), so that this mailer's rates are increased by approximately 0.8¢. If all of this increase in postage were passed on in the subscription rate, this would raise the subscription price by a maximum of 0.8¢ per issue, or approximately 0.5 percent.

Under the rates proposed by witness Bernstein, the average price of Periodical regular mail would increase by 109 percent (47.24¢ ÷ 22.56¢), so that this mailer's rates would be increased by approximately 24¢. If all of this increase in postage were passed on in the subscription rate, this would raise the subscription price by a maximum of 24¢ per issue, or approximately 16 percent.

I suppose the question of whether an increase of 16 percent would constitute a "relatively modest impact" is ultimately a subjective one.

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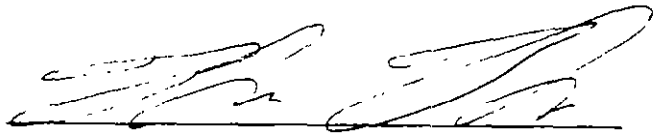
ABP/USPS-T7-4. In terms of the impact of increases in postage rates for periodicals, and with respect to periodicals when there is no monetary payment by the subscriber, what impact would you examine (because there is no subscription rate).

RESPONSE:

Please see my response to ABP/USPS-T7-2 where I describe the ways in which postage rates would affect the demand for periodical mail for which no subscription rate is paid directly.

DECLARATION

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



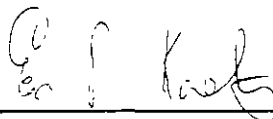
(Signed)

9/2/97

(Date)

CERTIFICATE OF SERVICE

I hereby certify that I have this day served the foregoing document upon all participants of record in this proceeding in accordance with section 12 of the Rules of Practice.



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