

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

COMPLAINT OF TIME WARNER INC. ET AL.
CONCERNING PERIODICALS RATES

Docket No. C2004-1

RESPONSE OF TIME WARNER INC. ET AL.
TO PRESIDING OFFICER'S INFORMATION REQUEST NO. 1
(June 9, 2004)

Time Warner Inc., Condé Nast Publications, a Division of Advance Magazine Publishers Inc., Newsweek, Inc., The Reader's Digest Association, Inc., and TV Guide Magazine Group, Inc. ("Time Warner Inc. et al." or "Complainants") hereby respond to Presiding Officer's Information Request No. 1 (Issued May 26, 2004).

Witness Mitchell (TW et al.-T-1) provides responses to Questions 1, 3, and 4. Each of the Complainants provides a response to Question 2.

The questions are stated verbatim and followed by the response.

Respectfully submitted,

s/ _____
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**Response of Time Warner Inc. et al. Witness Mitchell to POIR No. 1,
Question 1**

POIR 1, QUESTION 1

TW et al.-T-1, at page 64, shows Zone 8 postage of \$0.3416 for The New Republic under current rates with a \$0.101 per pound editorial benefit. Please construct the postage for this same publication using the proposed rate schedule. Please show the calculation of each element of the postage and explain any assumptions made.

RESPONSE OF WITNESS MITCHELL

As my testimony indicates (at 64, n. 43), the \$0.3416 figure is based on mailing profile data for *The New Republic* provided by witness Dearth (its publisher) in Docket No. R90-1, which indicated that its pieces were all in sacks, its per-piece weight was 3.3 ounces, and its proportion of advertising was 23 percent. See Docket No. R90-1, Tr. 27 (part 2), 13361-78. In order to make my estimate consistent with current rates and classifications as they have evolved subsequent to Docket No. R90-1, it was necessary to make an assumption of some kind about the mailing's levels of prebarcoding and presortation. I based my estimate on an assumption that the pieces are barcoded and that they are presorted into 3-digit bundles.

In order to apply the proposed rates to the mailing, it is necessary to make assumptions about some additional characteristics of the mailing that were not included in the Docket No. R90-1 mailing profile data. I assume that the sacks are entered at an origin office, that the pieces are machinable, that the bundles are in 3-D/SCF sacks, that there are 3 bundles per sack, and that there are 16.93 pieces per bundle. The actual makeup for *The New Republic (TNR)*, of course, is not known to me. The 3-bundle-per-sack assumption is an average for Outside County 3-digit sacks, developed from the 'BT inputs' sheet of my workpaper WP-Mitchell-3F (cell D137 divided by the sum of cells C94 through J94), and the 16.93-pieces-per-

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Question 1**

bundle assumption is an average for Outside County 3-digit bundles, developed from the same sheet (the sum of cells E50 to E53 divided by cell D134).

When the proposed rates are applied, the corresponding *TNR* per-piece postage for Zone 8 declines from \$0.3416 to \$0.3296. If one assumes that the bundle size or the number of bundles per sack is increased, the applicable postage declines rapidly. Publishers need to evaluate these relationships as they consider the proposed rates.

The development of the \$0.3296-figure is as follows, all cost figures being in dollars. The pound charge is 0.498 (the zone 8 rate) * $3.3/16$ (the per-piece weight in pounds) = 0.1027 . The per-pound editorial benefit, which is subtracted from the otherwise rate, is 0.101 (the per-pound editorial benefit rate) * $3.3/16$ (the per-piece weight of the publication) * 0.77 (the proportion of editorial content) = 0.0160 . The per-piece editorial benefit, which is also subtracted, is 0.074 (the per-piece editorial benefit rate) * 0.77 (the proportion of editorial content) = 0.0570 . The per-piece charge is 0.230 (taken directly from the Schedule). The sack charge, on a per-piece basis, is 3.22 (the charge per sack from the Schedule) / $(16.93 * 3)$ (the number of pieces per sack) = 0.0634 . The bundle charge, on a per-piece basis, is 0.110 (the charge per bundle from the Schedule) / 16.93 (the number of pieces per bundle) = 0.0065 . Using negative signs for the two discounts, these sum to the per-piece postage of \$0.3296, as indicated above.

Response of Time Warner Inc. to POIR No. 1, Question 2

POIR 1, QUESTION 2

TW et al.-T-1, at page 17, in discussing various mailing-related practices states: "It is not reasonable to expect publishers, or printers, or anyone else to consider costs that do not affect their bank accounts." Please describe, and quantify to the extent possible, how the proposed rate schedule might alter the mailing profiles of (a) Sports Illustrated for Kids; (b) Reader's Digest (the magazine); (c) Vogue; (d) TV Guide; and (e) Newsweek. Please fully explain any assumptions underlying your descriptions.

RESPONSE OF TIME WARNER INC.

- A) Sports Illustrated for Kids (SIFK) would most likely alter its mailing profile as follows if the proposed rate schedule were implemented:
- 1) Today's rate structure does not provide an incentive for mailers to maximize drop shipping, since only a portion of the magazine's pound rate is zone based. If the pound rate were zoned for the entire weight of the magazine, SIFK would expand its number of entry points. Today, its main file is distributed through the Quad Graphics pool to 194 entry points. If the proposed rates were implemented, Time Inc. and Quad Graphics would perform an entry point analysis to determine if additional entry points could be opened. This analysis would focus on the differential between the rate reduction that could be achieved by going to any additional entry points and the increased transportation costs that would be incurred in doing so. If the analysis yields a net savings, additional entries will be opened.
 - 2) In Docket No. R2000-1, James O'Brien submitted testimony on behalf of the Alliance of Nonprofit Mailers, American Business Media, Coalition of

Response of Time Warner Inc. to POIR No. 1, Question 2

Religious Press Associations, Dow Jones & Company, Inc; The McGraw-Hill Companies, Inc; the National Newspaper Association, and Time Warner Inc. In this testimony he described the conclusions of a Mailing Industry Task Force (MITF). Two of the MITF's conclusions relate to presort parameters and the way that mailers prepare their products, namely Issue 2: Optimization of containerization can help reduce costs, and Issue 15: The Periodicals rate structure should be reviewed to ensure that it is consistent with the overall Periodicals processing strategy and induces appropriate mailer behavior.¹ SIFK would reconfigure its presort parameters to increase the number of pallets and reduce the number of sacks it deposits into the mail system. These parameters reside within the postal sortation system at Time Customer Service. The exact changes in the parameters would be determined by a computer analysis of the comparative effects of the universe of possible individual changes to minimum bundle sizes and pallet weights.

- 3) Under the existing rate structure, SIFK does not participate in co-mailing and drop shipping of its supplemental mailings, because it is not cost effective. If the proposed rates were implemented, SIFK would co-mail its

¹ Docket No. R2000-1, Direct Testimony of James O'Brien On Behalf Of Alliance of Nonprofit Mailers, American Business Media, Coalition of Religious Press Associations, Dow Jones & Company, Inc., Magazine Publishers of America, Inc., The McGraw-Hill Companies, Inc., National Newspaper Association and Time Warner Inc. **(TW-T-2), Tr. 24/11173-74 (pp. 5-6), 11189 (p. 21).**

Response of Time Warner Inc. to POIR No. 1, Question 2

supplemental mailings to reduce sacks, improve presort, and shift as many of these copies as possible from a plant entry to a remote entry closer to the destination.

- 4) For the reasons cited in item #2 above, SIFK would also investigate the potential to co-mail its main file run to reduce sacks, improve presort, and increase drop shipping.

Response of Condé Nast to POIR No. 1, Question 2

POIR 1, QUESTION 2

TW et al.-T-1, at page 17, in discussing various mailing-related practices states: “It is not reasonable to expect publishers, or printers, or anyone else to consider costs that do not affect their bank accounts.” Please describe, and quantify to the extent possible, how the proposed rate schedule might alter the mailing profiles of (a) Sports Illustrated for Kids; (b) Reader’s Digest (the magazine); (c) Vogue; (d) TV Guide; and (e) Newsweek. Please fully explain any assumptions underlying your descriptions.

RESPONSE OF CONDE NAST

It is our belief that the proposed rate schedule would allow us to initiate comailing of Vogue’s supplemental copy mailings. These mailings are currently mailed by themselves (no comailing currently performed as we do for Vogue’s mainfile copies) and are all entered at the printers mailing facility in Flora II.

Our supplemental mailings are our least sophisticated mail as they are not drop shipped, not carrier routed and much of the mail is prepared in sacks.

The rate incentives offered by the proposed rates would allow us to convert these smaller mailings into something more comparable to the characteristics of our large monthly mailing of Vogues mainfile copies.

This would result in more pallets, fewer sacks , mail entered much closer to destination at lower cost .This would also result in better service to our newest subscribers.

Though the question asked pertained to only Vogue the same response could be given for almost all of our consumer magazine titles .

Response of Newsweek, Inc. to POIR No. 1, Question 2

POIR 1, QUESTION 2

TW et al.-T-1, at page 17, in discussing various mailing-related practices states: "It is not reasonable to expect publishers, or printers, or anyone else to consider costs that do not affect their bank accounts." Please describe, and quantify to the extent possible, how the proposed rate schedule might alter the mailing profiles of (a) Sports Illustrated for Kids; (b) Reader's Digest (the magazine); (c) Vogue; (d) TV Guide; and (e) Newsweek. Please fully explain any assumptions underlying your descriptions.

RESPONSE OF NEWSWEEK, INC.

Newsweek would look at several areas to alter our mailing profiles:

Point of Entry

Though impossible to estimate the quantity at this time, additional entry points would be opened for several reasons.

First, as a result of the total weight of the magazine being based on zoned rates, additional reductions in cost would be realized the deeper the magazines are entered into the postal delivery network.

Secondly, the per pallet and sack costs are reduced when they are entered into the facility that processes that pallet or sack.. An example would be a SCF pallet entered into its DSCF.

Together these reductions in cost would be used to offset the additional truck cost to deliver the magazines to the new entries which allows us to then claim the destination entry pallet and SCF piece discounts.

Response of Newsweek, Inc. to POIR No. 1, Question 2

Number and Type of Containers

We believe we would realize a reduction in the number of sacks and pallets and more mail being delivered directly to the postal facility that processes it.

Since each sack or pallet used would have a cost assigned to it, our goal would be to reduce as many sacks and pallets as possible and make the lowest cost sacks and pallets possible. The current rate structure offers little incentive to do this.

As an example, we can now drop an SCF pallet into an ADC with little negative cost impact.. Under the proposed rates we would pay more for that SCF pallet to be dropped at that ADC. As a result we would examine the possibilities of either trucking that SCF pallet to the DSCF or eliminating the SCF pallet, and making an DADC pallet and continuing to drop at that ADC. These rates give the publisher incentive to make up and deposit magazines according to how and where the Postal Service processes it.

Even though less than 1 % of Newsweek is sacked we would try to find ways to eliminate those remaining sacks. As stated above there is presently little incentive to do this but under the proposed rates the cost to use sacks will be expensive when compared to pallets.

Additional Zip Plus Four Coded Addresses

As a result of the reduction in the carrier route rate we would try to increase the number of copies that qualify for this rate. Since very few addresses can be carrier route coded without a zip plus four code, our first step would be to improve the quality of the address so that a zip plus four code can be appended. This would

Response of Newsweek, Inc. to POIR No. 1, Question 2

also have a positive effect on first class and standard as these addresses are used to send out invoices, promotions and renewals.

Number of Mail Streams

There are times when we segment our mail list to meet the needs of our circulation group or advertisers. These are usually small quantities that will pay more postage under the proposed rates. Our goal would be to minimize any segmentation of the mail stream by reviewing those programs, and using manufacturing technology to maintain a single mail stream as much as possible.

In conclusion, this new rate structure gives publishers incentives to examine their mail preparation in great detail. The result being more magazines will be prepared in the most efficient manner for the Postal Service to handle, and more will be delivered directly to the facility where they should be processed.

Response of Reader's Digest Association, Inc. to POIR No. 1, Question 2

POIR 1, QUESTION 2

TW et al.-T-1, at page 17, in discussing various mailing-related practices states: "It is not reasonable to expect publishers, or printers, or anyone else to consider costs that do not affect their bank accounts." Please describe, and quantify to the extent possible, how the proposed rate schedule might alter the mailing profiles of (a) Sports Illustrated for Kids; (b) Reader's Digest (the magazine); (c) Vogue; (d) TV Guide; and (e) Newsweek. Please fully explain any assumptions underlying your descriptions.

RESPONSE OF READER'S DIGEST ASSOCIATION, INC.

Any modification in rates would cause a prudent business to review every aspect of its operational business model in order to optimize results. This is particularly so with respect to the proposed rate schedule, where postal processes have a direct correlation to postal rates charged. The following action plans would be instituted not only for Reader's Digest magazine but also for all of the 17 other Periodicals titles currently published by RDA:

- Optimize drop-ship program. Coordinate activities between the fulfillment house, printer, and third-party logistics provider to enhance the drop-ship program, recognizing zoned editorial incentives. Open additional SCF entry points where appropriate. Depending on size of incentives, DDU delivery may be possible.
- Improve system capabilities at the fulfillment house to reduce the number of mail streams, thereby improving sortation levels, increasing palletization, and reducing postal sacks.

Response of Reader's Digest Association, Inc. to POIR No. 1, Question 2

- Accelerate a co-palletization program to encompass all Periodicals titles in an effort to further eliminate postal sacks and maximize drop-ship opportunities.
- Partner with printers to develop capital investment strategies to expand mail-line functionality to reduce postal sacks while simultaneously expanding advertising options.
- Expand co-mailing operations. Modify multiple periodical closing schedules where appropriate in order to optimize distribution objectives.
- Analyze paper basis weight purchasing options to favorably impact drop-ship incentives.

Response of TV Guide Magazine Group, Inc. to POIR No. 1, Question 2

POIR 1, QUESTION 2

TW et al.-T-1, at page 17, in discussing various mailing-related practices states: "It is not reasonable to expect publishers, or printers, or anyone else to consider costs that do not affect their bank accounts." Please describe, and quantify to the extent possible, how the proposed rate schedule might alter the mailing profiles of (a) Sports Illustrated for Kids; (b) Reader's Digest (the magazine); (c) Vogue; (d) TV Guide; and (e) Newsweek. Please fully explain any assumptions underlying your descriptions.

RESPONSE OF TV GUIDE MAGAZINE GROUP, INC.

- 1) In the current environment it is not cost effective for TV Guide to go directly to the DDUs. DDU delivery would reduce our current average rate of .1583 cents per copy by only an estimated .022 cents. Our cost for this additional DDU delivery would far outweigh the benefits. Currently, we distribute 98.79% of our 6,601,000 copies on pallets, of which 5,853,000 go directly to 228 SCFs. In the new proposed environment we would get a deeper discount for DDU delivery, which would allow us to deliver the pallets directly to the DDU.
- 2) Over the past few months we have aggressively reduced our sacked mail, which has provided a substantial benefit to the Postal Service but very little financial benefit to us in return. The current rate structure provides little incentive to reduce sacks, even though it would give relief to USPS. In the new proposed changes we would see an incentive to reduce sacks.

**Response of Time Warner Inc. et al. Witness Mitchell to POIR No. 1,
Question 3**

POIR 1, QUESTION 3

Apart from the impact caused by the exclusion of letter-shaped pieces, would your proposal alter the proportion of Outside County revenue from regular rate, nonprofit and classroom? Please explain fully.

RESPONSE OF WITNESS MITCHELL

The Billing Determinants developed annually by the Postal Service show that there are differences among regular rate, nonprofit, and classroom with respect to things such as their per-piece weight, proportions of advertising, zone distribution, and presort levels. Similarly, there are differences in their use of bundles, of containers, and of associated entry points. Accordingly, one would expect the incidence of rates to vary.

Estimates of the revenues of each of these Outside County qualification categories, which recognize the effect of Science of Agriculture rates and the application of the 5 percent discount for nonprofit and classroom, are shown in my workpaper WP-Mitchell-3F. The before-rates revenues are on sheet 'by.' The after-rates revenues for letters are on sheet 'LtrBD' and, for non-letters, are on sheet 'New.' Rounded, 83.35 percent of the before-rates revenues are from regular, 15.94 percent from nonprofit, and 0.70 percent from classroom. The after-rates revenues are 84.83 percent from regular, 14.47 percent from nonprofit, and 0.71 percent from classroom. Since the rates for letter-shaped pieces would not change, these changes in the proportions are due entirely to the rates for non-letters.

**Response of Time Warner Inc. et al. Witness Mitchell to POIR No. 1,
Question 4**

POIR 1, QUESTION 4

TW et al.-T-1, at page 33, discusses three adjustments to R2001 periodicals analysis. Were you able to calculate the separate financial impact of each of the three adjustments? If so, please provide the results of your calculations and a reference to where the impacts are shown in your workpapers. If not, please explain why not.

RESPONSE OF WITNESS MITCHELL

None of the three adjustments affects the revenue obtained from the Outside County subclass. Also, none of the adjustments affects the piece rates or any of the associated per-piece discounts.

I do not have a spreadsheet that generates the existing rates, which were the result of a settlement agreement. Since the question is directed at the effects on rates of the adjustments, I believe the best approach is to base the analysis on witness Taufique's original spreadsheet (contained in USPS-LR-107). Accordingly, I show the rates originally proposed by the Postal Service and then show the rates that are implied by making the adjustments, *ceteris paribus*. The differences between the adjusted rates and the proposed rates are the effects of the adjustments.

The third adjustment involves changing the 0.75 to 1.0 in the referenced cells of the spreadsheet. No rates are affected, however, since the change is small; its effects are lost in rounding.

The effects of the first and second adjustments are shown in the table on the next page. The rates implied by the first adjustment are developed by changing the proportion 0.5 to 0.4047 in cell C40 of the 'Pound Data_Adv' sheet. The rates implied by the second adjustment are developed by removing the reference to cell E49 from cell E57 on the same sheet.

**Response of Time Warner Inc. et al. Witness Mitchell to POIR No. 1,
Question 4**

Table POIR-1-4: Effects of Making Adjustments to the Development of Outside County Periodicals Rates, as Described in TW et al.-T-1			
Description	USPS Proposed Rates (cents per pound)	With First Adjustment	With Second Adjustment
Regular Rate			
Advertising Pounds			
DDU	16.0	17.8	15.7
DSCF	20.4	21.8	20.2
DADC	22.5	23.6	22.6
Zones 1&2	25.0	25.7	25.1
Zone 3	26.8	27.2	27.0
Zone 4	31.7	31.1	31.8
Zone 5	39.0	37.1	39.2
Zone 6	46.7	43.3	46.9
Zone 7	56.0	50.8	56.2
Zone 8	64.0	57.3	64.2
Editorial Pounds			
DDU	15.8	16.2	15.6
DSCF	18.0	18.2	17.9
DADC	19.1	19.1	19.1
All other	20.3	20.1	20.3
Science of Agriculture			
Advertising Pounds			
DDU	12.0	13.3	11.8
DSCF	15.3	16.3	15.1
DADC	16.8	17.7	17.0
Zones 1&2	18.7	19.3	18.9
Editorial Pounds			
DDU	12.0	12.1	11.8
DSCF	13.6	13.6	13.4
DADC	14.3	14.3	14.3
Zones 1&2	15.2	15.1	15.2