

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

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

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Docket No. C2004-1

RESPONSES OF TIME WARNER INC. ET AL.  
WITNESS JOSEPH E. SCHICK TO ABM/TW ET AL.-T4-48-66  
(June 22, 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. (collectively, Time Warner Inc. et al.) hereby provide the responses of witness Schick (TW et al.-T-4) to American Business Media interrogatories ABM/TW et al.-T4-48-66, filed June 8, 2004.

Each interrogatory is stated verbatim and followed by the response.

Respectfully submitted,

s/ \_\_\_\_\_  
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## **Response of TW et al. Witness Schick to ABM/TW et al.-T4-48**

**ABM/TW et al.-T4-48.** With regard to your testimony at page 2 lines 18-20 that “[w]e are forced to make decisions that we know are not in the best interest of the ‘lowest combined costs’ model,” please state whether the nature of any such decisions is fully addressed on page 3 of your testimony, and, if not, please specify the nature of any such decisions that are not driven by a need for expedited delivery.

### **RESPONSE**

Expedited delivery is the predominant reason for those decisions, and is addressed on page 3. However, there are situations where a publisher decides to create a number of versions of a publication but, because the postal savings would not be sufficient to cover the cost of comailing, selective/demographic binding, or copalletization to bring everything back into one mailstream, each version would be presorted and prepared individually. The result is presort loss, less opportunity to create pallets, and a reduction in the number of copies that would be dropshipped.

## Response of TW et al. Witness Schick to ABM/TW et al.-T4-49

**ABM/TW et al.-T4-49.** With regard to your testimony at page 3 lines 8-11, please state the approximate percentage of Quad/Graphics Periodicals mail volume that is prepared in sacks, including the percentage mailed in sacks to shorten delivery time and the percentage mailed in sacks for other reasons. Please specify such other reasons.

### RESPONSE

We are not able to determine the exact sack volume specific to the reasons for creating sacks, but the following percentages show comparisons between sack and pallet volumes by number of copies and containers for all of our plant locations on an annualized basis:

	Copies	Container
Pallet	95%	33%
Sack	5%	67%

What this illustrates is that two thirds of the containers we create are sacks, containing only 5% of the Periodicals mail volume. The average sack size is around 40 pieces.

In addition to sacks being created because of delivery requirements, sacks can be the result of supplemental and back issue mailings, or polywrapped mailings/versions. Some of our smaller circulation publications that may not qualify for our comailing, because of size and/or weight, also generate sack volume.

## **Response of TW et al. Witness Schick to ABM/TW et al.-T4-50**

**ABM/TW et al.-T4-50.** With regard to your testimony at page 4, lines 3-9, please explain fully how Quad/Graphics accommodates a publisher who “wants and needs the lowest postage rates and the quickest, most efficient delivery.”

### **RESPONSE**

In our binding operation, we utilize our selective/demographic binding capabilities to combine as many versions as possible into one mailstream, maintaining the best possible presort. We also utilize the minimum weight requirements for palletization at the levels that are acceptable to the publisher. Depending on the publisher, that could be either ADC or SCF level pallets. In distribution, we attempt to move the publications into our normal mail pools where schedules allow, or combine them with other product loads going to the same cities. We also utilize over-the-road transportation instead of air by using team drivers, as long as they can still meet critical entry times at postal facilities.

## Response of TW et al. Witness Schick to ABM/TW et al.-T4-51

**ABM/TW et al.-T4-51.** Please explain the extent to which the comailing process may delay delivery of publications, and preclude the quickest delivery, and explain the reasons for this result.

If a publication were comailing in-line (during the binding process), the length of run in the binding process would be extended because of the added volume of the other publication(s). For some time-sensitive publications that could mean missing a normally scheduled dispatch from the printing plant, which could result in missing a critical entry time at a postal facility.

If a publication were comailing off-line (previously bound and moved to a separate mailing operation), the total production time would be increased because of the addition of another production operation. As previously stated, that could result in a missed dispatch and critical entry time.

However, with the exception of weekly publications, our experience has shown that the gain in presort, containerization, and dropship can offset the additional production time by eliminating much of the postal handling and processing.

## Response of TW et al. Witness Schick to ABM/TW et al.-T4-52

**ABM/TW et al.-T4- 52.** (a) With reference to your testimony at page 7, lines 15-20, please explain whether all comailings by Quad/Graphics are 99+% palletized and will be 100% palletized in the near future. (b) If and to the extent that not all such comailings are or will be palletized to that degree, please explain the factors that lead to differentiation in degrees of palletization.

### RESPONSE

- a) In my response to ABM/TW et al.-T4-22, I showed the various average sizes of our comail pools. The comail pools with the lowest total copy count would have less than 99% palletized mail. A general rule of thumb would be that volumes less than 100,000 copies would have lower palletized volumes. So as those comail pools increase in size, the likelihood is that they would move closer to 99% palletized in today's environment, and would then be able to be 100% palletized with software enhancements and changes to preparation requirements relative to a cost-based rate structure.
- b) Palletization can be affected by versioning, total volume, piece weight(s), and density of the mailing, and whether the mailing is local, regional, or national.

## Response of TW et al. Witness Schick to ABM/TW et al.-T4-53

**ABM/TW et al.-T1-53.** With regard to your testimony at page 4, lines 1-2, please explain how the use of sacks affects costs incurred by Quad/Graphics, and the extent to which any such additional costs are passed on by Quad/Graphics to publishers.

### RESPONSE

The use of sacks at Quad impacts cost in these areas:

- 1) incoming MTE (Mail Transport Equipment) being unloaded in the plants (because of volume compared to pallets);
- 2) warehouse required for sacks (because of lack of stackability and volumes compared to pallets);
- 3) material handling of sacks from warehouse to bindery (because of volumes compared to pallets);
- 4) additional labor needed on binding line(s) (sacks versus pallets);
- 5) sacked mail much more likely to be prepared incorrectly than palletized mail, which could result in postage assessments or rework;
- 6) material handling of sacks from bindery to warehouse (slower process and more skids of sacks created than palletized mail);
- 7) warehouse required for finished mail (because of lack of stackability);
- 8) cost of containers (to compensate for lack of stackability, in some plants we purchase containers for internal movement and warehousing only);
- 9) loading of trailers (much more time needed to load sacks than pallets – 1 hour versus 20 minutes per trailer);
- 10) specialized dumping equipment on forklifts for trailer loading of sacks.

In terms of how these costs are reflected in client pricing, there are not specific charges to clients related to most of the aforementioned issues. However, if the majority of a mailing consisted of sacks, there would be additional charges because of added labor or machine slowdown. There would also be specific additional costs charged to a client if the sacked mail had to be dropshipped: the cost of the

**Response of TW et al. Witness Schick to ABM/TW et al.-T4-53**

containers that the sacks are shipped in, and the higher cost for distribution of sacks because they are not conducive to efficient loading of trailers.

## Response of TW et al. Witness Schick to ABM/TW et al.-T4-54

**ABM/TW et al.-T4-54.** With regard to your testimony at page 3, lines 19-24, please explain (a) the nature of the change to presort parameters that led to the reduction of sacks mailed by In Style, and (b) what incentive led In Style to make such change.

### RESPONSE

- a) Sack minimums were raised to 24 copies and the Mixed ADC sack level was set to one copy. The ADC pallets were set to 250 pounds and three digit pallets were not allowed.
- b) We advised Time Inc. that In Style's high volumes of sacked copies required extra labor on the binding line and that we would have to begin charging for this extra labor if we could not find a way to reduce the number of sacks.

## Response of TW et al. Witness Schick to ABM/TW et al.-T4-55

**ABM/TW et al.-T4-55.** With regard to your testimony at page 4, lines 16-18, and page 5, lines 16-18, please explain (a) how the proposed rate structure would affect the viability of the printing industry, (b) how the proposed rate structure would affect smaller printers, and (c) how the proposed rate structure would help further differentiate Quad/Graphics from its competition.

### RESPONSE

- a) By creating the right incentives, printers would be able to invest in technologies that not only help publishers to reduce postage, but also help to increase the value of periodicals by creating editorial and advertising opportunities that don't exist today. Technologies and processes like selective binding, comailing, and copalletization allow publishers to offer more targeted advertising or editorial content, which will generate more interest from advertisers and subscribers, which will result in more pages printed.
- b) I don't pretend to speak for the smaller printers, but I would think that they have the same basic goals that we do at Quad. They should be interested in doing whatever they can to increase the value of periodicals in the eyes of advertisers and subscribers, while at the same time trying to maintain hard-copy distribution through the Postal Service as the most cost-effective way of getting your publication to the consumer. The incentives in the proposed cost-based rate structure would provide the opportunity to move in that direction.
- c) We think that the proposed rate structure is the right approach because it would allow us to build on technologies and processes that we have proven to be effective for the Postal Service, our clients, and Quad. It will also allow us to open our creative minds to do things that have been on the drawing board for some time, but would not be cost-effective within the current rate

**Response of TW et al. Witness Schick to ABM/TW et al.-T4-55**

structure. When we can be creative, it helps us to differentiate Quad from our competitors by offering more value to our clients, which helps them to offer more value to their advertisers, subscribers, or end consumers. That generates more mail, providing more revenue to the Postal Service. That's what keeps the industry moving forward.

## **Response of TW et al. Witness Schick to ABM/TW et al.-T4-56**

**ABM/TW et al.-T4-56.** With regard to your testimony at page 5, lines 21-22, please state the extent to which Quad/Graphics shares in the postage savings generated by comailing and other forms of pooling.

### **RESPONSE**

Our agreements with our clients are confidential, but I can say that we developed a comail program that we felt was equitable to our clients. It was developed in a way that would always provide a positive result for the clients. We did that to ensure that they would stay committed to the comail pool, so that we could continue to build volumes to a point where we are today.

In distribution and pool shipping, there is no sharing of postage. It's a freight business, and the client pays the appropriate freight charges for the amount of mail that is dropshipped.

## Response of TW et al. Witness Schick to ABM/TW et al.-T4-57

**ABM/TW et al.-T4-57.** (a) Please provide your best estimate of the minimum investment required of a printer, in terms of both cost and the type of equipment, technology, software and processes required, in order to efficiently comail Periodicals. (b) Please provide your best estimate of the minimum number of titles and total Periodicals mail volume that a printer must handle in order to justify such investment and efficiently comail Periodicals.

### RESPONSE

- a) Comailing can be done on much of the existing equipment that is found in every printer's plant today. If a printer has selective binding capabilities, they can comail. The amount of comailing is limited, but it can be done. Comailing can be done on polywrapping equipment that is being used by the majority of printers today, although there may be a need for modifications. Equipment built specifically for comailing is readily available from a number of different vendors today. The software to drive the comail process is essentially the same as that being used for selective binding. Comailing operations also require the same ancillary equipment (strappers and shrinkwrappers) that would be used on a binding line.

The process for in-line comailing is no different from that used for selective binding today. The process for off-line comailing can differ in methods used, but basically starts by binding the publication without labeling, moving the publication to an off-line comailer, feeding the publications into the comailer, and then labeling, packaging, and palletizing the publication.

The cost for a fully equipped comailing production line can vary greatly, depending on the size of the machine (number of feeder pockets), the type of machine (polywrapper or comailer), and the amount of extras (different addressing options, video recognition system, etc.). As an estimate, you

**Response of TW et al. Witness Schick to ABM/TW et al.-T4-57**

could expect to pay from \$500,000 to \$2 million for a complete comail production line.

- b) There really isn't a magic number of titles or total mail volume that will cost justify the investment in comailing equipment. The savings, which would include presort discounts, pallet discounts, copalletization discounts, and dropship discounts, generated by comailing, can vary from comailing to comailing. When we started comailing in the mid-80's, we were comailing about 10 titles that had a total combined volume of less than 250,000 total copies. At the time, we felt that was enough to justify the investment. We started a comail operation in one of our plants within the last year that consists of no more than 6 titles and from 30,000 to 130,000 total copies. We felt that was enough to justify the investment. Why? Because we believe that the volume will continue to grow and the incentives will continue to grow as well, reflecting the cost savings we are creating for the Postal Service.

## Response of TW et al. Witness Schick to ABM/TW et al.-T4-58

**ABM/TW et al.-T4-58.** With reference to your testimony at page 12, lines 17-18 that “[i]n most cases today, publications with low advertising will not see enough savings to justify the cost [of dropshipping]” (emphasis added), (a) please state what you mean by low advertising, in terms of a percentage or range; (b) please estimate the extent, in terms of volume and percentage of Periodicals volume, to which such low advertising publications are printed at Quad/Graphics, and the extent to which they are comailed; and (c) please explain the circumstances in which *some* low advertising publications do see enough savings to justify dropshipping, and please estimate the extent to which this occurs.

### RESPONSE

- a) The average advertising percentage for our Periodicals client base is about 30-40%, but we have clients that maintain zero percentage of advertising as well as numerous non-profit periodicals that establish and maintain less than 10% advertising in their publications. For purposes of dropship consideration, I would equate low advertising with about 15% advertising.
- b) I do not have exact numbers related to how many publications we mail that have lower advertising percentages, but there are many with less than 15%, particularly in the last few years when the advertising market has been depressed. Some comail, and some mail by themselves, [depending on all the variables that have been previously mentioned related to why periodicals would choose not to comail or would not qualify for comail in our current production process. Advertising percentages alone do not preclude any publication from participating in our comail process.
- c) When we look at the possibility of dropshipping a periodical, there has always been an advertising percentage threshold that provides a fairly good indication of whether there will be sufficient savings to offset the cost of transportation. That percentage has changed over time as a result of the shifts in rates applied to each zone and the changes in the SCF piece

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discount. For example, 10 years ago we would probably not have dropshipped a periodical with less than 35% advertising. It just would not pay. The cost of transportation would outweigh the savings realized by zone skipping. Five years ago a periodical with less than 25% advertising would not have dropshipped in most cases. Because of changes to the Periodicals rate structure, level of pallets, and our total dropshipped mail volume, today we would consider any periodical with less than 15% advertising as a possible dropship candidate, but only after analysis can we be sure that any portion of the mailing will qualify for dropshipment. In any case, we are still dependent on the total copy count, weight of the piece, and density to a specific area of the country. The portion of the mailing that dropships will usually end up being determined by the level of pallets and the entry points that we have scheduled. In many cases, it's more cost-effective for us to add the pallets to a dropship load, where space is available, than sending the pallets out as local entered. It also helps to ensure more consistent delivery for our clients.

## **Response of TW et al. Witness Schick to ABM/TW et al.-T4-59**

**ABM/TW et al.-T4-59.** What percentage of Periodicals produced by Quad/Graphics do you project would be dropshipped if the presently proposed rate structure were to be implemented? For any response that is less than 100%, please explain what factors apart from the editorial pound charge operate to inhibit or preclude dropshipping to that extent at the present time.

### **RESPONSE**

In our overall process I can't say that 100% of our periodicals will dropship, but the number should be very close to that level. I expect that we will always have a small percentage of mail that will fall out of dropship, comail, copalletization, or some other yet to be determined process. In most cases it will probably be caused by the complexity of mailings, which could include multiple versions, polybagging with numerous inserts, or smaller circulation periodicals with tight production and delivery schedules.

## **Response of TW et al. Witness Schick to ABM/TW et al.-T4-60**

**ABM/TW et al.-T4-60.** Referring to your testimony at page 13, lines 2-9, please confirm that as more mailers resort to dropshipping in lieu of transportation by the Postal Service, those who remain dependent upon Postal Service transportation will face rising unit costs for such transportation.

### **RESPONSE**

Not confirmed. Under any scenario I can imagine, Postal Service transportation volumes will remain large enough that mail leaving the system should not cause capacity utilization to decline. The unit costs of transportation for remaining volumes should therefore be unaffected. See also witness Stralberg's responses to ABM/TW et al.-T2-6 and MH/TW et al.-T2-3.

**Response of TW et al. Witness Schick to ABM/TW et al.-T4-61**

**ABM/TW et al.-T4-61.** Please identify all other printers that you believe may have a larger Periodicals comailing volume than Quad/Graphics, and separately identify all other printers that you believe may have a larger investment than Quad/Graphics in the comailing of Periodicals. In each case, please estimate/describe the volume/investment.

**RESPONSE**

I do not have that information.

**Response of TW et al. Witness Schick to ABM/TW et al.-T4-62**

**ABM/TW et al.-T4-62.** Please identify all other printers that you believe may have a Periodical comailing volume, and/or investment in the comailing of Periodicals, that is comparable to that of Quad/Graphics. In each case, please estimate/describe the volume/investment.

**RESPONSE**

I do not have that information.

## **Response of TW et al. Witness Schick to ABM/TW et al.-T4-63**

**ABM/TW et al.-T4-63.** Please estimate and explain the time and resources that would be necessary for a Periodicals printer that does not presently engage in comailing to achieve an investment in comailing of Periodicals and a Periodicals comailing volume comparable to that of Quad/Graphics today.

### **RESPONSE**

A Periodicals printer could make the investment in comailing comparable to where we are today in a relatively short period of time as long as they are willing to spend the money, and if they have the floor and building space to house the operation. They could probably have the equipment and software systems in a 12-18 month period. However, if they were to utilize current manufacturing equipment like a polywrapper, it could be possible to modify the machine and be ready for production in a much shorter period of time. Predicting how long it would take to amass the volume needed is not possible. As mentioned in my response to ABM/TW et al.-T4-57, total volume is not the only determinant of the success of a comailing.

**Response of TW et al. Witness Schick to ABM/TW et al.-T4-64**

**ABM/TW et al.-T4-64.** Please identify all printers other than Quad/Graphics that you believe may have a substantial Periodicals comailing volume and/or substantial investment in the comailing of Periodicals, to the extent that you view them as a serious actual or potential competitor. In each case, please estimate/describe the volume/investment.

**RESPONSE**

I do not have that information.

## Response of TW et al. Witness Schick to ABM/TW et al.-T4-65

**ABM/TW et al.-T4-65.** Please describe and quantify (a) the investments already made by Quad/Graphics in comailing and copalletization, respectively, and (b) the further investments in comailing and copalletization, respectively, that Quad/Graphics would likely make if the proposed rate structure were to be adopted. Please explain how such changes would reflect the “Ready, Fire, Aim” philosophy referred to at page 8 line 11 of your testimony.

### RESPONSE

- a) We have built a comailing operation in a number of our plants that utilizes multiple production lines and production processes. We have not made any investments in a copalletization process other than modifying our comail software, so that we can produce the necessary documentation to claim copalletization discounts in our comail process.
  
- b) In all probability we would continue to invest in more comail equipment in all plants, and at the same time begin to develop a copalletization process that will complement and add value to our comail process. Because comail and copalletization will result in more mail qualifying for dropship, we'll probably also look to expand our distribution capabilities either by adding more capacity or bringing on more valued partners. I would also expect that we would look to automate the material handling process by revisiting the work that the industry and Postal Service have done in some of the aforementioned MTAC Work Groups that were focused on developing a new flats container.

The proposed rate structure and our reaction would reflect our “Ready, Fire, Aim” philosophy because we would have a clearer vision of the direction the Postal Service is taking, and would be able to take a “hunchmanship” approach to making decisions. That is, if you know your strengths and the direction of your customers and business partners, your hunch should be less

## **Response of TW et al. Witness Schick to ABM/TW et al.-T4-65**

risk-averse, and you can make quicker decisions that will get you ahead of the game.

## Response of TW et al. Witness Schick to ABM/TW et al.-T4-66

**ABM/TW et al.-T4-66.** With reference to your testimony at page 11 lines 14-15 that “comailing equals copalletization without the extra work,” (a) please specify and explain the extra work involved in copalletization, (b) please provide your best estimate of the minimum investment required of a printer, in terms of both cost and the type of equipment, technology, software and processes required, in order to efficiently copalletize Periodicals, and (c) please provide your best estimate of the minimum number of titles and total Periodicals mail volume that a printer must handle in order to justify such investment and efficiently copalletize Periodicals.

### RESPONSE

- a) Copalletization would generally be achieved in one of two ways: 1) a manual process of moving packages from multiple mailings to one common pallet; or 2) utilizing a mechanical or automated package sorting process similar to what the Postal Service uses. In either case, it is an additional process.
- b) If using a manual process, the cost determinants would be labor and building space. The process is very much the same as is done today with newsstand publications. The cost could range from about 25 to 40 cents per package handled, depending on the number of people involved. For a mechanical or automated process, the entry cost would be greater, but can vary. The type of equipment and associated costs would be very similar to the Postal Service's costs in deploying LIPS (Linear Inline Package Sorter), SPBS (Small Parcel and Bundle Sorter), and the Parcel Sorter. If we were to get into copalletization, one or more of these variations would probably be the logical choice of equipment. Costs could range from \$250,000 to \$2 million, depending on the type of equipment, number of possible sorts, and scanning and read capabilities.
- c) Again, it would be very difficult to estimate the number of titles and mail volume needed to justify the investment.