

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

---

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

---

Docket No. C2004-1

RESPONSES OF TIME WARNER INC. ET AL.  
WITNESS JOSEPH E. SCHICK TO USPS/TW ET AL.-T4-1-9  
(June 24, 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 United States Postal Service interrogatories USPS/TW et al.-T4-1-9, filed June 10, 2004.

Each interrogatory is stated verbatim and followed by the response.

Respectfully submitted,

s/ \_\_\_\_\_  
John M. Burzio  
Timothy L. Keegan

COUNSEL FOR  
TIME WARNER INC.

Burzio & McLaughlin  
Canal Square, Suite 540  
1054 31st Street, N. W.  
Washington, D. C. 20007-4403  
Telephone: (202) 965-4555  
Fax: (202) 965-4432  
E-mail: burziomclaughlin@covad.net

## **Response of Witness Schick to USPS/TW et al.-T4-1**

**USPS/TW et al.-T4-1.** On page 1, line 20 of your testimony, you state that the annual postage bill for Quad/Graphics, Inc. is more than \$2 billion. In percentage terms, please estimate the increase or decrease you expect to see in that bill if the rates proposed by witness Mitchell (TW et al.-T1-1, page 43) were to be adopted and implemented.

### **RESPONSE**

I would expect, that on average, many of our clients would see a decrease in postage if the proposed rate structure were implemented. There would however, be situations where our clients will have mailings, or portions of mailings, that would see an increase in postage under the proposed rate structure. For those clients, we would look for ways to help them reduce the amount of increase.

Clients that are already utilizing our comail and dropship capabilities will see decreases in postage. Because we don't have software available to do fully accurate analysis of the proposed rate structure for each individual client, we can only estimate the numbers, but it appears as though it would be about 10-15%.

Overall, I would expect that we would see a decrease in total postage of about 2-5% (based on the same mail volume used to estimate the \$2 billion mentioned). That estimate is based on what we are already doing for our clients, and for what we additionally intend to do for clients given the right incentives reflected in the proposed rate structure. I would also expect that because of efficiencies and cost savings for our clients and Quad, we would see an increase in mail volume as the savings are reinvested back into businesses.

## **Response of Witness Schick to USPS/TW et al.-T4-2**

**USPS/TW et al.-T4-2.** On page 2, lines 18-20 of your testimony, you state, "[w]e are forced to make decisions that we know are not in the best interest of the 'lowest combined costs' model." Please provide examples of such decisions and demonstrate how they did not adhere to the lowest combined cost model.

### **RESPONSE**

See my response to ABM/TW et al. - T4-48.

## **Response of Witness Schick to USPS/TW et al.-T4-3**

**USPS/TW et al.-T4-3.** On page 2, lines 8-9 of your testimony, you mention the contracts you form with your clients today. Please describe the terms of the contracts which Quad/Graphics, Inc. enters into with its customers. Specifically, address how postage is paid. Are the customers of Quad/Graphics, Inc., assessed postage as a line item on their bills, do they pay some fixed negotiated price that is established before the postage is determined on a given mailing, or is some other process used? If some other process is used for postage payment, please describe it.

### **RESPONSE**

Terms of contracts between Quad and our clients are confidential. Postage is paid by our clients, either by check to the local Postmaster, or through a CAPS or Centralized Postage Payment account. Postage is not included on invoices to clients.

## **Response of Witness Schick to USPS/TW et al.-T4-4**

**USPS/TW et al.-T4-4.** On page 3, lines 19-25 of your testimony you describe how In-Style magazine altered its presort parameters in a way that reduced the number of sacks from 4,059 to 1,418. Aside from reducing postage, did this change also result in an internal operations savings for the company that prepared this mail? If so, please describe the changes that were made and the savings that were realized.

### **RESPONSE**

There were internal operations savings. We were able to reduce the number of people needed on our binding line, improve efficiencies in material handling, and reduce the amount of warehouse space needed to stage the finished product. And because of the reduction in sacks, we had less empty equipment in our warehouse, opening up space for our other products. In addition, more palletized mail helped to expedite the loading of trailers and reduced manpower needs in distribution.

## **Response of Witness Schick to USPS/TW et al.-T4-5**

**USPS/TW et al.-T4-5.** In your autobiographical sketch you describe 20 years of experience working in the post press production process, as well as your involvement with MTAC. Based on this experience, would you say that the average unit cost incurred by a small printing and distribution company (the nonpostage cost incurred during the manufacture/preparation of Periodicals mailings prior to the time that they are submitted to the Postal Service) is higher, lower, or about the same as the average unit cost incurred by a large printing and distribution company? Please explain the basis for your response.

### **RESPONSE**

I am not able to provide this information.

## Response of Witness Schick to USPS/TW et al.-T4-6

**USPS/TW et al.-T4-6.** On page 4, lines 1-2 of your testimony, you state, "[t]he change from sacks to pallets also created less cost and more efficient production for Quad." (a) Just to be clear, is it your testimony that the use of pallets results in internal, non-postage benefits/cost savings to Quad? If so, please describe those benefits/cost savings. b) Was there some point in time when Quad made the decision to rely on pallets for its internal operations? If so, please describe when that change was made, why that change was made, and the system that existed before that change was made.

### RESPONSE

- a) Just as with processing and distribution within the Postal Service, we gain efficiencies throughout our processes when we can utilize palletization instead of sacks. Pallets help to reduce labor, material handling, warehousing, and transportation costs. Sacked mail is also where the majority of preparation errors occur, which result in postage assessments or rework costs.
- b) Product within our production facilities has always been handled and moved on pallets. We began to utilize pallets for packages of mail in 1981 or 1982, when the first provision for palletized mail was written into the postal regulations. Prior to that time, all packages of mail were placed in sacks, the sacks were thrown onto our own pallets, and then dumped from the pallets into trailers creating a bedload of sacks.

## Response of Witness Schick to USPS/TW et al.-T4-7

**USPS/TW et al.-T4-7.** On page 4, lines 10-13 of your testimony, you state, "[o]pportunities are restricted because the costs of increased investment in technologies, such as comailing, copalletization, and investing in new technologies and processes outweigh the return that we could get from the reduction in postage costs." On page 10-12 you also discuss in general terms how the industry would respond to the price incentives proposed by witness Mitchell, and use past examples to support your claim. (a) What specific technology investments, if any, can you foresee Quad/Graphics, Inc. making were the rate schedule proposed by witness Mitchell (TW et al.-T-1, page 43) to be adopted and implemented? (b) What specific operational changes, if any, can you foresee Quad/Graphics, Inc. making were the rate schedule proposed by witness Mitchell (TW et al.-T-1, page 43) to be adopted and implemented? (c) Docket No. R2001-1 resulted in two new pallet discounts. Please describe all technological investments and operational changes Quad/Graphics, Inc. made in response to these pallet discounts, and specify the time period in which they were made.

### RESPONSE

- a) See response to ABM/TW et al. – T4-65 (b)
- b) See response to ABM/TW et al. – T4-65 (b)
- c) Because the discounts offered were not sufficient enough to develop a copalletization process, we focused on our comailing operation as a way to utilize the discounts. Our investment was therefore limited to modification of our comail software to meet the postal requirements for documentation. Modification of software and certification of our process and documentation by the Postal Service was about a 6-month process from the time the discounts became available. No operational changes were made, as copalletization is a function and byproduct of comailing.

## Response of Witness Schick to USPS/TW et al.-T4-8

**USPS/TW et al.-T4-8.** (a) Please describe the various materials that Periodicals mailers used to secure bundles. (b) Are there any differences when it comes to the materials used by a large mailer to secure bundles and the materials used by a small mailer to secure bundles? If so, what are those differences and why do they exist?

### RESPONSE

- a) I can only describe the materials that are used at Quad/Graphics. We use a combination of shrinkwrap material and plastic strapping. All packages are shrinkwrapped. We then use a selective strapping process to determine whether we need to add one or two straps. That is dependent on the height of the packages, as well as the weight of the publications and the number of bind-in or blow-in cards. For publications that are individually polywrapped, we only use two straps. Shrinkwrapping over polywrap does not work.
- b) I am not able to provide that information.

## Response of Witness Schick to USPS/TW et al.-T4-9

**USPS/TW et al.-T4-9.** On page 7, lines 1-3 of your testimony, you state “[t]oday, we have more than 120 different publications participating in our comailing program. The list size of those publications can vary from a main run of 500,000 copies to supplementals or back issues of 1,500 copies.” Please provide the following information regarding these 120 publications mentioned in your testimony. a) How many of these publications have total mailed circulation (including the circulation of various editions, versions, and supplementals) of 75,000 or less? b) How many of these publications have total mailed circulation (including the circulation of various editions, versions, and supplementals) of 50,000 or less? c) How many of these publications have total mailed circulation (including the circulation of various editions, versions, and supplementals) of 25,000 or less? d) How many of these publications have total mailed circulation (including the circulation of various editions, versions, and supplementals) of 10,000 or less? e) How many of these publications have total mailed circulation (including the circulation of various editions, versions, and supplementals) of 5,000 or less? f) For each publication, please provide the proportion of content that is advertising, for a specified recent time period of your choice? g) For each publication, please provide the copy weight for the time period that was chosen for the advertising content in part (f) above.

### RESPONSE

Using our most recent information, the actual number of publications that participated in comailing pools was 105.

- a) 23.
- b) 17.
- c) 6.
- d) 4.
- e) 1.
- f) The information is contained in the attached spreadsheet.
- g) The information is contained in the attached spreadsheet.

**Attachment to Response of Witness Schick to USPS/TW et al.-T4-9**

Title Code	Copies	Piece Weight	Ad %
Title 1	2914279	1.1117	46.5
Title 2	2334764	0.7673	52.3
Title 3	2156082	0.5183	29.12
Title 4	1881168	0.4438	50.79
Title 5	1765872	0.359	55.04
Title 6	1742304	0.6407	59
Title 7	1557030	0.67	50.23
Title 8	1516060	0.5102	44.53
Title 9	1380134	0.569	49.29
Title 10	1367099	0.497	44
Title 11	1353674	0.6353	49.83
Title 12	1267931	0.8493	50.51
Title 13	1236663	0.2363	26.03
Title 14	1164428	0.9668	48.84
Title 15	953742	0.3295	40.95
Title 16	864582	1.055	58.72
Title 17	813328	0.34	43.18
Title 18	706544	0.352	38.32
Title 19	692497	0.617	59.17
Title 20	692079	0.611	42.9
Title 21	687964	0.6308	45.88
Title 22	687685	1.5275	38.62
Title 23	672988	0.5627	46
Title 24	667192	0.284	0
Title 25	629686	0.5833	56.28
Title 26	605933	0.359	23.15
Title 27	591314	0.1544	0
Title 28	576445	0.2508	45.54
Title 29	571045	0.6517	51
Title 30	560041	0.2163	0
Title 31	558170	0.8587	56.88
Title 32	552698	1.038	47
Title 33	444936	0.6203	53.6
Title 34	440076	0.63	37.8
Title 35	427191	0.502	41.92
Title 36	419768	0.329	40.62
Title 37	410558	0.4298	34.22
Title 38	407539	0.4963	35.9
Title 39	397283	0.4347	44.3
Title 40	395862	0.6537	56.28
Title 41	358361	0.289	41.36
Title 42	315778	0.9473	66.09
Title 43	313657	0.508	40.6
Title 44	308747	1.0223	30
Title 45	302363	0.2207	35.01
Title 46	300487	0.4783	27.23
Title 47	300002	0.138	10
Title 48	297564	0.3423	34
Title 49	276428	0.5286	42.82
Title 50	273125	0.546	43.1
Title 51	247265	0.4295	37.9
Title 52	231959	0.4473	51
Title 53	228657	0.6703	50
Title 54	217216	0.441	31.83

**Attachment to Response of Witness Schick to USPS/TW et al.-T4-9**

Title Code	Copies	Piece Weight	Ad %
Title 55	204997	0.38	51.84
Title 56	197854	0.3923	11.97
Title 57	193226	0.3813	28.95
Title 58	189692	0.3923	18.9
Title 59	187721	0.655	33.96
Title 60	185133	0.798	46.84
Title 61	151022	0.496	39.47
Title 62	147120	0.585	14.18
Title 63	131013	0.5264	35
Title 64	130853	0.4617	42.33
Title 65	127703	0.635	31
Title 66	121621	0.305	31.08
Title 67	116852	0.5857	39.13
Title 68	116060	0.521	50.59
Title 69	110479	0.629	53.27
Title 70	109161	0.3807	13.44
Title 71	108256	0.608	18.11
Title 72	107830	0.4417	40
Title 73	101899	0.276	10.7
Title 74	100191	0.4577	36.46
Title 75	90298	0.5213	33
Title 76	88788	0.389	51.51
Title 77	87647	0.2994	33
Title 78	84409	0.2907	47
Title 79	83427	0.5903	45
Title 80	81145	0.4477	14.78
Title 81	77411	0.8287	60.89
Title 82	77107	0.461	20.28
Title 83	72493	0.4167	52.99
Title 84	72283	0.45	50
Title 85	63916	1.2137	50.76
Title 86	59188	0.312	37.3
Title 87	55091	0.7893	52.1
Title 88	54863	0.3223	23
Title 89	49153	0.3225	22.97
Title 90	46078	0.6083	27.8
Title 91	46066	0.2913	20
Title 92	44655	0.489	53.36
Title 93	43400	0.3837	45.89
Title 94	42925	0.414	39
Title 95	36062	0.2997	32.9
Title 96	34069	0.331	28
Title 97	32922	0.4863	15.59
Title 98	27334	0.355	34.53
Title 99	26022	0.2373	40.88
Title 100	24833	0.63	34
Title 101	15431	0.31	29.41
Title 102	9084	0.575	18
Title 103	8382	1.115	41
Title 104	6607	0.35	18.27
Title 105	1638	0.585	34