

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

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

Docket No. C2004-1

TESTIMONY OF
MICHAEL JOHN ARMSTRONG
ON BEHALF OF INTERVENOR
U.S. NEWS & WORLD REPORT, L.P.

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1 TESTIMONY OF
2 MICHAEL JOHN ARMSTRONG
3 ON BEHALF OF
4 U.S. NEWS & WORLD REPORT, L.P.

5 My name is Michael John Armstrong and my title is Senior Vice President of
6 Operations at U.S. News & World Report, L.P. ("U.S. News"). I submit this
7 testimony in support of the proposal advanced by Time Warner et al. to base
8 Periodicals rates more directly on the Postal Service's costs, including specifically
9 the important cost drivers of the number of sacks, pallets, and bundles. This is the
10 first time U.S. News has submitted testimony before this Commission. We are doing
11 so because we firmly believe that the Complainants' proposal would cause
12 publishers to change their mailing behavior in ways that would make the Postal
13 Service more effective and improve the efficiency of overall mailing operations,
14 thereby minimizing future increases in Periodicals rates.

15 The primary business of our privately held company is publishing the weekly
16 newsmagazine *U.S. News & World Report*. Our primary competitors are *Time* and
17 *Newsweek* magazines, each of which is owned by a Complainant. We mail more
18 than 92 million copies of the magazine annually to U.S. subscribers. The U.S. Postal
19 Service is our largest vendor.

20 U.S. News has responded to increases in postal rates over the past thirty years with
21 such strategies as reducing our magazine's trim size and the basis weights of our
22 paper. We have also adapted our mailing practices many times to take advantage of
23 such rate incentives as low carrier-route piece rates, barcoding, the use of ADC
24 entries, and palletization.

25 Our analysis of a recent issue of *U.S. News & World Report* magazine using the
26 model provided by the Complainants indicates that the proposed rates would reduce

1 our Periodicals postage by 10.4 percent with no change in how we mail the
2 magazine. But the proposed rates would give us the incentive (an additional 3
3 percentage points in savings) to make a few simple changes that would reduce the
4 Postal Service's costs, including:

- 5 1. Presorting subscriber addresses in ways that would reduce by half the number of
6 pallets and sacks the Postal Service must handle. Our analysis indicates we
7 could achieve at least a 50-percent reduction in containers. We have not
8 undertaken the necessary changes because current Periodicals rates give us no
9 incentive to do the computer programming, testing, and other measures that
10 would be required. I believe it is clear beyond question that having the Postal
11 Service handle fewer sacks and pallets, along with associated adjustments in
12 bundle handling and piece sorting, would be more efficient for all concerned.

- 13 2. Switching the entry points for approximately 250,000 copies not currently eligible
14 for destination discounts to the destination Bulk Mail Centers (BMCs). Because
15 we already deliver copies to Periodicals facilities in the same cities as the BMCs,
16 we could easily add the BMCs as entries. Current rates and regulations
17 discourage entering Periodicals at BMCs. The Postal Service should be well
18 positioned to handle these sacks and pallets through the DBMCs at lower costs
19 than today. This is another opportunity to increase the Postal Service's efficiency
20 that is blocked by current Periodicals rates.

21 The changes I have just described are actions we can take on our own. Potentially
22 more important are the changes we would make in conjunction with other
23 publications. If adopted, the Complainants' rate proposal would persuade
24 publishers to drop ship more of their magazines. That, in turn, would give us more

1 opportunity to add postal entries, enabling us to reduce the Postal Service's
2 Periodicals costs.

3 Implementation of the Complainants' rate proposal would also make the co-mailing
4 of *U.S. News & World Report* magazine with other publications economically
5 attractive. Contrary to commonly held belief, being a weekly magazine is not a
6 significant hurdle to U.S. News entering into co-mail arrangements. The primary
7 operational challenge is managing many different demographic versions. For our
8 printers, this means they would need to make a significant investment in large
9 capacity multi-mailing equipment to combine many different publications and
10 versions of publications. Because about three-quarters of our copies already qualify
11 for carrier route sortation piece rates, there is virtually no incentive to co-mail them.
12 As a result, our current co-mailing strategy focuses on those markets with relatively
13 low carrier route percentages. The proposed rates would not only increase the
14 savings from promoting five-digit pieces to carrier route, they would also provide
15 incentives for consolidating various publishers' bundles and containers into fewer
16 and larger bundles and containers. That would make co-mailing of *U.S. News &*
17 *World Report* magazine with other publications economically attractive even in areas
18 with high carrier route sortation.

19 As you can see, the Complainants' proposal would give U.S. News and other
20 publishers incentives to reduce the Postal Service's costs and improve overall
21 efficiency. Please note that U.S. News supports this proposal even though it puts
22 U.S. News at a competitive disadvantage, since the proposed rates favor *Time* and
23 *Newsweek* more. Nevertheless, the proposal would help the Postal Service handle
24 periodicals more efficiently and would therefore ultimately be good for the entire
25 Periodicals class of mail.