

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 U.S. NEWS & WORLD REPORT, L.P.
TO ABM/USN-T1-1-16 TO WITNESS ARMSTRONG
(October 12, 2004)

U.S. News & World Report, L.P. ("U.S. News") hereby provides its responses to ABM/USN-T1-1-16 to witness Armstrong (USNews-T-1) (filed September 27, 2004). Each interrogatory is stated verbatim and followed by the response.

Respectfully submitted,

s/

Cyna J. Alderman
Assistant General Counsel

U.S. News & World Report, L.P.
450 West 33rd Street, 3rd Floor
New York, New York 10001
(212) 210-1555 (Telephone)
(212) 210-6305 (Facsimile)

RESPONSE OF U.S. NEWS & WORLD REPORT, L.P.
WITNESS ARMSTRONG TO ABM/USN-T1-1

ABM/USN -T1-1. With reference to your testimony at page 1, lines 22-24, please describe how you changed your mailing practices to take advantage of: (a) carrier route piece rates, (b) barcoding, (c) ADC entries, (d) palletization.

ABM/USN – T1-1

a) To take advantage of then-new carrier route piece rates in the early 1980s, U.S. News moved to lower minimum per-bundle copy counts in our binderies to increase the proportion of copies that qualified for the carrier route discount.

b) When bar-code discounts were introduced in the summer of 1992, the presort software used by our fulfillment house was unable to prepare our mail so it qualified for these discounts. In response, U.S. News brought its entire presort program in-house in the fall and winter of 1992, switched to a new presort software, and, by March 1993, was mailing copies that qualified for automation bar-code discounts.

c) The discounts related to DADC entry gave us sufficient incentive to open some new postal entries and caused us to shift where we enter some non-DSCF copies. We ship non-destination-entry copies from the printing plants to a variety of Periodicals postal facilities to ensure timely delivery. Before the DADC discount was enacted, we had no guidance from the Postal Service -- other than zone-skipping discounts that, for our magazine, are minimal -- regarding where to enter these copies. Therefore, we had to make our best guesses based on geography and our understanding of the Postal Service's transportation network. When the DADC rates were enacted, we found that we could change the entry point for some of the non-DSCF copies to other existing entry points and qualify for the DADC discount (and, later, the dropship-pallet discount). For example, we enter mail in Santa Ana, California and Los Angeles, California but not in Anaheim, California. We used to enter Anaheim copies in Santa Ana but switched them to Los Angeles because that is where the ADC for Anaheim is situated.

RESPONSE OF U.S. NEWS & WORLD REPORT, L.P.
WITNESS ARMSTRONG TO ABM/USN-T1-1

d) The palletization discounts caused us to adjust how we segmented our subscriber file by regions, creating fewer, larger segments in a way that causes fewer copies to be sacked.

RESPONSE OF U.S. NEWS & WORLD REPORT, L.P.
WITNESS ARMSTRONG TO ABM/USN-T1-2

ABM/USN -T1-2.

(a) Who specifically performed the analysis that showed that U.S. News would enjoy a 10.4% discount under the proposed rates with no change in mail preparation.

(b) What was the before and after per copy postage?

ABM/USN – T1-2

a) U.S. News employees did the analysis with the Access tool created by the Complainants.

b) For consistency, we derived the data in response to this question from the test issue referred to at page one, line 25 of the testimony. The postage for the test issue using current rates was 19.9 cents per copy. The postage under the proposed rates would be 17.8 cents per copy.

RESPONSE OF U.S. NEWS & WORLD REPORT, L.P.
WITNESS ARMSTRONG TO ABM/USN-T1-3

ABM/USN -T1-3.

(a) What percentage of the copies in the main file and in supplemental mailings is now palletized?

(b) approximately how many sacks do you now use to mail your main file and your supplemental mailings?

(c) What sack minimum(s) do you set for your sacked mail?

ABM/USN – T1-3

For consistency, we derived the data in response to this question from the test issue referred to at page one, line 25 of the testimony. We do not prepare supplemental mailings.

a) 98.3 percent of the copies were palletized.

b) 966 sacks.

c) a minimum of 24 pieces per sack for 5-digit, 3-digit, and SCF sacks; six pieces for ADC sacks.

RESPONSE OF U.S. NEWS & WORLD REPORT, L.P.
WITNESS ARMSTRONG TO ABM/USN-T1-4

ABM/USN -T1-4. Please explain in greater detail how you would presort addresses in ways that would reduce by half the number of pallets and sacks, as stated at page 2, lines 5-6, and state (separately) the number of pallets and sacks before the presort change and the number of pallets and sacks after the presort change.

ABM/USN – T1-4

To illustrate, we would change the mailing parameters as follows:

- We would suppress 3-digit pallets, causing instead the creation of SCF pallets.
- We would set the minimum weight for SCF pallets at 500 pounds but keep the minimum for ADC pallets at 250 pounds.
- We would not allow regional versioning of the magazine to fragment our containerization.

We applied these parameters to a test issue. The result was that the number of sacks decreased from 966 to 452 and that the number of pallets decreased from 773 to 524. We believe there may be ways to reduce the number of containers even further, such as by suppressing SCF containers in some cases.

RESPONSE OF U.S. NEWS & WORLD REPORT, L.P.
WITNESS ARMSTRONG TO ABM/USN-T1-5

ABM/USN -T1-5. If as you state at page 2, lines 10-12, it would be “more efficient for all concerned” if the Postal Service handled fewer containers, along with associated adjustments in bundle handling and piece sorting, why are new rate incentives necessary for “all concerned” to take the steps that would lead to such greater efficiency?

ABM/USN – T1-5

Like most for-profit businesses, we seek to maximize the profitability of our firm, in part by minimizing costs. We invest our employees' time in projects that will yield a savings at least commensurate to the cost of that time. As I stated in my testimony, Periodicals rates give us insufficient incentive to do the computer programming, testing, and other measures that would be required.

RESPONSE OF U.S. NEWS & WORLD REPORT, L.P.
WITNESS ARMSTRONG TO ABM/USN-T1-6

ABM/USN -T1-6. Is the 3% additional saving you say is available (at page 2, lines 2-3) net of the added costs to U.S. News of additional sorting, new shipping patterns and other changes? If not, what portion of this saving would be used to pay for these changes?

ABM/USN – T1-6

Yes.

RESPONSE OF U.S. NEWS & WORLD REPORT, L.P.
WITNESS ARMSTRONG TO ABM/USN-T1-7

ABM/USN -T1-7.

- (a) With reference to the 250,000 copies not now eligible for destination discounts, where are those copies now entered?
- (b) How do current rates “discourage entering Periodicals at BMCs” ?
- (c) How do current regulations “discourage entering Periodicals at BMCs” ?
- (d) Why do current regulations “discourage entering Periodicals at BMCs” ?

ABM/USN – T1-7

a) Some are already entered at a BMC that doubles as a Periodicals facility or at the Periodicals ADC in the same city as a BMC. The others are entered at other nearby Periodicals ADCs, which in many cases are closer to the destination than the BMC.

b) In most cases we cannot achieve dropship discounts for Periodicals entered at BMCs. Current rates provide no incentive to enter Periodicals at a BMC unless it doubles as a Periodicals DDU, SCF, or ADC.

c) Most BMCs do not accept Periodicals.

d) We do not understand, and cannot speculate, why current Periodicals rates do not include BMC discounts or why BMCs generally do not accept Periodicals. It seems to us that this flaw in Periodicals rates is especially harmful to small publications that lack the volume to justify drop shipments to ADCs.

RESPONSE OF U.S. NEWS & WORLD REPORT, L.P.
WITNESS ARMSTRONG TO ABM/USN-T1-8

ABM/USN -T1-8. You state that co-mailing at the proposed rates would be attractive. Is co-mailing at today's rates attractive? If not, why not?

ABM/USN – T1-8

Co-mailing at today's rates would reduce our postage. The incentives, however, have generally been insufficient to entice printers into co-mailing a weekly magazine with 2 million subscribers and multiple regional and demographic versions. There is no incentive to co-mail approximately three quarters of our copies because they are already carrier-route sorted and palletized.

RESPONSE OF U.S. NEWS & WORLD REPORT, L.P.
WITNESS ARMSTRONG TO ABM/USN-T1-9

ABM/USN -T1-9. If U.S. News would save postage by co-mailing at today's rates but chooses not to co-mail, please explain the considerations that led you not to co-mail.

ABM/USN – T1-9

The hurdles to US News co-mailing can be surmounted, but not easily and not without cost. The operational challenges include:

- the need to presort the consolidated mailing on a very short schedule;
- the need to organize the production of multiple demographic and geographic versions in the bindery and control their integration into a consolidated mail stream;
- the need to modify our publishing calendar to limit the number of different demographic versions in any single issue; and
- the need to adapt planning and communications systems to meet the needs of a more complex bind/mail/ship operation.

RESPONSE OF U.S. NEWS & WORLD REPORT, L.P.
WITNESS ARMSTRONG TO ABM/USN-T1-10

ABM/USN -T1-10. You state at page 3, lines 6-10, that co-mailing your publication would mean that your "printers" would "need to make a significant investment in large capacity multi-mailing equipment." With respect to this statement, please:

- (a) identify your printers and the volume printed by each at each location,
- (b) quantify the investment they would have to make,
- (c) describe in detail your "current co-mailing strategy," including the location at which such co-mailing takes place, the number of U.S. News pieces in each comailing pool, the percentage of each pool that consists of U.S. News pieces, and the number of other publications with which U.S. News is co-mailed in each pool.

ABM/USN – T1-10

- a) Our current production configuration is as follows:
 - Quebecor World, Merced, California: approximately 465,000 copies per issue.
 - Quad/Graphics, Hartford, Wisconsin: approximately 1,765,000 copies per issue.
- b) We do not know the specific amounts.
- c) Our strategy is to find printers interested in co-mailing our copies, especially to areas where we have relatively low carrier-route percentages. We recently co-mailed some copies of our magazine for the first time. Some 90,566 copies of the magazine were co-mailed in Sussex, Wisconsin. They represented nearly 17 percent of the copies in the co-mail pool, which included 17 other titles or versions in one portion and 16 in another.

RESPONSE OF U.S. NEWS & WORLD REPORT, L.P.
WITNESS ARMSTRONG TO ABM/USN-T1-11

ABM/USN -T1-11. Please describe and state the results of all studies you have done to support the statement at page 3, lines 16-18 that the proposed rates would make co-mailing of U.S. News attractive even in areas with a high level of carrier route sortation.

ABM/USN – T1-11

We did not conduct any formal studies. Our statements were based on the observation that the Complainants' proposal, unlike current rates, would include per-bundle and per-container charges while maintaining the incentives to improve piece sortation. Savings would be available, therefore, for co-mailing copies already eligible for carrier-route sortation because of the resulting consolidation of (and reduction in the number of) bundles and containers in the consolidated mail stream.

RESPONSE OF U.S. NEWS & WORLD REPORT, L.P.
WITNESS ARMSTRONG TO ABM/USN-T1-12

ABM/USN -T1-12. Would co-mailing of U.S. News be attractive if it resulted in delivery to readers one day later than would otherwise be the case?

ABM/USN – T1-12

We would not undertake the co-mailing of our magazine if we thought that doing so would delay delivery by one day. We see no reason, however, that co-mailing should cause such delays in delivery. Co-mailing improves sortation and containerization in ways that should speed delivery and provides the economies of scale to reach postal entries that a single publication could not reach economically on its own.

RESPONSE OF U.S. NEWS & WORLD REPORT, L.P.
WITNESS ARMSTRONG TO ABM/USN-T1-13

ABM/USN -T1-13.

(a) With respect to the main file mailing, when does U.S. News close editorial, when is it printed, when does it leave the printing plant(s) and what is your expected in-home delivery day?

(b) Is it your understanding that the time frames between closing editorial, printing, leaving the printing plant and expected in-home delivery are different for U.S. News than they are for the other major news weeklies? Please explain anything but a "no" answer.

ABM/USN – T1-13

a) We close editorially at 8:00 PM eastern standard time Friday and start printing by 10:00 PM Friday. Dispatching begins by 4:00 AM Saturday and is complete by about 6:00 PM Sunday. The majority of our copies will be delivered in-home on Monday and Tuesday.

b) We have only hearsay knowledge of the schedules of our competition.

RESPONSE OF U.S. NEWS & WORLD REPORT, L.P.
WITNESS ARMSTRONG TO ABM/USN-T1-14

ABM/USN -T1-14. Please explain in detail all of the reasons why you believe that, because the proposed rates would benefit *Time* and *Newsweek* more than they would benefit U.S. News, your publication would be at a “competitive disadvantage.”

ABM/USN – T1-14

Time and *Newsweek*'s postage savings with the proposed rates would be greater than the savings for our magazine, according to the Complainants' testimony.

Having higher relative costs than a competitor is by definition a competitive disadvantage.

RESPONSE OF U.S. NEWS & WORLD REPORT, L.P.
WITNESS ARMSTRONG TO ABM/USN-T1-15

ABM/USN -T1-15. Would U.S. News be at an even greater competitive disadvantage if the proposed rates increased its total mailing costs by 10% rather than reducing them by that amount? Why?

ABM/USN – T1-15

Determining the relative competitive advantage or disadvantage requires that the impact of the change in question on *both* competitors be stipulated. The question as asked cannot be answered.

RESPONSE OF U.S. NEWS & WORLD REPORT, L.P.
WITNESS ARMSTRONG TO ABM/USN-T1-16

ABM/USN -T1-16.

(a) When you state (at page 3, lines 23-25) that the proposed rates will “ultimately be good for the entire Periodicals class of mail,” are you saying that the proposed rates will ultimately be good for all Periodicals mailers?

(b) If so, please explain how the proposal will be good for any Periodicals mailers that, despite their efforts, will suffer 25% or higher rate increases as a result of the proposal.

(c) If not, please describe those mailers for whom the proposal would not be “good.”

ABM/USN – T1-16

a) – c) No, we are claiming that the entire *class* of mail would benefit. We acknowledge that individual mailers that fail to respond to the new incentives -- through ignorance, unwise contractual obligations to printers, or for other reasons -- may not benefit in the short term from the proposed rates. We believe, however, that without a switch to cost-based Periodicals rates, all publishers will soon be facing exorbitant increases in postal costs.