

BOOKSPAN-T-1

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

**RATE AND SERVICE CHANGES TO
IMPLEMENT BASELINE NEGOTIATED
SERVICE AGREEMENT WITH BOOKSPAN**

DOCKET NO. MC2005-3

**DIRECT TESTIMONY
OF
ROBERT J. POSCH, JR.
ON BEHALF OF
BOOKSPAN**

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Direct Testimony

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4 1. Autobiographical Sketch

5 My name is Robert Posch. I am Senior Vice President of Legal, Postal, and
6 Government Affairs at BOOKSPAN (a partnership owned by Time Inc. and Bertelsmann
7 AG.) I have been involved with legal, postal and government affairs for almost thirty
8 years.

9 I represent BOOKSPAN on the governing board of the Association for Postal
10 Commerce (PostCom), and am involved in various committees of the Direct Marketing
11 Association and the Association of American Publishers. Prior to representing
12 BOOKSPAN, I represented Doubleday & Co., Inc, Doubleday Book & Music Clubs, Inc.
13 (DBMCI) and Doubleday Direct Inc. for over 25 years in a similar capacity. I testified
14 before the Postal Rate Commission on behalf of the PostCom as an industry witness in
15 the proceeding to implement a Negotiated Service Agreement with Capital One
16 Services, Inc. (Docket No. MC2002-2). I have provided testimony on behalf of the
17 Advertising Mail Marketing Association (PostCom's predecessor) and Mail Advertising
18 Service Association International in the 1994 omnibus rate proceeding (Docket No.
19 R94-1), and was an industry witness at a Labor Arbitration Hearing on October 26,
20 2001. I am a native of New York State, and hold J.D. and M.B.A. (marketing) degrees
21 from Hofstra University. I have written five books and over 200 articles relating to
22 postal, marketing, and the law.

1 **2. Purpose of Testimony**

2 The purpose of my testimony is to explain and illustrate how BOOKSPAN and
3 others in the direct mail industry generate business for the Postal Service through a
4 massive multiplier effect through the mail stream. BOOKSPAN's business illustrates
5 how Standard Mail drives Postal Service volume and revenue growth. My testimony is
6 submitted in support of the BOOKSPAN NSA.

7 **3. History of the Company**

8 In 1926, Harry Scherman, a leader in the direct marketing industry, concluded
9 that rural America had been underestimated and under-served by publishers and
10 booksellers. In the days before retail chains, mall superstores, or Web sites, customers
11 were dependent on big city stores and mail order catalogues. Harry knew that he could
12 reach America's book readers by direct mail and established the **Book of the Month**
13 **Club®**.

14 At the same time, another savvy marketer, Samuel W. Craig, was developing a
15 club concept similar to the New York Theatre Guild and the book guilds of Europe.
16 Samuel launched **The Literary Guild®** in 1927. The two pioneering American book
17 clubs, **Book of the Month Club®** and **The Literary Guild®**, established themselves as
18 reliable sources of great, affordable books.

19 Soon after, The Doubleday One Dollar Book Club (founded by Doubleday & Co.)
20 arrived on the scene. Doubleday & Co. acquired **The Literary Guild®** in 1934 and,
21 along with The Doubleday One Dollar Book Club (now known as the **Doubleday Book**
22 **Club®**), continued to expand the book club business under Doubleday Direct, Inc.
23 Doubleday Direct, Inc. acquired the specialized and professional books clubs operated

1 Newbridge Communications in 1998 and renamed this operation Doubleday Select, Inc.
2 Doubleday Select, Inc. includes such prestigious clubs as **The Reader's**
3 **Subscription®**, **The Discovery Channel Book Club®**, and **The Nurse's Book**
4 **Society®**.

5 In March 2000, almost 75 years after the first American book clubs were born,
6 Doubleday Direct, Inc. and Book-of-the-Month Club Holdings LLC, formed a partnership
7 which brought all their illustrious book clubs together under one name—BOOKSPAN.
8 We are currently operating approximately 40 book clubs.

9 BOOKSPAN is dedicated to providing books through its various clubs, which
10 include those targeted at niche markets such as Science Fiction, Mystery, Military,
11 Christian, African-American, and Hispanic.

12 **4. The Mailstream Multiplier**

13 It is has been generally recognized in the mailing industry that growth in
14 advertising mail bolsters the growth of mail across all mail classes.¹ Nowhere is this
15 truer than at BOOKSPAN. While more and more communications and package delivery
16 move out of the mails and into electronic and competitive alternatives, BOOKSPAN's
17 members continue to value the at-home selection and delivery of books as was offered
18 by the original book club models. BOOKSPAN has millions of club members. The vast
19 majority of the correspondence between BOOKSPAN and its members takes place in
20 writing through the Postal Service. Our members typically prefer to pay through the
21 mail rather than by credit card, either online or over the phone.

¹ See, e.g., Gene Del Polito, "Viewpoint: Keep the USPS Alive with 'Three Point Five'", *AMMA Bulletin*, No. 42-98 (October 5, 1998).

1 To reach our potential customers, BOOKSPAN directly generates significant
2 volumes of solicitation mail. We use purchased external mailing lists, as well as our
3 own internal lists of former and existing members. Each solicitation letter, whether or
4 not it produces an addition to our member base, contributes to the mailstream. When
5 we successfully recruit a member, there is a significant multiplier effect inherent in
6 BOOKSPAN's business model: One BOOKSPAN solicitation generates anywhere from
7 50 to 60 mailpieces for each member that is successfully recruited. This number
8 includes significant numbers of parcels, a competitive market in which the Postal
9 Service is BOOKSPAN's carrier of choice. BOOKSPAN sends nearly 100 percent of its
10 parcels by the Postal Service.

11 Consider the following mailstream a typical member generates over the course of
12 one year:

- 13 a. The prospective customer receives a BOOKSPAN Standard Mail
14 solicitation.
- 15 b. The customer responds by enrolling in the club and placing an order by
16 First-Class Mail.
- 17 c. The initial enrollment order is fulfilled utilizing a large package shipment
18 which is shipped as Bound Printed Matter.
- 19 d. A current member receives 16 to 19 Standard Mail letters per year offering
20 the cycle's Featured Selection as well as other club selections and
21 offerings.
- 22 e. If the member refuses the cycle's Featured Selection, or wishes to order
23 other products, each response to the offer and/or order typically prompts

1 the member's return of a First-Class Mail Business Reply mailpiece, sent
2 16 to 19 times per year.

3 f. Each time the member accepts the cycle's Featured Selection or selects
4 another book, a parcel is shipped (Standard Mail parcels or Bound Printed
5 Matter) to fulfill the order.

6 g. Each time the member remits payment by mail, a separate First-Class
7 Mail letter is generated.

8 h. Members often place additional orders and generate additional parcels
9 and remittances between cycles.

10 i. BOOKSPAN notifies members if their order has been delayed.
11 BOOKSPAN sends members 15 day postcard courtesy notices and 30,
12 and 60 day courtesy letters, by First Class Mail.

13 j. Members send First-Class Mail correspondence to BOOKSPAN
14 concerning any number of reasons relating to their accounts, questions,
15 suggestions, letters regarding the books, and occasionally, complaints.

16 k. Some members fall behind or cease paying all together. This quickly
17 generates First-Class Mail letters seeking collection of amounts due.
18 Because collection letters must be rapid and compressed to succeed, we
19 send out millions of these each year. Each time a customer responds, the
20 customer sends a First Class Mail letter.

21 BOOKSPAN plans to maintain its current level of use of U.S. Postal Services as
22 described above, including (among other things) sending invoices and fulfilling orders
23 through the Postal Service.

1 **5. Indirect Effects on Mail Volume through Expansion of the Targeted List**
2 **Industry**

3
4 Since 1990, BOOKSPAN has launched three successful, targeted clubs to
5 Evangelicals, African Americans, and Hispanics. Each club provides a carefully
6 screened list of readers, which is highly desirable to other marketers. Each list rented
7 by another marketer leads to an immediate mailing by such marketer – and many
8 further mailings to those who positively respond to the offer. Thus, the multiplier effect
9 multiplies even beyond BOOKSPAN.

10 A reduction in postage means BOOKSPAN can test mailing lists -- particularly
11 external lists -- in promotions that would not otherwise meet BOOKSPAN's evaluation
12 criteria at current rates. The more lists we test, the more we grow our clubs and launch
13 new clubs. Successful clubs result in more desirable lists, which lead to further mailings
14 by outside marketers.

15 **6. BOOKSPAN History Shows A Discount on Promotional Mail Will Effectively**
16 **Increase Mail Volumes**

17
18 My colleague Matthias Epp describes, general terms, our proprietary system for
19 determining which of our marketing campaigns utilizing various advertising media get
20 executed. He explains how a discount on promotional mail affects the number of lists
21 that will fall within our marketing budget. I offer an additional perspective from
22 BOOKSPAN's history to illustrate how directly the Postal Service's pricing and
23 classification decisions affect our business.

24 Increasing the maximum weight for automation-rated letters has made it more
25 economically feasible for many direct marketers to expand their mailing efforts on
26 developing new lines of business. One of our predecessors, Doubleday Book and

1 Music Clubs, Inc., made good use of the increased automated letter weight in
2 developing a large member base for CROSSINGS®, BOOKSPAN's Christian family
3 interest book club, something that would have been difficult without the more favorable
4 automation rates. When the Postal Service increased the automated letter weight,
5 BOOKSPAN recognized the opportunity this discount afforded it, and was able to cost-
6 effectively include inserts promoting CROSSINGS® in its existing member promotional
7 mailings, as well as promote the club through inserts in promotions of related products.
8 The expanded eligibility for the automation discount provided the Postal Service with a
9 larger share of the letter mail stream for automated processing and distribution and
10 helped maximize its return on the barcode sorter investments. But the discount had a
11 further effect: CROSSINGS® was successfully launched in June 5, 1992 and is
12 approximately 850,000 members strong today, which translates into a considerable
13 amount of First-Class Mail, Standard Mail, and Package Services mail.

14 BOOKSPAN has a nearly 80-year history of targeting contemporary readers and
15 adjusting its targets as American demographics and buying habits change.

16 BOOKSPAN's business model is an ideal candidate to test focused rate incentives.

17 **7. Address Hygiene at BOOKSPAN**

18 We believe that our rigorous attention to address quality enabled the Postal
19 Service to enter into this NSA providing direct incentives for additional solicitation mail,
20 unlike the credit card industry NSAs that preceded BOOKSPAN's NSA, which required
21 an upgrade in address hygiene as a condition for receiving discounts on solicitation
22 mail.

1 BOOKSPAN practices rigorous, multi-step address hygiene. Our vender,
2 Experian, applies state-of-the-art list processing tools to achieve the maximum possible
3 deliverability results. BOOKSPAN uses the following address hygiene tools, proprietary
4 to Experian, to correct each and every list we use:²

- 5 a. Merge/Purge Duplicate Elimination: combines multiple customer or
6 prospect files and identifies and eliminates duplicates using a multiple
7 sequencing process;
- 8 b. Address Coding Manager: corrects ZIP Codes by completing ZIP+4,
9 appends carrier route code and CASS certifies names;
- 10 c. Advanced Address Correction/Apartment Append: an auxiliary address
11 correction system that processes non-ZIP+ 4 coded records and records
12 without valid apartment numbers against multiple external data bases after
13 Address Coding Manager is applied, in order to code more records with
14 ZIP+ 4 and an apartment number;
- 15 d. NCOA Link: a USPS licensed product that applies the USPS National
16 Change of Address database to update the list with new addresses;
- 17 e. Locatable Address Conversion System: a USPS licensed product that
18 converts a former rural style address to a street style address, correcting
19 delivery points that are altered when local governments rename or
20 renumber streets, typically as part of the conversion to the 911 emergency
21 system style addresses;

² The descriptions of these tools are based on M. Yapuncich and B. Ellerton, *List Processing Solutions: what you need to know before your next mailing*, <http://www.experian.com/whitepapers/index.html> (Experian 2002).

1 f. CCOA, PCOA and MCOA: Proprietary change of address databases
2 compiled by Experian from a variety of related industries, applied when no
3 NCOA link match is found.

4 Our solicitation mail address hygiene processing typically occurs around ten days
5 prior to mailing. In addition, BOOKSPAN uses the Address Change Service
6 endorsement on all of our member mail and packages, and on a majority of our direct
7 mail solicitations.

8 BOOKSPAN has given exceptional attention to address hygiene and intends to
9 continue doing so because it saves us money.

10 **8. Conclusion**

11 For the nominal incentives proposed in BOOKSPAN's NSA:

- 12 a. BOOKSPAN is given an incentive to grow its core business while shifting
13 more of its marketing efforts to direct mail.
- 14 b. The Postal Service receives the benefit of additional Standard Mail letters,
15 and the full benefit of BOOKSPAN's marketing successes in terms of
16 multiplier mail growth of First-Class Mail, Standard Mail and Bound Printed
17 Matter.
- 18 c. The Postal Service receives the third benefit of the growth of mail volumes
19 related to BOOKSPAN's list sales, and the growth of the targeted list
20 market.

21 In addition to the immediate direct and secondary effects on mail volumes
22 described above, this NSA and the process of negotiating this NSA has provided the

- 1 Postal Service with valuable, focused industry intelligence to utilize in planning similar
- 2 incentive rates around similar business models to compound its growth.