

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

POSTAL RATE AND FEE CHANGES, 2005)

Docket No. R2005-1

RESPONSES OF VALPAK DIRECT MARKETING SYSTEMS, INC. AND
VALPAK DEALERS' ASSOCIATION, INC.
WITNESS ROBERT W. MITCHELL TO INTERROGATORIES OF
ADVO, INC. (ADVO/VP-T1-8-14)
(August 18, 2005)

Valpak Direct Marketing Systems, Inc. and Valpak Dealers' Association, Inc.

("Valpak") hereby submit responses of witness Robert W. Mitchell to the following interrogatories of Advo, Inc.: ADVO/VP-T1-8-14, filed on July 29, 2005. Each interrogatory is stated verbatim and is followed by the response.

Respectfully submitted,

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ADVO/VP-T1-8.

At page 83 of your testimony, you take the position that the passthrough of the letter/flat cost difference “should be over 100 percent ...” Please explain why, and under what circumstances, a passthrough greater than 100 percent would be appropriate.

RESPONSE:

Section IV-2 of my testimony, pages 81-84, discusses the passthrough of the letter/flat cost difference with some care. The answer to your question is that a passthrough greater than 100 percent would always be appropriate. Factors that could argue for the over-100-percent (default) passthrough to move downward toward 100 percent would be: (a) a high cross elasticity between letters and flats; (b) the difference between letters and flats being considered a matter of worksharing, coupled with an interest in getting the lowest cost entity to do the work; (c) evidence of a considerably higher own-price elasticity for flats than for letters; (d) significant differences in the applicability of the monopoly statutes to letters and flats; and (e) a national policy position to give preferred treatment to flats relative to letters, in which case a position might be taken that the additional charge for flats relative to letters should reflect only the additional cost of flats, and no additional contribution. None of these apply in the situation at hand.

Taken together, the following interrogatories (ADVO/VP-T1-9 through ADVO/VP-T1-14) imply erroneously that I believe that (i) the cross elasticity between letters and flats is high, and that (ii) many mailers of flats could easily shift to a letter format. I do not argue that mailers of flats do not have reasons for using the flat format, nor do I argue that they are on the edge of converting to letters. Also, I do not argue that mailers of flats **should** convert to

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letters, and it is certainly not the case that the Postal Service should have a preference for one versus the other. When I say that mailers should be presented with appropriate rates and allowed to choose which product they wish to purchase, I mean just that, but I do not mean that any particular mailer, or group of mailers, is on the edge.

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ADVO/VP-T1-9.

At page 83 of your testimony, discussing the letter-flat rate differential, you state: “The mailer may look at rates to help decide which product to purchase, but this is exactly the kind of market decision made regularly among all products.”

- (a) Is it your belief that saturation shopper publications and shared mailers that compete with newspapers for distribution of preprinted advertising circulars “look at the letter-flat differential” to decide whether to mail their product as a letter or a flat? If so, explain the basis for your belief.
- (b) Is it your belief that such mailers could switch to a letter-size format and still remain competitive for distribution of preprinted advertising circulars? If so, explain the basis for your belief.

RESPONSE:

- a. I am not an authority on what “saturation shopper publications and shared mailers” look at to formulate their business plans. Presumably, all of them are to some degree aware that postal rates must be paid and that there are many rate alternatives in Standard mail. This does not mean that they are on the edge of switching from one rate alternative to another. I have learned, however, that there is usually some cross elasticity between products, especially related products, even if small. See also my response to ADVO/VP-T1-4(f).
- b. Other than as discussed in my response to part a of this question, I hold no such belief.

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ADVO/VP-T1-10.

The following relate to your statement at page 83 that mailers may look at rates to help decide which postal products to purchase.

- (a) Please confirm that the maximum allowable dimensions of a “letter” are 11-1/2 inches length, 6-1/8 inches height, and 1/4 inch thickness.
- (b) Do you agree that most multi-page preprinted advertising circulars that are distributed as inserts inside newspapers exceed the maximum dimensions of a “letter?” If not, please explain your understanding of the typical dimensions of most such circulars, and the basis for your understanding. If you do not know, please so state.
- (c) Please confirm that the maximum allowable dimensions of an ECR “flat” are 14 inches length, 11-3/4 inches height, and 3/4 inch thickness.
- (d) Please confirm that these maximum allowable dimensions were increased to their current size in 1987 (Docket MC87-1) in order to allow newspapers to mail their total market coverage advertising programs at Third Class carrier route presort rates without having to fold their customers’ preprint advertising inserts. If you cannot confirm, please state your understanding of the purpose of the size changes in Docket MC87-1.

RESPONSE:

- a. That is my understanding. Interestingly, I have not found a definition for letters in section 300 (applicable to Standard mail) of the Domestic Mail Classification Schedule (“DMCS”), so I would assume section 230 applies.
- b. For most of the ones I have seen, I agree.
- c. Confirmed. The dimensions that are cited are found in section 331 of the DMCS.
- d. I recollect very generally the matter described, but have not researched the matter.

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ADVO/VP-T1-11.

The following relate to your discussion at pages 82-83 about the influence of the letter-flat rate differential on mailer decisions concerning the format of their mailings.

- (a) Please confirm that the typical multi-page preprint advertising circular of the format currently carried as inserts inside newspapers, saturation shopper publications, and saturation shared mail programs would have to be folded at least once to fit within the dimensions of a “letter.” If you cannot confirm, please explain why not and state your understanding of the dimensions of such preprint advertising circulars. If your answer is that you do not know, please so state, and assume for purposes of the following parts that such circulars would have to be folded to fit within letter-size dimensions.
- (b) If a preprint advertising circular had to be folded in order to fit within the length and height restrictions on letter-size pieces, please confirm that the folding would double the thickness of the circular.
- (c) For a saturation shopper publication or shared mail program mailing that is nearly 1/4 inch thick, please confirm that the folding of the preprint inserts to fit within the letter-size length and height restrictions would likely cause the mailing to exceed the 1/4 inch thickness restriction on letters, so that it could not in any event qualify as a “letter.”
- (d) For a saturation shopper publication or shared mail program mailing with preprint inserts that currently exceeds 1/4 inch thickness, please explain how the mailer could modify its mailing to qualify as a “letter.”

RESPONSE:

- a. I have no reason to believe that what is stated is not the case, but I should not be considered an authority on whatever folding alternatives mailers may have.
- b. I have no reason to believe that what is stated is not the case, if it were folded once.
- c. It could.
- d. I know of no way the mailer could make the transformation that is stated.

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ADVO/VP-T1-12.

In addition on the dimensional restrictions on a letter-size mail piece, please confirm that to qualify for the saturation letter rate, the mail piece cannot exceed 3.5 ounces.

- (a) For a saturation shopper publication or shared mail program mailing that currently exceeds 3.5 ounces, please explain how, or whether, you believe the mailer could reformat its mailing in some manner to qualify for the saturation letter rate.
- (b) If you believe that such a mailing could be reformatted in some manner to qualify for the letter rate, please explain whether you believe the reformatting would have an adverse impact on the preprint advertiser's choice to use the mail rather than newspapers for its preprint distribution.

RESPONSE:

Standard pieces weighing 3.3 to 3.5 ounces can qualify as letters if they are automation letters. Since all saturation letters are required to be automation qualified, I believe what is stated to be the case.

- a. Apart from removing pieces from the package, I see no easy way to make such a conversion.
- b. Not applicable.

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ADVO/VP-T1-13.

Do you agree that the great majority of multi-page preprinted advertising circulars currently can be distributed either as inserts in newspapers, or as inserts in shopper publications or shared mail programs, without any change to the format of the preprint. If you disagree, please explain your understanding of the format and characteristics of such circulars, and how they differ between newspapers and mail.

RESPONSE:

I have no reason to disagree with what is stated, although I should add that not every address receives a newspaper. However, I am not an authority on processes and programs involving the shifting of advertising circulars between newspapers and shopper publications or shared mail programs.

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ADVO/VP-T1-14.

Please confirm that newspapers do not require their preprint advertising circular customers to fold their preprints to “letter” size in order to be inserted in the newspaper. If you cannot confirm, please explain your understanding of typical newspaper practices and requirements concerning the maximum size of preprinted inserts. If you do not know, please so state, and assume for purposes of the following that newspapers do not require preprints to be folded to “letter” size.

- (a) Are you aware that “quarterfolding” of preprint advertising circulars involves an additional operation and cost that must be borne either by the advertiser or the distributor?
- (b) Would you agree that an additional folding operation, whether done by the advertiser’s printer or by the mailer, would lengthen the “lead time” between the printing operation and the mailing date (i.e., the preprint would have to be printed further in advance of the mailing date to allow for the additional folding operation than if no folding were done).
- (c) If a saturation shopper publication or shared mailer were to require its preprint customers to fold their preprints to “letter” size, whereas newspapers did not, do you agree this would have a negative impact on the advertiser’s choice to use mail distribution rather than newspapers? If you disagree, please explain why, including your understanding of the factors that affect preprint advertisers’ choice of distribution medium.

RESPONSE:

I am not an authority on “typical newspaper practices and requirements concerning the maximum size of preprinted inserts.” I have no reason to believe that what is stated is not the case.

- a. I would be surprised if that were not the case.
- b. I have discussed lead time issues with mailers and understand that they are sometimes important factors to be considered in making decisions. I am not an authority on the speed or timing of folding operations or on the conditions under

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which an additional fold might be integrated into an existing production processes.

- c. I do not have a specific “understanding of the factors that affect preprint advertisers’ choice of distribution medium,” and neither do I know the cost of a folding operation, or who could do it most efficiently. Under some conditions, your conclusion seems plausible, but decisions on distribution medium would be expected to involve considerations that go beyond whether or not a sheet must be folded, and that also include such things as cost and reach and response rates.