

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

POSTAL RATE AND FEE CHANGES, 2005 )

Docket No. R2005-1

REVISED RESPONSES OF VALPAK DIRECT MARKETING SYSTEMS, INC. AND  
VALPAK DEALERS' ASSOCIATION, INC. WITNESS ROBERT W. MITCHELL  
TO INTERROGATORIES OF ADVO, INC. (ADVO/VP-T1-4 and 10) (ERRATA)  
(August 22, 2005)

Valpak Direct Marketing Systems, Inc. and Valpak Dealers' Association, Inc. hereby submit revised responses of witness Robert W. Mitchell to interrogatories ADVO/VP-T1-4 and ADVO/VP-T1-10 of Advo, Inc. The original responses, filed on August 5, 2005 and August 18, 2005, respectively, inadvertently included two minor typographical errors. Replacement pages are attached.

Respectfully submitted,

---

William J. Olson  
John S. Miles  
Jeremiah L. Morgan  
WILLIAM J. OLSON, P.C.  
8180 Greensboro Drive, Suite 1070  
McLean, Virginia 22102-3860  
(703) 356-5070

Counsel for:  
Valpak Direct Marketing Systems, Inc. and  
Valpak Dealers' Association, Inc.

**Response of Valpak Witness Robert W. Mitchell  
to Interrogatory of Advo, Inc.**

Revised 8/22/05

**ADVO/VP-T1-4.**

At page 82 of your testimony in footnote 36, you refer to the Commission's Docket R90-1 decision concerning implementation of a saturation letter-flat rate differential and state:

[The Commission] also said "We . . . note that the letter discounts we are recommending are not worksharing discounts in the sense this term is used on the record; however, our recognition of shape at the saturation level introduces the possibility that some mailers may decide to convert their mailings." *Ibid.*, p. V-305, ¶ 6076. Mailers should not be restricted from choosing the products that suit them best, given appropriate rate differences.

- (a) Are you aware of any ECR saturation flat mailers that, since the Commission's decision in Docket R90-1, have converted their mailings to letter size? If so, please identify them.
- (b) Do you have any knowledge or information on the percentage of total ECR saturation flat volume (if any) that, since the Commission's R90-1 decision, has converted to letter size? If so, please provide it, including all sources.
- (c) Please confirm that the last sentence in your footnote 36, quoted above, is your statement and not the Commission's.
- (d) Is it your contention that, absent a 100 percent or greater passthrough of the ECR saturation letter-flat cost differential, saturation mailers are "restricted from choosing the products that suit them best"? If so, please identify the saturation mailers, or types of saturation mail programs, that are so "restricted" from choosing the products that suit them best, and explain how they are restricted.
- (e) Based on your knowledge of the ECR saturation mail industry, is it your belief that the choice of saturation shopper publications and shared mailers to utilize a flat-size format is influenced in any respect by the magnitude of the letter-flat cost passthrough (i.e., that a change in the passthrough might cause them to switch from a flat-size to a letter-size format)? If so, please explain the basis for your belief.
- (f) Based on your knowledge of the ECR saturation mail industry, please list the factors, in order of importance, that you believe influence the choice of ECR

**Response of Valpak Witness Robert W. Mitchell  
to Interrogatory of Advo, Inc.**

Revised 8/22/05

saturation shopper publications and shared mailers to utilize a flat-size format, rather than a letter-size format.

**RESPONSE:**

(a) No.

(b) Using the workpapers presented by the Postal Service in Docket No. R90-1 and the current billing determinants, certain aggregate comparisons could be made, but it would not be possible to infer how much of the growth (or decline) in a category (such as saturation letters or saturation flats) has been due to the inherent growth (or decline) in that category and how much has been due to mailers shifting from one category to another. We do know, of course, that prior to Docket No. R90-1, the rates were the same for letters and flats, so mailers had no reason to consider postage in their decisions on shape. It also should be noted that even if the relative sizes of two categories remained the same, it would be possible that some mailers moved one way and some the other.

(c) Confirmed, since the sentence to which you refer is not enclosed in quotation marks and comes after the citation for the quote. I do not see any ambiguity. However, I would note that the formatting of your question could lead some readers to suspect that my introduction to the quotes from the Commission, the actual quotes themselves, and the “last sentence” at issue are together in my text as a single-spaced, double-indented quotation, which is not the case. Footnote 36 in its entirety is ordinary text. (Also, the question omits a colon after the word “said.”)

**Response of Valpak Witness Robert W. Mitchell  
to Interrogatory of Advo, Inc.**

Revised 8/22/05

(d) No. I know of no restrictions on mailers' freedom to choose, except obvious ones such as that flats must pay the rates for flats and that letters must be the size of letters. The sentence you cite might be clearer if it said that mailers, when choosing the products that suit them best, should be presented with appropriate rate differences. Alternatively, one could say that mailers should not be put into the position of having to, or being allowed to, select from among products that have inappropriate rate differences.

(e) It would be a strong statement to say that mailers of the kind you reference are not influenced "in any respect" by the rate alternatives they face, and I would not make such a statement, not even for rate differences in the neighborhood of the current ones. To say this would imply a cross elasticity of absolutely zero. I have learned to expect some sensitivity at the margin between such related product categories. Letter-size pieces can be as large as 6 1/8 inches high and 11 1/2 inches wide, and one way to achieve such pieces is to fold a flat. I do not view such pieces as being small or uninteresting. But the importance of setting appropriate rates for these categories depends only partially on the possibility of some mailers switching. For example, consider how it would sound for the Postal Service to make the following statement to letter mailers: "We know you believe it would be fair for your costs to be recognized in your rates and that you would like a not-unreasonable markup over those costs, but we have found that holding your rate down does not cause flats to convert to letters, so we are going to elevate your rate and use the revenue to help hold down the rate for flats, thereby giving them a smaller percentage markup than you."

**Response of Valpak Witness Robert W. Mitchell  
to Interrogatory of Advo, Inc.**

Revised 8/22/05

(f) Actually, my guess is that different mailers would identify different influential factors, that the descriptions of these factors would differ, and that there would be differences in their order of importance. I doubt if anyone can present such a list “in order of importance,” not even if it were agreed that the levels of any relevant variables were not to stray far from their current levels. That is, paper prices might not be influential now but might be very influential at twice their current level. I have no analysis available that would allow me to answer this question.

As a practical matter, I believe “shopper publications and shared mailers” pursue a product concept that they believe makes business sense, and that they have an understanding of the information (and its form) that they wish to provide, the associated production and handling costs, the postage, the markets in which they will sell their services, and, importantly, recipient response rates. This does not preclude the possibility that lower costs and a slightly lower response rate could lead to higher profits. Considering a run-of-press product would be different from considering one that accepts inserts provided by the advertiser. The preferences and interests of customers (including potential customers) are always important. Early on, providers of advertising services might have more than one product concept in mind. Once a concept is selected and found to work, they would need to have a pretty good reason to alter it.

**Response of Valpak Witness Robert W. Mitchell  
to Interrogatory of Advo, Inc.**

Revised 8/22/05

**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 of Valpak Witness Robert W. Mitchell  
to Interrogatory of Advo, Inc.**

Revised 8/22/05

**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.