

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

POSTAL RATE AND FEE CHANGES, 2005)

Docket No. R2005-1

NOTICE OF VALPAK DIRECT MARKETING SYSTEMS, INC. AND
VALPAK DEALERS' ASSOCIATION, INC.
REVISIONS TO DIRECT TESTIMONY OF
DR. JOHN HALDI (VP-T-2) (ERRATA)
(August 23, 2005)

Valpak Direct Marketing Systems, Inc. and Valpak Dealers' Association, Inc. hereby submit revisions to the direct testimony of witness John Haldi filed on July 19, 2005. The revisions are necessitated by the responses of Advo, Inc. to interrogatories received August 22, 2005 (deletions are shown as strikethrough and additions are shown as underline), and by minor changes on page 63. The revisions are to pages 17, 25, 63, and 73-81. Replacement pages are attached.

Respectfully submitted,

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1 approximately 2.0 billion the total volume of DALs actually handled.¹²
2 Therefore, when adjusting for the cost of handling DALs, I recommend
3 that the Commission use the figure of 4.5 ~~5.4~~ billion as developed in the
4 Appendix, and shown there in Table A-8. This would be the conservative
5 approach to correct the current over-attribution of costs to saturation
6 letters. Finally, the Commission should assume that only 6.13 ~~±~~ percent
7 of all DALs are delivered to P.O. Boxes, and that the remaining 93.87 ~~99~~
8 percent of DALs are delivered by city or rural carriers.

9 **E. Costs of DALs in Cost Segment 6 (City Carrier In-Office Time)**

10 The In-Office Cost System (“IOCS”) is used to allocate city carrier
11 in-office costs to rate categories of ECR mail. When a DAL is being
12 handled at the time a tally is taken (*e.g.*, being cased manually by the
13 carrier), the tally taker is instructed to record the characteristics of the
14 accompanying piece (*e.g.*, weight, shape, etc.), not the characteristics of
15 the DAL. As a result, with respect to tallies taken when DALs are being
16 cased manually, the IOCS should attribute in-office carrier costs to flat-
17 shaped pieces in a manner consistent with the way revenues and
18 volumes are recorded, so long as IOCS instructions are followed. The

¹² See the Appendix for more discussion on estimating the volume of DALs.

1 Second, it should change its cost model so as to remove the costs that
2 are mis-attributed to saturation letters, and attribute those costs to
3 saturation flats. Third, when making such a correction, it should adopt
4 a volume of 4.5 ~~5.4~~ billion DALs, as developed in the Appendix to this
5 testimony. Fourth, the Commission should assume that 93.87 ~~99~~
6 percent of all DALs are delivered by city and rural carriers. Fifth, the
7 Commission should be aware that even after correcting for the
8 inconsistency created by the way DALs are counted in the city and rural
9 carrier cost systems, other possible inconsistencies and recording errors
10 exist that may have mis-attributed costs systematically to saturation
11 letters instead of flats.

12 As a further suggestion, the ad hoc nature of the procedure used
13 by the Postal Service to estimate the volume of DALs, combined with the
14 total lack of any reliable data on the volume of DALs that are DPS'd,
15 cased, or taken to the street, demonstrates the need to obtain more
16 accurate data both as regards the annual volume of DALs and the way
17 DALs are handled. By any reckoning, the volume of DALs is quite
18 substantial. The Postal Service should be urged to improve its data
19 systems in this regard.

1 Having estimated the total volume of DALs shown in Table A-1,
2 witness Kelley then extrapolates from his estimating procedure to
3 assume that only 2,912.5 million of the total 3,375.4 million DALs — or
4 86.3 percent — are delivered by city and rural carriers.⁶⁵ The remaining
5 462.9 million — or 13.7 percent — are assumed to be delivered to P.O.
6 Boxes (which are serviced by clerks) or by highway contract carriers.
7 Apparently relying on this assumption, witness Kelley deducts the costs
8 of 2,912.5 million DALs attributed to letters, and he attributes those
9 costs to flats.⁶⁶

10 In order to assess witness Kelley's assumption with regard to the
11 volume of DALs delivered to P.O. Boxes, Valpak was asked to determine
12 how many saturation letters DALs it mailed to P.O. Boxes. As described
13 in Section II of this testimony, Valpak is a major user of saturation mail.
14 Although Valpak uses only letter-shaped mail, its mailing lists and its
15 mailing practices are thought to be representative of saturation mailers
16 generally. For a recent month, May, 2005, Valpak determined that less
17 than 1.0 percent of its mail (0.77 percent) was sent to P.O. Boxes.
18 Valpak

⁶⁵ USPS-LR-K-67 87, file
FY2004.DAL.MAILING.VOLUME.ESTIMATES.xls.

⁶⁶ Neither witness Kelley's testimony nor his library reference provides any rationale for reducing the volume of DALs used to correct the costs mis-attributed to letters.

1 **Other Information**

2 The universe of saturation mailers using DALs consists of one
3 major, national firm, a few large regional firms, and a number of
4 relatively small firms that are more local than regional. A limited
5 amount of information on the larger firms is publicly available, and is
6 reviewed here.

7 **Advo.** Advo is a publicly traded company, operating nationwide.
8 Its Form 10-K for the fiscal year ended December 31, 2004, filed with
9 the Securities and Exchange Commission (“SEC”), states (at p. 1) that
10 “[t]he Company currently is the largest commercial user of standard
11 mail in the United States.” Advo’s core product, a shared advertising
12 program called Shopwise(TM) “reaches approximately 78 million
13 households, primarily on a weekly basis.” That program alone would
14 distribute approximately 4.06 billion pieces a year.⁷⁰ However, perhaps
15 at odds with the statement in its Form 10-K, Advo reports that in 2004
16 it mailed 3,145,472,576 DALs with its Shopwise product, which
17 represents an average of only 60.5 million pieces per week.⁷¹ City and
18 rural carriers delivered 2,988,799,732, or 95.0 percent, of Advo’s DALs,

⁷⁰ Advo’s website states that the “missing child piece” (a DAL)
reaches up to 85 million homes per week. On this basis, the annual volume of
DALs from Advo alone is as much as 4.4 billion pieces.

⁷¹ Response to VP/ADVO-1.

1 and the remaining 156,672,844 DALs, or 5.0 percent, were delivered via
2 P.O. Boxes, Highway Contract Routes, or General Delivery.

3 In addition, the Form 10-K states (at p. 2) that Advo has a wholly-
4 owned subsidiary, Mail Marketing Systems, Inc. (“MMSI”), which
5 “complements Advo’s core distribution network by providing additional
6 shared mail coverage to approximately 4.5 million households in 109
7 smaller market areas not served by ADVO.” Assuming this coverage in
8 smaller market areas is only monthly, that would represent an
9 additional 54 million DALs annually. MMSI mailed 53,581,776 DALs in
10 2004, of which 44,172,776 were delivered by city and rural carriers, and
11 9,409,000 were delivered via P.O. Boxes, Highway Contract Routes, or
12 General Delivery.⁷²

13 Further, the Form 10-K states (at p. 3) that “ADVO [has] expanded
14 advertising programs in the Southern California and Pittsburgh
15 metropolitan areas at the end of the fiscal year 2004 approximately
16 doubling ADVO’s advertising program frequency” to twice a week.
17 Although the extra volume generated by these semi-weekly mailings is
18 not stated, the existence of such volume reinforces credibility of more
19 than 3.145 ~~at least 4~~ billion DALs from Advo alone.

⁷² Response to VP/ADVO-2.

1 Finally, Advo “is part of a network, described as A.N.N.E.,
2 comprising of [sic] regional shared mail companies, which provides its
3 clients with extended coverage outside the markets already served by
4 the Company ... [and reaching] approximately 34 million additional
5 households.” Advo’s A.N.N.E. network mailed a total of 383,785,000
6 DALs in 2004, of which 329,906,000 were delivered by city and rural
7 carriers, and 53,879, 000 were delivered via P.O. Boxes, Highway
8 Contract Routes, or General Delivery. See the sub-section “other
9 mailers,” below, for further discussion of annual volume generated by
10 other mail marketing firms that use DALs, some in conjunction with
11 Advo, and some independent of Advo.

12 **Harte-Hanks.** Harte-Hanks, Inc. is a publicly traded company.
13 Its core business is Shoppers, which “are weekly advertising
14 publications delivered free by Standard Mail to households and
15 businesses in a particular geographic area.” These publications have
16 “virtually 100% penetration in their area of distribution.”⁷³ Harte-Hanks
17 is a regional company; its “California publications account for 87% of
18 Shoppers’ weekly circulation.” The balance of its business is in Florida.
19 Harte-Hanks’ Form 10-K for the fiscal year ended December 31, 2004,

⁷³ All quotations are from the Harte-Hanks Form 10-K for the year ended December 31, 2004, pp. 7-8.

1 filed with the SEC, states (at p. 7) that “[a]s of December 31, 2004,
2 [Harte-Hanks] Shoppers delivered more than 11 million shopper
3 packages in four major markets each week.” All of Harte-Hanks
4 Shoppers are DAL mailings. Harte-Hanks thus claims to have entered
5 more than 572 million DALs with the Postal Service in 2004.

6 **MailSouth.** MailSouth, Inc. is a regional mailer that, according to
7 a press release dated May 25, 2005, “specialize[s] in shared mail
8 advertising services in which advertising circulars and flyers of multiple
9 retailers and service businesses are collated into a single package and
10 then direct mailed to every household in a given market area with
11 targeting selectivity by postal zip code, neighborhood or specific
12 demographic variable.” According to the press release, which concerned
13 acquisition of another firm, MailSouth “will now serve over 11.5 million
14 unduplicated households in 285 different rural market areas on a
15 monthly basis.” On this basis, MailSouth can be expected to enter each
16 year approximately 138 million DALs with the Postal Service. MailSouth
17 is part of Advo’s A.N.N.E. network, hence its volume is included in the
18 data for that network, as discussed above.⁷⁴

⁷⁴ See ADVO/VP-T2-26.

1 **Other regional mailers.** A number of other regional and local
2 mailers are said to exist.⁷⁵ As discussed above, for example, Advo
3 claims to have an alliance with a network of such regional dealers that
4 reaches 34 million households, and mails 383.8 million DALs annually.
5 ~~Assuming that these others allied with Advo collectively mail once a~~
6 ~~month would result in an additional annual volume of 408 million DALs.~~
7 Finally, allowing for a small volume from a collection of other saturation
8 mailers independent of Advo indicates a total annual volume of DALs of
9 4.5 5.4 billion, as shown in Table A-8. Information on the annual
10 volumes mailed by some other mailers of DALs, as advertised by Echo-
11 Media, is shown in Table A-9. Similar information for some “insert”
12 mailers who likely use DALs is shown in Table A-10. The data in Tables
13 A-9 and A-10 amply support the conservative estimate of 0.345 billion
14 DALs by other independent mailers shown in Table A-8.

⁷⁵ See, for example, testimony of Harry J. Buckle (SMC-T-1) in Docket Nos. R97-1 and R2000-1, on behalf of Saturation Mail Coalition.

1 Table A-8

2 Annual Volume of DALs by Mailing Organization

3 FY 2004

4		Volume
5	Mailer	(billions)
6	—	—
7	<u>Advo</u>	
8	• Shopwise	4.060
9	• MMSI	0.054
10	Harte-Hanks	0.572
11	MailSouth	0.138
12	Others, allied with Advo	0.408
13	Others, Independent	0.168
14	TOTAL	5.400

15 Table A-8

16 Annual Volume of DALs by Mailing Organization

17 FY 2004

18		Volume
19	Mailer	(billions)
20	—	—
21	<u>Advo</u>	
22	• Shopwise	3.145
23	• MMSI	0.054
24	• A.N.N.E. network	0.384
25	Harte-Hanks	0.572
26	Others, Independent	0.345
27	TOTAL	4.500

28 **Conclusions and Recommendations**

29 The Postal Service's procedure for estimating the annual volume

30 of DALs relies solely on survey data provided by recipients. The data

1 series for detached labels shows considerable year-to-year variation.
2 That variation greatly exceeds the variation in the annual volume of
3 saturation flats, and it likely exceeds the variation in the actual number
4 of DALs mailed. In addition, the annual variation in the total volume of
5 mail recorded by recipients greatly exceeds variations in the total
6 volume of mail. Reliability of these data appears highly questionable,
7 especially when used to extrapolate total volumes of mail for the entire
8 country.

9 Over 90 percent of the total volume shown in Table A-8 is derived
10 from data and information submitted to the SEC by major mailers
11 known to use DALs and by responses to interrogatories in this docket.
12 They constitute much of the universe of saturation mailers that use
13 DALs. Unlike the Household Diary Survey data, virtually no
14 extrapolation is required. These data would thus appear to be a
15 considerably more reliable source for estimating the universe of DALs.

16 In sum, the Postal Service's estimated volume of DALs appears to
17 be substantially understated on the basis of other readily available
18 evidence. The annual volume of DALs in the saturation mailstream is
19 obviously quite large, and an adjustment clearly needs to be made to
20 recognize the cost of handling such a large volume of DALs. When
21 adjusting for the cost of handling DALs, I recommend that the

1 Commission use the figure of 4.5 ~~5.4~~ billion shown in Table A-8. I
 2 further recommend that the Commission assume that 93.87 ~~99~~ percent
 3 of all DALs are delivered by city and rural carriers. This
 4 recommendation reflects Advo's percentage, as computed from its
 5 responses to VP/ADVO-1-3 ~~the only data on record with regard to~~
 6 ~~saturation mail sent to P.O. Boxes; i.e. Valpak's percentage.~~

7 By any reckoning, the annual volume of DALs is quite substantial.
 8 Using the Postal Service's ultra-conservative low estimate of 3.4 billion
 9 derived entirely from indirect sources, the volume of DALs is seen to
 10 exceed the entire volume of Nonprofit Enhanced Carrier Route mail in
 11 FY 2004. An annual volume of 4.5 ~~5.4~~ billion DALs would be a large
 12 percentage of almost as much as ~~the entire volume of~~ First-Class cards.
 13 For a category this large, the Postal Service clearly needs to establish
 14 better procedures for gathering volume data and other pertinent
 15 information.

16
 17 Table A-9

18 Annual Volume of DALs of Some Other Mailers

19	Abilene Money Clip	1,242,696
20	Crookston Shopper	561,600
21	El Flyer	12,090,000
22	El Pennysaver	57,200,000
23	Focus on Results	13,708,164
24	Green Tree Marketing	3,613,464
25	Mail-Net	53,834,040
26	Market Select	5,252,000

1	Maryland/Virginia Pennysaver	66,652,300
2	National Mail It	26,573,696
3	Pittsburg Pennysaver	37,107,380
4	Readers Digest Label Carrier Program	1,000,000
5	Reading Merchandiser	5,053,932
6	Stone Creek Mailbox Shopper	2,408,688
7	Target Direct	2,822,112
8	Target Marketing of Maine	7,220,076
9	Tucson Shopper	14,235,832
10	Value pages	18,700,000
11	ValuMail	24,365,544
12	Wal-Mart C&D County Wrap	32,843,965
13	TOTAL	386,485,489

14 Source: Echo-Media.com

15

16

17 Table A-10

18 Annual Volumes of Some "Insert" Mailers Which Likely Use DALs

19	Atlanta Savings & Values	52,000,000
20	Cap Media	25,537,668
21	Cincinnati Reach	7,800,000
22	Cleveland Plain Dealer Statements	1,800,000
23	Dallas Ad Pages	9,060,000
24	Echoland-Piper Shoppers/Morris	1,391,000
25	Flashes Shoppers/Morris	8,241,012
26	Heartland Shoppers/Morris	7,698,756
27	Jasper-Okatie Sun Shoppers/Morris	226,200
28	Morris Communications Shoppers	27,819,584
29	Phoenix Suguaro Gold	6,762,000
30	Phoenix Value Clipper	9,435,514
31	Polk Shoppers/Morris	4,598,100
32	Tip-Off Shoppers/Morris	1,000,636
33	Town & Country News/ Morris	520,000
34	TOTAL	163,890,470

35 Source: Echo-Media.com

36