

**BEFORE THE
POSTAL RATE COMMISSION
WASHINGTON, DC 20268-0001**

**POSTAL RATE AND FEE CHANGES
PURSUANT TO PUBLIC LAW 108-18**

Docket No. R2005-1

**REBUTTAL TESTIMONY
OF
GODFRED OTUTEYE
ON BEHALF OF
ADVO, INC.**

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1 REBUTTAL TESTIMONY OF GODFRED OTUTEYE

2 BIOGRAPHICAL SKETCH

3 My name is Godfred Otuteye, and I am the President and Chief Executive
4 Officer of Money Mailer, LLC, and all of its affiliated companies, positions I have held
5 since 1999. Money Mailer[®], headquartered in Garden Grove, California, is the
6 nation's second largest saturation coupon envelope distributor, behind Valpak with
7 whom we compete directly. From 1993 to 1999, I served as Money Mailer's Chief
8 Operating Officer.

9 Immediately prior to joining Money Mailer, I served as Chief Operating Officer
10 for DATADESK International, Inc., a leading-edge keyboard and input device
11 manufacturer. My earlier business experience includes service as Vice
12 President/Chief Financial Officer for Micro-D, Inc. (now Ingram Micro, Inc.), the
13 United States' largest wholesale distributor of microcomputer software and hardware
14 accessories, later moving up the ranks to become the company's Senior Vice
15 President/Chief Financial Officer; Chief Financial Officer for Brinderson Corporation,
16 a project construction company; and Vice President and Senior Loan and Credit
17 Officer with Union Bank, Los Angeles.

18 In addition to my duties with Money Mailer, I am also a member of the Boards
19 of Directors of the International Franchise Association (IFA), and the Pacific Coast
20 Regional Small Business Development Corporation (PCR), a non-profit corporation
21 founded in 1977 to assist small business owners in becoming successful members
22 of the Southern California business community. I am also active in the affairs of the
23 Saturation Mailers Coalition, of which Money Mailer has been a member since the

1 organization's inception in 1997, and a supporting member of the Alliance of
2 Independent Store Owners and Professionals, an organization that represents our
3 small business customers' interest in affordable mail advertising.

4 My educational background includes a B.A. from Harvard University and an
5 M.B.A. from the University of Southern California.

6 I previously presented testimony to the Postal Rate Commission in Docket
7 R97-1 on behalf of the Alliance of Independent Store Owners and Professionals
8 (AISOP-T-1).

9 PURPOSE OF TESTIMONY

10 The purpose of my testimony is to express the opposition of Money Mailer to
11 the proposal of Valpak to increase the Enhanced Carrier Route letter-flat rate
12 differential beyond the level proposed by the U. S. Postal Service, and to explain the
13 adverse impact its proposal would have.

14 Although I oppose that aspect of Valpak's presentation, Money Mailer, and I
15 am sure other saturation mailers, just as strongly concur with Valpak's
16 demonstration that the cost coverage and overall rate levels for the Enhanced
17 Carrier Route subclass are too high. Nevertheless, I do not object to the Postal
18 Service's proposed rates in this case, but hope that these matters will be addressed
19 in the future.

20 I. MONEY MAILER AND THE COUPON ENVELOPE MARKET

21 Since its establishment in 1979, Money Mailer's core business has been to
22 provide small local businesses (mainly those small businesses with less than 10
23 employees) with an affordable and effective means of advertising and growing their

1 businesses through Money Mailer's saturation coupon envelope program. Currently,
2 through our more than 275 franchisee operators (each of them a small business in
3 its own right), we serve more than 30,000 customers in 34 states across the nation.
4 Over 90 percent of our customers are small, locally-based businesses and
5 entrepreneurs. In addition, we serve a number of regional and national advertisers
6 that, although smaller in number, are important to the success of our business. This
7 year we expect to distribute more than 150 million envelopes through the mail at
8 ECR saturation mail rates.

9 In most of our markets, Money Mailer competes head-to-head with Valpak,
10 our primary competitor. Valpak, backed by the resources of Cox Enterprises (the
11 sixth largest media company in the nation), is by a wide margin the largest coupon
12 envelope mailer in the nation, distributing more than 500 million envelopes annually.
13 Money Mailer is the second largest, although our annual distribution of about 150
14 million envelopes is less than a third of Valpak's. The only other significant national
15 coupon mailer is SuperCoups, a subsidiary of Advo, which distributes around 60
16 million envelopes annually.

17 There are an unknown number of smaller local and regional coupon envelope
18 distributors, although many of them tend to specialize in niche segments of the
19 market, such as "card deck" distributors that target affluent neighborhoods with
20 glossy offers for high-end home remodeling projects or luxury products and services.
21 In addition, we compete, though less directly, with magazine-format "coupon clipper"
22 publications that are typically mailed as ECR saturation flats. For Money Mailer, our
23 main competition is Valpak.

1 II. MONEY MAILER'S ENVELOPE FORMAT

2 When Money Mailer was launched in 1979, Valpak was already an
3 established competitor. Money Mailer determined early on that to succeed in the
4 marketplace, it needed to distinguish itself from its larger competitor. A key element
5 of our competitive differentiation is the use of a larger letter format than that used by
6 Valpak. Our letter envelope measures 9.5" x 6", compared to Valpak's 9.5" x 4.5"
7 format, and uses a better quality (thicker) paper. In addition, we print our individual
8 coupons on a heavier paper stock than Valpak.

9 These format differences offer advertisers a distinctive choice and alternative
10 to Valpak's offerings. These differences are not costless to Money Mailer. With our
11 larger-format coupon, we incur a higher cost for paper and printing. On top of this,
12 however, under the ECR postal rate structure, these format differences also mean
13 that, for a given number of coupon inserts, Money Mailer's envelopes hit the 3.3
14 ounce pound-rate breakpoint and the 3.5 ounce flat surcharge more quickly than
15 Valpak's (31 pieces for Money Mailer versus 46-52 pieces for Valpak). As a result,
16 about 40 percent of our coupon envelopes exceed 3.3 ounces and pay the pound
17 rate, and about 23 percent exceed 3.5 ounces and pay the letter-flat rate differential
18 as a "nonletter." By comparison, almost none of Valpak's coupon envelopes exceed
19 the breakpoint.

20 III. THE LARGE LETTER-NONLETTER RATE DIFFERENTIAL IS AN
21 OBSTACLE TO GROWTH

22 One of Money Mailers' key business objectives is to help its franchisees grow
23 their business by helping them increase the average number of coupons in the
24 coupon envelopes they mail. However, the large letter-flat rate differential, even at

1 its current level, is an obstacle to this growth. For an envelope weighing close to 3.5
2 ounces, the addition of even one more advertising coupon subjects us to a 0.8¢ per
3 piece surcharge as a “nonletter.” That surcharge, \$8 per thousand coupons, can
4 exceed the net revenue a franchisee may earn after costs for paper, printing, and
5 sales commissions for local advertising. For national ads, sold at highly competitive
6 prices, that additional postage cost can exceed the total net revenue we receive
7 from those accounts for inserting and mailing their coupons

8 In addition to the letter-flat surcharge that kicks in at 3.5 ounces, we also must
9 pay the “per pound” rate on all pieces over 3.3 ounces. As an example of the
10 combined rate impact of the pound rate and the surcharge, adding just two-tenths of
11 an ounce (two coupons) to a 3.3 ounce envelope would, under the Postal Service’s
12 proposed rates, increase our postage by more than 1.5 cents.

13 One way for us theoretically to avoid the surcharge, of course, would be to
14 stop soliciting additional advertising in zones or in markets or in months where we
15 expect our envelopes to exceed 3 ounces or so. In the real world, however, sales
16 efforts cannot be so finely tuned to solicit “enough” advertising but not “too much” in
17 order to avoid triggering the surcharge. It is counterproductive to tell our
18 salespeople and franchisees to “sell, sell, sell, but not too much.”

19 In fact, attempting to fine tune our selling to avoid the surcharge would be
20 impossible, unless we were to abandon cross-selling between our franchisees and
21 also concede to Valpak the market for national advertisers and even many local
22 advertisers. Advertisers do not want to gerrymander their promotions to a
23 “checkerboard” geography dictated by the mailer’s postal pricing constraints. They

1 want distribution to *their* desired market areas. If Money Mailer's geographic offering
2 does not match the advertiser's needs, the advertiser will switch to another provider,
3 most likely Valpak.

4 IV. VALPAK'S PROPOSAL WOULD HINDER MONEY MAILER'S ABILITY TO
5 COMPETE

6 This underscores a fundamental key to the success of any cooperative
7 advertising program, whether it be coupon envelopes or shared mail or shopper
8 publications: the ability to cross-sell across zones and markets.

9 To place this in perspective, our typical franchisee is a husband-and-wife
10 team whose market area encompasses 50,000 households, divided into five zones
11 of 10,000 addresses each. If for a given mailing date the envelope is under the
12 pound rate breakpoint in some of these zones, the franchisee really has an incentive
13 to sell additional advertising into the envelopes. But if these advertisers want to also
14 cover zones where the envelope is already near 3.3 ounces, the franchisee may find
15 he or she is working too hard to make a sale that triggers the pound rate and the flat
16 surcharge. The franchisee's dilemma then is to accept the entire promotion and pay
17 the substantially higher postage, or lose the customer to a competitor like Valpak.

18 Our pricing dilemmas are compounded when we have different franchisees
19 wanting to do cross-sales with other franchisees in our network. Cross-selling is
20 important to the success of any cooperative advertising program as a critical means
21 to attract a broader segment of advertisers, particularly larger regional and national
22 advertisers. This should be a win-win proposition for Money Mailer and the United
23 States Postal Service. But the flat surcharge and high pound rate make it more
24 difficult for each of our franchisees to offer competitive prices.

1 Other problems we face with the present pound rate and flat surcharge are
2 the high costs associated with putting heavier advertising pieces in our envelope.
3 Our standard coupon weighs a tenth of an ounce. This can have sufficient impact
4 for most of our customers. But many actual and potential customers would like it if
5 we could offer more varied ads at reasonable prices. A take-out and delivery
6 restaurant might want to reproduce its menu. This could weigh as much as four or
7 five coupons. If our envelope is underweight, we can do this and offer the customer
8 a competitive price. But if this additional heavier insert would cause the envelope to
9 go overweight and trigger the flat surcharge, or if the customer wants to cover
10 multiple zones, we face a pricing dilemma and a competitive disadvantage.

11 National advertisers in particular are interested in the broadest possible
12 geographic coverage for their messages at a competitive price. Because of Valpak's
13 substantially larger national "footprint," covering most of the prime markets in the
14 nation, Money Mailer starts at a competitive disadvantage in competing for this
15 important segment of business due to our smaller size. If we were to further shrink
16 our footprint by limiting national advertisers to a "checkerboard" pattern of zones or
17 markets where our envelopes are below the breakpoint in order to avoid the flat
18 surcharge, we would surely lose those advertisers to competitors who offer their
19 entire coverage. Yet even when we do offer these advertisers our entire coverage
20 (as we must if we want to compete for their business), the pound rate and flat
21 surcharge place us at a competitive pricing disadvantage against Valpak.

22 In sum, Money Mailer does not have the luxury of tailoring our offering and
23 restricting our sales to zones or markets where our envelopes would avoid the flat

1 surcharge. To do so would be to cede the business to our competitors. It would
2 also deprive advertisers of an alternative to Valpak. More fundamentally, as a
3 company, we want to and must grow our business and expand our customer base,
4 objectives that we believe are critical to our viability and to our ability to compete
5 effectively with Valpak.

6 V. VALPAK'S PROPOSAL SHOULD BE REJECTED

7 Money Mailer can live with the Postal Service's proposal to increase the
8 letter-flat rate differential to 0.9¢ (although I believe that the combined effect of the
9 proposed pound rate and letter-flat differential produce rates that are too high).
10 However, Money Mailer strongly opposes Valpak's effort to further increase the
11 letter-flat rate differential.

12 The irony of Valpak's proposal is that it could cause the Postal Service to lose
13 incremental revenues from Money Mailer. Currently, for additional advertising
14 inserts that we generate above the 3.3-ounce breakpoint, we pay the pound rate;
15 and for envelopes above 3.5 ounces we additionally pay the letter-flat rate
16 differential. Any substantial increase in the letter-flat surcharge would necessarily
17 cause us to reconsider our strategy of generating new sales and inserts that might
18 trigger the surcharge. That would not only hinder our growth, but would also deprive
19 the Postal Service of the additional postage revenue we currently generate on these
20 pieces.

1 Most importantly from our perspective, Valpak's proposal would hinder Money
2 Mailer's ability to compete with Valpak. Although I cannot speak as to Valpak's
3 intent, that would be the effect of its proposal.¹

4 One might ask, why doesn't Money Mailer simply shrink its advertising format
5 – downsizing to a smaller envelope and lighter coupons to emulate Valpak – as a
6 means of reducing weight and mitigating the impact of the flat surcharge and the
7 pound rate? My answer is simple. Money Mailer *must* differentiate itself and its
8 program from Valpak in the marketplace in order to remain competitive. As the
9 distant “number two” in the marketplace, we must not only “try harder,” but we must
10 also offer advertisers a distinctive alternative to Valpak. Transforming ourselves into
11 a “little valpak” clone, but without Valpak's strong market penetration and corporate
12 resources, would, in my opinion, be folly.

13 Valpak may try to contend that, in this rate case, its intention is not to
14 increase rates for ECR non-letters but merely to reduce the rate for ECR letters
15 weighing less than 3.5 ounces. It does not matter to me whether Valpak intends to
16 implement its proposal by increasing the rate for saturation flats, or by reducing the
17 rate for saturation letters, or by some combination of the two. In any case, its
18 proposal would further increase the spread between the effective postal rate we pay
19 versus our main competitor. And in any case, its proposal would place us at a
20 further competitive pricing disadvantage. Moreover, it is abundantly clear from the

¹ Surprisingly, Valpak's two witnesses in this case professed little knowledge of the coupon envelope marketplace. I am certain, however, that at the Valpak corporate level, Valpak is well aware of these marketplace realities, and is keenly aware that its proposals will enhance its competitive advantages over its closest rival in the coupon envelope distribution business.

1 testimony of Valpak witness Mitchell that Valpak intends to press in the future for an
2 even bigger rate spread by imposing a punitive pricing “markup” on the letter-flat
3 cost differential, just as in the past it has vigorously opposed proposals to reduce the
4 high ECR pound rate.

5 V. SATURATION POSTAL RATES SHOULD PROMOTE HEALTHY
6 COMPETITION

7 Although Money Mailer’s primary concern with Valpak’s proposal is its
8 adverse impact on our ability to compete effectively, we have always taken a
9 broader view of the saturation mail industry. Saturation mailers of every ilk are, in
10 widely varying degrees, actual or potential competitors of each other. Nevertheless,
11 I firmly believe that we all share a common interest in preserving saturation mail as
12 an affordable and viable medium for the millions of businesses and entrepreneurs,
13 big and small, that depend on saturation distribution of their advertisements to
14 consumers in their local market areas. Healthy competition within a healthy industry
15 is good for us all, forcing each of us to stay on our toes and improve our products
16 and services. It is also especially important to our advertising customers, giving
17 them a broader choice of advertising products at competitive prices – an
18 environment that ultimately benefits the end consumers: the American public.

19 Money Mailer itself competes not only with Valpak but to a less direct extent
20 with Advo, other shared mailers, and shopper publications for a slice of the
21 saturation mail market. A good example is pizza establishments, both local “mom
22 and pop” and particularly national pizza chains. Each of us competitors offers a
23 distinctive advertising vehicle for these businesses, and it is our business to
24 convince these potential customers that our particular product, or combinations of

1 advertising programs through multiple saturation providers, makes sense for their
2 businesses.

3 This competition, and the choices advertisers make among mail providers,
4 should be decided primarily in the marketplace, not in the Postal Rate Commission's
5 hearing room. In the postal rate arena, Money Mailer could attempt to propose a
6 rate structure that was particularly suited to its business and to the disadvantage of
7 our various competitors. While that might be in our short-term interest, I am not
8 convinced that it would be in the interest of a healthy and viable saturation mail
9 industry or the U. S. Postal Service. Nor for that matter would it be in the interest of
10 advertisers that want competitive choices, or ultimately the consuming public. I urge
11 the Commission to reject Valpak's proposal to increase the letter-nonletter rate
12 differential.