

POSTCOM-T-8

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

POSTAL RATE AND FEE CHANGES, 2006

DOCKET NO. R2006-1

**DIRECT TESTIMONY
OF
GODFRED OTUTEYE
ON BEHALF OF
THE ASSOCIATION FOR POSTAL COMMERCE,
ALLIANCE OF INDEPENDENT STORE OWNERS AND PROFESSIONALS,
THE DIRECT MARKETING ASSOCIATION,
THE MAILING AND FULFILLMENT SERVICE ASSOCIATION,
AND THE SATURATION MAILERS COALITION**

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Direct Testimony

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I. Autobiographical Sketch

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

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

In addition to my duties with Money Mailer, I am also a member of the Boards of Directors of the International Franchise Association (IFA), and the Pacific Coast Regional Small Business Development Corporation (PRC), a non-profit corporation founded in 1977 to assist small business owners in becoming successful members of the Southern California business community. I am also active in the affairs of the Saturation Mailers Coalition, of which Money Mailer has been a member since the organization's inception in 1997, and a supporting member of the Alliance of

1 Independent Store Owners and Professionals, an organization that represents small
2 business customers' interest in affordable mail advertising.

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

5 I previously presented testimony to the Postal Rate Commission in Docket R97-1
6 on behalf of the Alliance Store Owners and Professionals (AISOP-T-1) and Docket No.
7 R2005-1 on behalf of ADVO, Inc. (ADVO-RT-2).

8 **II. Purpose of Testimony**

9 My testimony is submitted to present and justify a proposal submitted by
10 PostCom, and the Mailing Fulfillment and Service Association, and supported by the
11 Alliance of Independent Store Owners and Professionals and the Saturation Mailers
12 Coalition, regarding the rate and classification for heavy letters. These associations
13 jointly propose an increase in the maximum weight permitted for Standard Mail
14 automation, high density, and saturation letters from 3.5 ounces to four ounces.

15 Under today's regulations, as proposed to be carried forward in this rate case,
16 the rates charged for automation compatible, letter shape pieces, that weigh more than
17 3.3 ounces but not more than 3.5 ounces pay the flat piece and pound rates, but receive
18 a discount of the difference between the letter and flat minimum piece rates. (See Rate
19 Schedules 321 B, Note 2, and 322, Note 4). Pieces weighing in excess of 3.5 ounces
20 are charged postage as flats regardless of shape or automation compatibility.

21 PostCom, the Mailing and Fulfillment Service Association, the Alliance of Independent
22 Store Owners and Professionals, and the Saturation Mailers Coalition, jointly support an

1 increase in the "heavy letter" exception to allow standard, high density, and saturation
2 letters, that are otherwise automation compatible, up to four ounces to pay postage at
3 the flat piece and pound rate, but receive the discount of the difference between the
4 letter and flat minimum piece rates.

5 This proposal is consistent with the stated principles of the Postal Service in
6 filing this case, how the Postal Service currently treats, processes and automates our
7 mail from 3.5 ounces to four ounces, and makes good business sense for the Postal
8 Service, mailers like Money Mailer, and the customers we serve.

9 **III. Summary of Our Position**

10 First and foremost, this principle is fair. It is our experience that our 3.5 ounce to
11 four ounce letters are being processed on the Postal Service's automation equipment.
12 From the standpoint of both the Postal Service, and customers, mail that is presented
13 as automation compatible letter mail, is closed faced, bar coded, and actually processed
14 on Postal Service automation equipment, should be in the same rate and shape
15 category as other letter mail. It is not right, or fair, to charge our mail the significantly
16 higher flat rate when it meets the Postal Service requirements for shape, thickness and
17 other requirements for an automated letter. The USPS wants us to prepare and present
18 our mail to be processed as automated letters, and the USPS is in fact processing and
19 automating our 3.5 ounce to four ounce pieces as letters.

20 Second, today's current rules and regulations put Money Mailer, and our
21 customers, at a significant competitive disadvantage with other coupon envelope
22 companies, when there is no cost justified, postal reason for this differentiation. As a
23 result of this competitive disadvantage, our franchisees, and our customers, face an

1 artificial competitive disadvantage that hinders our ability to attract customers and grow
2 mail volumes. In today's competitive environment, the smaller standard formatted
3 coupon envelope companies, like Valpak, Super Coups, or United Coupon, can place
4 anywhere from 46 to 52 coupons in an envelope before they hit the 3.5 ounce flat
5 surcharge ceiling. For Money Mailer, with a larger format envelope of 9.5" x 6", as
6 compared to the standard envelope size of 9.5" x 4.5", we hit the flat surcharge ceiling
7 at around 31 pieces. In today's postal and automation environment, there is no reason
8 for the Postal Service to continue to give our competitors this rate advantage.

9 Third, and finally, the proposal advanced by our joint associations will give us
10 incentive to increase the size of our envelopes and provide incremental revenue to the
11 Postal Service for pieces weighing from 3.5 ounces to four ounces. This incremental
12 revenue will fairly cover any additional cost the Postal Service incurs due to any
13 diminution in throughput of its automation equipment for letters weighing over 3.5
14 ounces.

15 **IV. Money Mailer and the Coupon Envelope Market**

16 Since its establishment in 1979, Money Mailer's core business has been to
17 provide small local businesses (mainly those small businesses with less than 10
18 employees) with an affordable and effective means of advertising and growing their
19 businesses through Money Mailer's saturation coupon envelope program. Currently,
20 through our more than 293 franchisee operations (each of them a small business in its
21 own right), we serve more than 30,000 customers in 35 states across the nation. Over
22 90 percent of our customers are small, locally-based businesses and entrepreneurs. In
23 addition, we serve a number of regional and national advertisers that, although smaller

1 in number, are important to the success of our business. During the 12 months ending
2 July 31, 2006 we distributed more than 165 million envelopes through the mail at ECR
3 saturation mail rates.

4 In most of our markets, Money Mailer competes head-to-head with Valpak, our
5 primary competitor. Valpak, backed by the resources of Cox Enterprises (the sixth
6 largest media company in the nation), is by a wide margin the largest envelope mailer in
7 the nation, distributing more than 500 million envelopes annually. Money Mailer is the
8 second largest, although our annual distribution of about 165 million envelopes is less
9 than a third of Valpak's. There are other smaller companies that distribute coupons in a
10 standard envelope like Super Coups and United Coupon.

11 **V. Money Mailer's Envelope Format**

12 When Money Mailer was launched in 1979, Valpak was already an established
13 competitor. Money Mailer determined early on that to succeed in the marketplace, it
14 needed to distinguish itself from its larger competitor. A key element of our competitive
15 differentiation is the use of a larger letter format than that used by Valpak and other
16 standard-sized coupon envelope mailers. Our letter envelope measures 9.5" x 6",
17 compared to the standard size 9.5" x 4.5" format.

18 These format differences offer advertisers a distinctive choice and alternative to
19 the standard letter size coupon envelope companies. These differences are not
20 costless to Money Mailer. With our larger-format coupon, we incur a higher cost for
21 paper and printing. On top of this, however, under the ECR postal rate structure, these
22 format differences also mean that, for a given number of coupon inserts, Money Mailer's
23 envelopes hit the 3.3 ounce pound-rate breakpoint and the 3.5 ounce flat surcharge

1 more quickly than our standard size competitors' (31 pieces for Money Mailer versus 46-
2 52 pieces for a standard envelope mailer). As a result, about 40 percent of our coupon
3 envelopes exceed 3.3 ounces and pay the pound rate, and about 22 percent exceed 3.5
4 ounces and pay the letter-flat, rate differential as a "nonletter." By comparison, almost
5 none of our competitors' standard size, letter coupon envelopes exceed the 3.5 ounces.

6 When Money Mailer first developed its larger format coupon size there was no
7 shape based difference in how our envelopes were charged when compared with our
8 competitors. In 1991, a separate and lower rate for letters as opposed to flats was
9 adopted. The proposed rates in this case will increase the cost of each envelope
10 weighing 3.5 ounces or more by a full penny for the letter-flat differential, plus pound
11 rate postage for all weight above the breakpoint.

12 We believe our size and format is important for our competitive position in the
13 marketplace and gives a significant benefit for our customers. But we oppose a pricing
14 and costing structure that is artificially charging us the higher rates associated with a flat
15 when all of our experience, and interactions with the USPS, are that we are requested
16 by the USPS to enter and prepare our mail to be processed as automation letters and it
17 is being automated. We are only treated as "flats" in the higher rates we pay.

18 **VI. Money Mailer's Heavier Letter Mail is Being Automated and Processed**
19 **Like a Letter**

20 Simply stated, we are asking the Rate Commission to extend the "heavy letter"
21 exception now in place for mailings weighing 3.3 ounces to 3.5 ounces, to four ounces
22 because mail that is processed like a letter should be priced like a letter.

23 Money Mailer has always supported the proposition that mailers and the Postal
24 Service should work to achieve the lowest combined costs. Mailers that have mailing

1 practices that drive or increase Postal Service's costs should pay their fair share. In this
2 case, our mail is being prepared in accordance with Postal Service automation
3 requirements, is being processed and treated like a letter on Postal Service automation
4 equipment, but is being artificially penalized and surcharged as a flat when pieces
5 weigh over 3.5 ounces.

6 Because our saturation mail program envelopes have a larger format size, we hit
7 the breakpoint with nearly 40 percent of our envelopes and the 3.5 ounce heavy letter
8 cap for approximately 22 percent. In the 12 months between August 1, 2005 and July
9 31, 2006, we mailed more than 165 million saturation envelopes. Twenty-two percent
10 of these mailings were over 3.5 ounces with roughly 11 percent in the range from 3.5
11 ounces to four ounces and 11 percent over four ounces. Based on our personal
12 observations, and interactions with the Postal Service, we know that nearly all of this
13 mail, including mail weighing substantially more than four ounces, is being processed
14 on Postal Service automation equipment. Here are the reasons I make this statement:

15 1. The Postal Service has told us at postal stations throughout the country that
16 they want our mail brought to the SCF and presented so that it can be processed on
17 USPS automation equipment. Even in prior years where our mail did not have a bar
18 code and was entered as carrier route walk sequence mail to be taken to the DDU, we
19 were told at many postal stations that it was their preference to do a two pass process
20 where they would spray on the bar code, and automate our mail as letters. This was
21 done for all weights of letters including those that exceeded 3.5 ounces.

1 2. Our Vice President of Operations frequently meets with and visits postal
2 stations and SCFs throughout the country. We know of no facility that is not actually
3 automating and processing our envelopes weighing from 3.5 ounces to four ounces.

4 3. It is our actual experience with the Post Offices in our community, Orange
5 County and San Diego, that mail entered in the 3.5 ounce to four ounce range is being
6 processed and automated on Postal Service equipment.

7 4. We are told by postal facilities that our mail can be processed and is being
8 processed regardless of whether or not our letters exceed 3.5 ounces in weight. In our
9 own backyard, where we work closely with two postal stations, we have been told that
10 the biggest difference in how our letters run through automation equipment is not
11 dependent on the envelope weight but is related to the maintenance of the Postal
12 Service equipment. We have always worked closely with the USPS to achieve best
13 practices on the delivery and handling of our mail. Some years back, we were
14 experiencing a higher than acceptable rejection rate with our mail at the Santa Anna
15 Post Office. We were having no problems with similar mail being automated by the
16 USPS in an adjoining county. We compared notes with both Post Offices and received
17 some recommendations from the USPS equipment maintenance crew that was
18 reporting our mail was efficiently and easily processed with a one percent or less
19 rejection rate. We passed on this maintenance advice to the Santa Anna Post Office.
20 We collectively eliminated the problems they had experienced in processing our mail.

21 5. Whenever our mail is late in delivery, it is our practice to call the Postal
22 Service and ask about the status of our mail and any delays in delivery. The number
23 one excuse we have received over the years is that our mail is being held at the SCF to

1 wait for processing. Because our saturation mail is entered in carrier route walk
2 sequence, it would qualify for direct delivery to the DDU if it were a flat. In the past, it
3 was more common for the Postal Service to cross-dock our mail at the SCF and send it
4 to the DDU for delivery as a third bundle. We have been told by postal officials at both
5 the DDU and the SCF that the Postal Service is under a mandate to process everything
6 that can be run on its equipment. Over the years, we have encountered a number of
7 delays where our mail is cross-docked to the DDU only to be sent back to the SCF for
8 processing because it is automation compatible.

9 6. We have been told that there is virtually no difference in the automation of
10 our mail on Postal Service equipment up to 3.9 ounces. When our mail is at the 3.9
11 ounce rate we have been advised that we should label it "manual" to identify it is a
12 heavier letter. Even when our mail is labeled manual, it is our experience that the
13 Postal Service usually decides to process it on the automation equipment. The only
14 difference in treatment between these heavier, "manual" labeled envelopes and our
15 other, lighter, envelopes seems to be that the Postal Service may choose to blend in our
16 heavier envelopes to be processed along with lighter pieces.

17 7. Our Money Mailer personnel have frequent interaction with the postal stations
18 in our own backyard. We know of no examples where our mail in the 3.5 ounce to four
19 ounce range has not been processed and automated exactly like all of our other
20 saturation envelopes weighing less than 3.5 ounces.

21 We are willing to pay our fair share for postage. I will acknowledge that there
22 may be some modest, incremental cost associated with running our heavier letters on
23 the Postal Service automation equipment. But the heavy letter proposal we are

1 advancing would generate postage for each fraction of an ounce between 3.5 ounces
2 and four ounces to cover this minimal difference.

3 It is not fair or equitable for our mail to be prepared by us like a letter, processed
4 by the Postal Service like a letter, and yet surcharged as a flat. In the publicity pieces
5 accompanying the Postal Service's rate filing it stated that it was trying to give mailers
6 choices so that they could prepare and enter their mail so as to achieve the lowest
7 combined costs. The Postal Service is not giving us a choice. The Postal Service has
8 determined it is most efficient for its operations and utilization of resources for our mail
9 to be entered at the SCF and automated as a letter. We deserve the postal rate
10 associated with a letter. As I will discuss below, this non-cost justified difference in
11 rates is causing Money Mailer, our franchisee family and customers, a significant, and
12 unfair, competitive disadvantage in the marketplace.

13 **VII. The Letter-Flat Surcharge Puts Money Mailer at a Competitive**
14 **Disadvantage; This Hurts Our Business and Deters USPS Growth**

15 The current letter-flat differential hurts Money Mailer's business, and the business
16 of our franchisees. In essence it is a surcharge that is not related to higher costs for
17 the Postal Service, but results in substantially higher costs for our franchises, our
18 customers, and a loss of business volume for the USPS. Let me discuss each of these
19 stakeholders in turn.

20 Our franchisees achieve success in their business by increasing the average
21 number of coupons in each envelope they mail. The large letter-flat differential is an
22 obstacle to this growth. For an envelope weighing close to 3.5 ounces, the addition of
23 even one more advertising coupon subjects us today to a .09 cent per piece surcharge
24 as a "nonletter." In today's rate environment, the amount of this surcharge could

1 theoretically be ameliorated by bringing the piece to the DDU. The difference between
2 the SCF letter rate and the DDU flat rate is only .03 cents. With the Postal Service's
3 proposed rates we will not be allowed to bring any of our letters to the DDU and will see
4 a difference between the letter size rate and the flat rate of .01 cent or \$10 per
5 thousand. That is just the letter-flat surcharge that kicks in at 3.5 ounces. We must
6 also pay the "per pound" rate on all pieces over 3.3 ounces. As an example of the
7 combined rate impact of the pound rate and the flat surcharge the extra rate costs for
8 adding just two-tenths of an ounce (two coupons) to a 3.3 ounce envelope would
9 increase our postage by approximately 1.6 cents per piece or \$16 per thousand. That
10 postage rate could exceed the net revenue our franchise might earn for the costs of
11 paper, printing, and sales commissions on those additional coupon sales.

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

18 In fact, attempting to fine tune our selling to avoid the surcharge would be
19 impossible, unless we were to abandon cross-selling between our franchisees and to
20 concede to our competitors the market for larger regional and national advertisers. A
21 fundamental key to the success of any cooperative advertising program, whether it be
22 coupon envelopes or shared mail or shopper publications, is the ability to cross-sell
23 across zones and markets. To understand the importance of cross-sales to a shared

1 mail business like Money Mailer, let me give a short primer on the coupon envelope
2 business and how our franchise network serves small to large customers.

3 Our typical franchisee is a husband and wife team whose market area
4 encompasses 50,000 households, divided into five zones of 10,000 addresses each.
5 Because we are able to offer targeted advertising to neighborhood businesses, our core
6 advertising customer is a small business that only buys advertising for two zones. But
7 to succeed as a shared mail company, and to build consumer interest in our envelopes,
8 we also need to attract larger regional and national advertisers. To serve these
9 advertisers we need to be able to cross-sell across zones and markets. The bigger the
10 ad buy, the lower the price the advertiser will pay. It is not that we want to favor the big
11 guys over the little guys, it is a market reality. If we do not offer competitive prices, they
12 will take their business to a competing coupon envelope company or choose another
13 advertising media.

14 Larger advertisers demand a simplified advertising buy and a competitive price.
15 We cannot gerrymander our prices and zones because of the postal rates we pay.

16 Going back to our husband and wife franchisee, they may find they have
17 envelopes weighing 3.3 ounces in some zones and would like to sell more advertising
18 into those envelopes. But if they sell to an advertiser who wants to cover all five zones,
19 including zones over 3.3 ounces, the franchisee may find that he or she is working too
20 hard to make a sale that triggers the substantially higher flat rate. The franchisee then
21 faces a dilemma of accepting the entire promotion, and paying the higher postage, or
22 losing the customer to a competitor. This pricing dilemma is compounded when it
23 involves different franchisees with different envelope profiles.

1 Our company needs to be able to cross-sell to attract a broader range of
2 advertisers, to compete with standard format coupon envelope companies, and other
3 advertising media.

4 Our customers would also benefit by this "heavy letter" proposal. Saturation mail
5 and the shared mail market is very price sensitive. The prices we are able to charge to
6 our customers are all related to the costs we pay and competitive conditions. If we can
7 achieve costs savings in paper, production, or postal rates, we can make more
8 attractive offers to our customers. One of the negative impacts of the present rate
9 structure is our inability to offer some of our advertising customers the opportunity to
10 print and send a larger size promotion at an affordable price.

11 Our standard coupon weighs one-tenth of an ounce. With our larger format, this
12 can have a sufficient impact for most of our customers. But many actual and potential
13 customers would like larger, or more varied ads, at reasonable prices. A Chinese
14 restaurant might want us to reproduce its menu. This could help drive business for the
15 customer and make phone orders easier with assigned numbers for menu items. But
16 this larger size piece might weigh as much as four or five coupons. If our envelope is
17 under weight, we can do this and offer the customer an affordable price. But if the
18 larger size causes the envelope to go over weight and triggers the large flat surcharge,
19 or if the customer wants to cover multiple zones, we face a pricing dilemma and our
20 customer loses an advertising opportunity.

21 From a corporate standpoint, this artificial barrier to Money Mailer offering
22 competitive prices to our customers makes it hard for us to attract and serve larger
23 national advertisers and direct response marketers. Some of the national businesses

1 that like to use coupon envelope advertising include national direct response marketers.
2 They insist on achieving the lowest price per thousand. Because of the Postal Service's
3 artificially high pricing structure for our envelopes between 3.5 ounces and four ounces
4 we are at a competitive disadvantage, when compared to other coupon envelope
5 companies, in offering prices that would allow us to serve these customers. Many of
6 these national advertisers do consumer response advertising that would deliver
7 additional mail volumes to the Postal Service. I have read the testimony submitted by
8 Robert Posch in this proceeding and agree with his description of the "multiplier effect."
9 An increase in the weight cap for Money Mailer envelopes would allow us to include
10 more of the types of ads and promotions national and regional advertisers and direct
11 response marketers would like to place in our envelopes. If we could offer them a lower
12 rate, this would bring more mail volume, in different classes of mail, to the USPS.

13 **VIII. Conclusion**

14 Building our business, expanding our network, and serving new customers
15 should be a win-win proposition for Money Mailer and the Postal Service. The
16 existence of the letter-flat surcharge and the high pound rate have made it difficult for
17 each of our franchisees to offer competitive prices and grow their business. It would be
18 a different story if this steep bump in our rate structure, and its consequential adverse
19 affect on our company and customers, were justified by Postal Service costs. But all of
20 our observations tell us it is not. Right now we are getting letter mail processing on our
21 products but are paying an artificially high, "flat" mail rate. Without a substantial
22 difference in USPS costs, this adverse competitive affect on our business and
23 customers is inequitable.

1 For the foregoing reasons, Money Mailer respectfully requests that the
2 Commission recommend an increase in the maximum weight permitted for Standard
3 Mail automation, high-density, and saturation letters from 3.5 ounces to 4 ounces with
4 mailers paying postage at the pound rate for the incremental weight over 3.5 ounces.