

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

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Postal Rate and Fee Changes, 2006

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Docket No. R2006-1

REBUTTAL TESTIMONY OF JOYCE McGARVY  
ON BEHALF OF AMERICAN BUSINESS MEDIA  
(December 5, 2006)  
(Final Version)  
(ABM/RT-2)

1 My name is Joyce McGarvy, and I am submitting this testimony on behalf of  
2 American Business Media in order to comment on the rate and restructuring proposals  
3 that have been advanced in this proceeding by Time Warner and the Magazine  
4 Publishers of America (jointly with the Association of Nonprofit Mailers).

5 I found it interesting that, in reviewing my testimony from Docket C2004-1, the  
6 Time Warner et al. complaint case, the summary there fits very well here. I said there  
7 that, "as a general matter, I agree that Periodicals mailers should take whatever steps  
8 are reasonably possible to reduce their own postage costs as well as the Postal  
9 Service's costs (that are, after all, passed through to mailers)." I still agree. I added  
10 that the Time Warner restructuring proposal in that case was "too much, too fast" and  
11 that, if implemented, it would sacrifice many small publications in order to assure  
12 guaranteed rate reductions for Time Warner and would result in speculative, modest  
13 benefits, at best, for the Postal Service and most other Periodical mailers. Finally, I  
14 noted that I reached those conclusions not as an economist or a Postal Service costing  
15 expert but as a person who, unlike the Time Warner witnesses there, and unlike all of

1 the Time Warner and MPA/ANM witnesses in this case, has actually been involved in  
2 both producing and distributing Periodicals through the mail and in dealing with printers.  
3 As I said in the complaint case, "theory is nice, but reality is often different."

4 In this case, I would like to make much the same points. I recognize that the  
5 Time Warner proposal is scaled back some from the one it urged in Docket C2004-1  
6 and that, in some respects, the MPA proposal represents a more measured proposal  
7 than that of Time Warner. They are therefore preferable to the proposal advanced in  
8 the complaint case. Yet I believe that the Time Warner proposal and, to a significantly  
9 lesser extent, the MPA proposal still provide inadequate protection to mailers of  
10 Periodicals that cannot escape sacks, at least in the next couple of years.

11 I do not believe that the Commission needs my advice on how big an impact is  
12 too big. But I do think that I can contribute to the record by explaining why, based upon  
13 Crain's actual experience, co-mailing and co-palletizing are not universally available.  
14 American Business Media witness Bradfield covered the issue of circulation size, and,  
15 while I agree with him, I will not duplicate that testimony or his testimony about impact  
16 and the recent growth of co-mailing and co-palletizing.

17 **Autobiographical Sketch**

18 My present position is Vice President/Distribution for Crain Communications,  
19 where I have been employed for 27 years. Crain Communications is primarily a  
20 publishing company with 24 domestic titles providing vital news and information to  
21 industry leaders and consumers. Each newspaper or magazine has become required  
22 reading and an authoritative source in its own sector of business, trade and consumer  
23 market. My responsibilities include managing the distribution of all of Crain's weekly, bi-

1 weekly and monthly publications, a job that includes managing the company's postal  
2 affairs.

3         During my years at Crain, I have been very active in the industry. I am presently  
4 the Industry Chair of the Mailers Technical Advisory Committee (MTAC) and President  
5 of the Red-Tag News Publications Association. I have served on MTAC for  
6 approximately eleven years, during which time I served on numerous committees and  
7 work groups, including serving as Industry Co-chair for the Electronic Publication Watch  
8 and the Electronic Mail Improvement Reporting (eMIR) work groups. I am the Industry  
9 Co-chair for the Periodicals Operations Advisory Committee (POAC), and I serve as  
10 Industry Co-chair for the Postal Service's Periodicals National Focus Group and the  
11 Great/Lakes area, and I am a member of the Periodicals Advisory Group.

12         I have a degree in Transportation from the College of Advanced Traffic, Chicago,  
13 IL, a Bachelor's Degree in Business Administration from Cleary College, and a Master's  
14 of Science in Administration Degree from Central Michigan University.

15         **Co-mailing and Co-palletizing**

16         Editorial and timely news is extremely important to my company. Because timely  
17 editorial and news are crucial to our publications, especially our 19 weeklies and bi-  
18 weeklies (on which I will focus exclusively in the remainder of this testimony), we do not  
19 close the final editorial pages until the close of business on Friday. The publications all  
20 have a Monday cover date, and it is our intent is to have the publication delivered to the  
21 readers on Monday. Crain has two separate co-palletization operations at two different  
22 printers every Friday night. We are somewhat unique in that we only co-palletize the  
23 Crain publications with other Crain publications, because that is the only way that we

1 can avoid being subject to scheduling problems caused by others. We can control our  
2 own timing, but not that of others, and for news publications, that timing is crucial.

3 In order to expedite the delivery of our publications, we began co-palletizing our  
4 publications in 1987, before there was even a formal co-palletization program and  
5 before there were any discounts for palletizing. Because our publications are time-  
6 sensitive, we are able to co-palletize only to destinations that are close enough for us to  
7 reach using ground transportation. There are some destinations where we have no  
8 choice except to use air freight, and for these destinations we must use sacks.

9 There are several reasons why we cannot co-palletize these destinations. The  
10 most important is that pallets will not fit on narrow-body aircraft, which are the only  
11 aircraft available in some markets. In addition, even if a wide-body plane is scheduled,  
12 there are sometimes last-minute changes in equipment that would leave our pallets  
13 stranded. Finally, it is expensive to air freight, and when we are able to ship in LD3  
14 containers, we pay by the container, so we need to fill the container with as much mail  
15 as possible.

16 It would be nice if we could co-mail our weekly publications, but we have not  
17 been able to due to time constraints and the inability to find a vendor that can  
18 accomplish the co-mailing and meet our dispatch requirements. We have asked both of  
19 our major printers, which are industry leaders, to find a way for us to co-mail our weekly  
20 publications, but neither printer has been able to find a way to make that happen. Other  
21 American Business Media members with weekly publications face the identical problem.

22 One example of co-mailing by weeklies has been highlighted in this case—the  
23 co-mailing of U.S. News with Information Week. This is surely a special case that has

1 nothing to do with our or other medium and small circulation weeklies and bi-weeklies.  
2 First, this is a two-publication “pool” consisting of one publication with a circulation of  
3 nearly 2,000,000 and one with 400,000 (Tr. 10197). It is apparently possible, although  
4 not easy, to coordinate these two weeklies. See Exhibit JM-1, a statement presented to  
5 the Idealliance Addressing and Distribution Conference in April of this year by Michael  
6 Armstrong of U.S. News. It is not possible to coordinate the much larger number of  
7 separate weekly publications with circulations of 50,000, or 5,000 that would be  
8 necessary to make up a co-mail pool of sufficient size. Ovid Bell, for example, touted as  
9 a co-mailer of small-circulation publications, does not co-mail weeklies. In fact, the  
10 Quad/Graphics co-mailing of these two very large weeklies is so unusual that, according  
11 to witness Cohen (MPA/ANM-T1 at 14), it is featured on the Quad/Graphics web site.

12 More typical of co-mailing shorter run publications—monthlies, not weeklies—is  
13 the experience of American Business Media member Hanley Wood at Donnelley. It  
14 takes Donnelley 7 full days, with the co-mail line running 24 hours a day, to complete  
15 one pool with between 1.5 million and 3 million pieces. There are restrictions on  
16 participation, such as size of the list and the number of versions. As a result, Hanley  
17 Wood, which does some co-palletizing on all of its magazines, is able to co-mail only 2  
18 of its 15 publications.

19 Co-mailing tabloids presents a special problem, because with their larger trim  
20 size they cannot be co-mailed with standard-size publications. MPA witness Cohen  
21 agreed that there is no co-mailing of tabloids now (Tr. 10150). I understand that  
22 witness Stralberg suggested that Donnelley has recently added that capability (Tr.  
23 10532). He may have been referring to Donnelley’s discussions with Crain. In the

1 beginning of the year we asked Donnelley to do a study of the Crain titles, which include  
2 standard- size and tabloid-size publications, to determine if we could co-mail our  
3 tabloids. It said that it could re-configure one of its co-mail lines to handle tabloids, but  
4 that co-mailing would require us to move our dispatch schedule back 24 hours. We just  
5 can't do that.

6 We are left, then, unable to co-mail and able to co-palletize only to a limited  
7 extent. Even with the co-palletization we are able to accomplish, we must limit the pool  
8 to our own titles, which means that our pool is small and that we are unable to obtain all  
9 of the theoretical benefits of palletization, such as drop-shipping, to as great an extent  
10 as would be available in a large pool.

11 The result is that the rate proposals of MPA and Time Warner would be worse for  
12 those co-palletized publications than the USPS proposal. The data to support this  
13 conclusion were provided by American Business Media in response to Time Warner's  
14 interrogatory TW/ABM-5, and are attached as Exhibit JM-2. The interrogatory  
15 response did not identify the source of the numbers, but I am now prepared to state  
16 that they were developed for Crain's co-palletized publications, using the "tool" offered  
17 by Time Warner.

18 More recently, I was asked by another American Business Media member,  
19 PennWell, to run the impact numbers on its publication Oil & Gas Journal, a weekly  
20 publication with a circulation of a little over 18,000. Its printer, Brown Printing, makes  
21 up pallets where it can, and managed in the mailing analyzed to produce 4 pallets with  
22 406 bundles and 5,950 pieces. It also produced 247 sacks with 979 bundles and  
23 12,382 pieces. Under the Postal Service proposal, its postage would increase by

1 13.51%. Under the MPA/ANM and Time Warner proposals, the increase would be  
2 17.45% and 17.47% respectively.

3 I know from my experience with the many committees and groups in which I  
4 participate that Crain is not alone in being required, at least for now, to mail in sacks.  
5 Other publishers, in addition to PennWell, have weekly publications that have not been  
6 able to land in a co-mail pool, for much the same reason that our weeklies cannot.  
7 Others have circulations that are deemed by nearly all printers to be too small, or they  
8 have larger circulation but various versions that are too small.

9 I am hopeful that once the Postal Service has completed its ongoing automation  
10 efforts with the FSS program, and as more and more titles that can be co-mailed or co-  
11 palletized are in fact prepared that way, opportunities for our publications to get out of  
12 sacks and into either alternative containers or co-mailing or co-palletizing programs will  
13 materialize. As witness Bradfield explains, American Business Media's data provided  
14 in response to a data request show that, based upon responses to a survey, about  
15 75% of our members' pieces are now on pallets. Some members indicated that they  
16 will, or may, be switching in the near future. I think that this shows that the present  
17 incentives, which will be increased as a result of this case no matter which proposal or  
18 combination of proposals the Commission adopts, are doing their job. It is  
19 unnecessary to expose those that cannot move from sacks to punishing rate levels in  
20 order to increase the incentives and rewards for palletizing too much and too soon.

Michael Armstrong's Comments for Idealliance, Addressing & Distribution Conference  
4/26/06

Good morning.

We are in love with the idea of mail consolidation, and have been itching to try it on *U.S. News* for years.

We first co-mailed a then-sister publication, *The Atlantic Monthly*, in the mid-1980s, using Quad/Graphics' Sussex co-mailing operation. Ten years ago, we achieved some consolidation for our weekly magazine when we began pool shipping *U.S. News* with catalogs and other magazines. Last year we launched a small sister publication, *Radar Magazine*, and were happy to co-mail both the main run and supplemental copies using Quebecor World's innovative Express Collation Mailing System (ECMS).

It might seem strange that U.S. News has long wanted to consolidate the mailing of its copies with those of other publishers. After all, we are a weekly news magazine with two million subscribers and a demanding delivery schedule. Three out of four copies *already* qualify for carrier route discounts, and over 98% of copies are already on pallets, so why would this be something we would want to do? What's in it for us?

The answer may surprise you. We want to become a more valuable customer to our printer. Think about it. From a strategic perspective, would you rather be known as a difficult customer likely to cut into your printer's profits – or one likely to boost your printer's bottom line?

Of course, it helps in the Information Week program that U.S. News sees a significant postage savings by adding their copies to our mailing volume. We see our carrier route percentage increase by more than 3 points (versus binding alone), with that

additional piece discount *by itself* yielding savings of more than \$4,000 per issue. Do the math. For a weekly, that adds up fast.

So why didn't we do this earlier? Quad/Graphics had to do four things to make this work for us.

First, we did not want the time to process our mailing file to be extended at all. We did not want to force the fulfillment company to close the subscriber file earlier so that there would be more time for presorting. Quad's high speed presort took care of this. The co-mail presort is on the same schedule as conventional mailing.

Second, we needed to be absolutely certain that there would be no screw-ups where we mixed the pages of the two publications in the bindery. In particular, we needed to be sure we would avoid mistakes in executing our complex bindery plan, which routinely involves hundreds of versions in an issue. The solution was Prose XML, a format for information exchange developed by IDEAlliance. Every week we send Quad a Prose XML file that has all the data it needs to produce the issue. Using mostly software programs, not people, Quad takes that data and assembles it into its internal instructions, the way *it* like to see them. They do this in a few hours, and the whole process is bulletproof.

Third, we did not want mail consolidation to restrict our use of demographic and geographic targeting. We tried co-mailing demographic issues, but we found that multiple metro splits and complex demographic targeting were tough to manage in a conventional co-mailing operation like the ones used mostly for monthly magazines. Co-binding allows us to have our cake and eat it, too – we get geo-demo targeting seamlessly with the co-bind operation. In fact, co-binding is just selective binding with extra care taken to ensure pockets are loaded correctly. It's selective binding on steroids.

Fourth, we wanted to maintain our in-home delivery, with almost all subscribers receiving their copies on Monday or Tuesday after the weekend's production. This was achieved simply by running the combined publications on enough lines to meet our old delivery schedule.

Where do we see this going? We think that postal rate incentives over the next five years will track the efficiencies in the deployment of FSS processing equipment. We believe the key opportunity for mailers will be containerization – the way the mail is packed and presented to the USPS. No one today can predict exactly what the rules of the game will be in three or four years. But there's good reason to believe the most cost-effective containerization will depend on mailers creating large consolidated mailings with very large groups of copies (bundles, trays, logs, etc), probably organized by 5-digit scheme.

If we are right, there can only be increasing value to adding partners to high-density mailings. Increasing value will drive engineering investment and invention in the printers' binderies, and pull more participants into consolidated mailing programs.

Today we ask ourselves – and we think others in the industry should ask – if this works for U.S. News and Information Week, why wouldn't it work for other time-sensitive publications?

Pub	Freq.	Copies Mailed '06	Cost Per Copy Current	Current Annual Cost	USPS					MPA					Time Warner				
					% Increase	\$ Per Copy Increase	Per Issue Cost Increase	Annual Cost Increase	% Increase	\$ Per Copy Increase	Per Issue Cost Increase	Annual Cost Increase	% Increase	\$ Per Copy Increase	Per Issue Cost Increase	Annual Cost Increase			
* A	51	33290	\$ 0.2752	\$ 467,232	12.50	\$ 0.0344	\$ 1.145	\$ 58,404	14.56	\$ 0.0401	\$ 1,334	\$ 68,029	15.92	\$ 0.0438	\$ 1,458	\$ 74,333			
** B	53	62,449	\$ 0.3258	\$ 1,078,332	12.50	\$ 0.0407	\$ 2,543	\$ 134,791	14.56	\$ 0.0474	\$ 2,962	\$ 157,005	15.92	\$ 0.0519	\$ 3,239	\$ 171,670			
* C	52	45,952	\$ 0.2591	\$ 619,120	12.50	\$ 0.0324	\$ 1,488	\$ 77,390	14.56	\$ 0.0377	\$ 1,734	\$ 90,144	15.92	\$ 0.0412	\$ 1,895	\$ 98,564			
* D	46	24,799	\$ 0.2908	\$ 331,731	12.50	\$ 0.0364	\$ 901	\$ 41,466	14.56	\$ 0.0423	\$ 1,050	\$ 48,300	15.92	\$ 0.0463	\$ 1,148	\$ 52,812			
* E	17	45,952	\$ 0.2845	\$ 206,623	12.50	\$ 0.0331	\$ 1,519	\$ 25,828	14.56	\$ 0.0385	\$ 1,770	\$ 30,084	15.92	\$ 0.0421	\$ 1,935	\$ 32,894			
Sub Total				\$ 2,703,039			\$ 7,597	\$ 337,890			\$ 8,949	\$ 393,562			\$ 9,676	\$ 430,324			
**Co-Palletized																			
** F	49	42,931	\$ 0.2367	\$ 497,927	12.61	\$ 0.0298	\$ 1,281	\$ 62,789	14.41	\$ 0.0341	\$ 1,464	\$ 71,751	14.66	\$ 0.0347	\$ 1,480	\$ 72,996			
** G	26	52,801	\$ 0.2661	\$ 365,309	12.40	\$ 0.0330	\$ 1,742	\$ 45,298	14.49	\$ 0.0388	\$ 2,036	\$ 52,933	14.44	\$ 0.0384	\$ 2,029	\$ 52,751			
** H	26	50,952	\$ 0.2459	\$ 325,757	12.61	\$ 0.0310	\$ 1,580	\$ 41,078	14.41	\$ 0.0354	\$ 1,805	\$ 46,942	14.66	\$ 0.0360	\$ 1,837	\$ 47,756			
** I	52	61,282	\$ 0.2437	\$ 776,337	12.61	\$ 0.0307	\$ 1,883	\$ 97,896	14.41	\$ 0.0351	\$ 2,151	\$ 111,870	14.66	\$ 0.0357	\$ 2,189	\$ 113,811			
** J	51	74,369	\$ 0.1769	\$ 670,950	12.61	\$ 0.0223	\$ 1,659	\$ 84,607	14.41	\$ 0.0255	\$ 1,896	\$ 96,684	14.66	\$ 0.0259	\$ 1,929	\$ 98,361			
** K	48	61,689	\$ 0.2468	\$ 730,793	12.61	\$ 0.0311	\$ 1,920	\$ 92,153	14.41	\$ 0.0356	\$ 2,194	\$ 105,307	14.66	\$ 0.0362	\$ 2,232	\$ 107,134			
** L	23	51,984	\$ 0.2470	\$ 295,321	12.40	\$ 0.0306	\$ 1,592	\$ 36,620	14.49	\$ 0.0358	\$ 1,861	\$ 42,792	14.44	\$ 0.0357	\$ 1,854	\$ 42,644			
**Sub Total				\$ 3,862,392			\$ 11,657	\$ 460,440			\$ 13,407	\$ 528,279			\$ 13,559	\$ 535,453			
**Co-Palletized																			
M	12	30,905	\$ 0.3723	\$ 138,071	14.02	\$ 0.0522	\$ 1,613	\$ 19,356	16.21	\$ 0.0603	\$ 1,865	\$ 22,381	19.51	\$ 0.0726	\$ 2,245	\$ 26,938			
N	53	32,358	\$ 0.1856	\$ 318,299	13.08	\$ 0.0243	\$ 766	\$ 41,634	10.62	\$ 0.0197	\$ 638	\$ 33,803	9.27	\$ 0.0172	\$ 557	\$ 29,506			
O	12	15,717	\$ 0.2932	\$ 55,299	15.66	\$ 0.0459	\$ 722	\$ 8,660	19.38	\$ 0.0568	\$ 893	\$ 10,717	23.62	\$ 0.0693	\$ 1,088	\$ 13,062			
P	12	24,728	\$ 0.3021	\$ 89,644	13.67	\$ 0.0413	\$ 1,021	\$ 12,254	19.49	\$ 0.0589	\$ 1,456	\$ 17,472	18.94	\$ 0.0572	\$ 1,415	\$ 16,979			
Q	12	17,855	\$ 0.2956	\$ 63,690	15.14	\$ 0.0448	\$ 804	\$ 9,643	19.54	\$ 0.0578	\$ 1,037	\$ 12,445	22.33	\$ 0.0660	\$ 1,185	\$ 14,222			
R	25	15,917	\$ 0.2284	\$ 90,090	17.73	\$ 0.0401	\$ 639	\$ 15,973	20.54	\$ 0.0465	\$ 740	\$ 18,505	28.19	\$ 0.0638	\$ 1,016	\$ 25,396			
S	26	31,117	\$ 0.2906	\$ 235,108	13.99	\$ 0.0407	\$ 1,285	\$ 32,892	19.09	\$ 0.0555	\$ 1,726	\$ 44,892	20.53	\$ 0.0597	\$ 1,856	\$ 48,288			
Totals				\$ 7,355,631			\$ 938,733	\$ 12,789			\$ 30,612	\$ 1,062,046			\$ 32,597	\$ 1,140,147			
Grand Total				\$ 10,586,679			\$ 11,525,412	\$ 14,771			\$ 11,688,728	\$ 14,771			\$ 11,726,826	\$ 15,507			