

Postal Rate Commission
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BEFORE THE
POSTAL REGULATORY COMMISSION
WASHINGTON, D. C. 20268-0001

POSTAL RATE AND FEE CHANGES

Docket No. R2006-1

REPLY BRIEF OF
U.S. NEWS & WORLD REPORT, L.P.

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Numerous myths and misunderstandings surround Periodicals postage rates, as noted in U.S. News' initial brief in this case. Without rehashing the Top Ten Myths spelled out in that brief, we would like to point out five more myths that have been put forward in the initial briefs of other participants in this case:

1. *"Witness Tang assessed the impact of these rate design changes, and concludes that mailers would have comparable if not better incentives"* (USPS Int. Br. at 345). That assertion contradicts Witness Tang's own statement: "I no longer believe I have data that would allow me to calculate percentage increases in the incentives for particular publications" (response to MPA/USPS-T-35-28c: Tr. 7/1716). The only assessment of incentives presented by Tang was a seriously flawed analysis of twelve publications that co-palletize but do not co-mail (see original Response of Postal Service Witness Tang to Interrogatory of Magazine Publishers of America, Inc. (MPA/USPS-T35-13), filed July 14, 2006). Witness White used the data

presented by Tang for these twelve publications to show that their incentives to dropship would generally be *reduced* (USNews-T-1 at 10, ll. 3-15). White presented the only analyses of dropship incentives, which no other parties rebutted. And Tang herself acknowledged that she did not analyze incentives for co-mailing (response to MPA/USPS T-35-17(j): Tr. 7/1706).

2. *"The Postal Service's current proposal thus is a logical continuation of this use of modest incentives for improved mail preparation"* (USPS Int. Br. at 347). In fact, the Postal Service is proposing to eliminate most of the recently adopted "modest incentives" that have led to improved mail preparation, such as the discounts for dropshipped pallets, non-dropshipped pallets, and co-palletization. Those discounts, which only partially and unevenly compensate for piece rates being too high, are admittedly problematic; the experimental co-palletization program is so complicated that apparently even Tang does not understand it (see response to USPS/USNews-T1-3: Tr. 30/10081-84). True cost-based rates would end the overcharging for piece rates and replace such discounts with even greater incentives to improve mail preparation, but in fact the Postal Service proposal would generally reduce such incentives. (The notable exception is that dropship incentives for relatively heavy publications would be increased.)

3. *The Time Warner witnesses' lack of publishing or printing experience led to "elegant yet sterile theories and conclusions" that have questionable*

application “to the real world of periodicals publishing and distribution” (ABM Int. Br. at 2-3). That such an irrelevant *ad hominem* attack is made on the testimonies of witnesses Stralberg and Mitchell demonstrates how difficult it is to fault their analyses. U.S. News is immersed in the real world of periodicals publishing and distribution, mailing more than 90 million Periodicals pieces annually (and competing directly with Time Warner, by the way). A team of three U.S. News executives having approximately 80 years of combined publishing experience (with a wide variety of daily, weekly, monthly, and quarterly publications ranging from very small to very large circulation) has carefully examined the Stralberg and Mitchell testimony in both this docket and in Docket No. C2004-1 and has found their models reflect reality better than anything put forward by the Postal Service. (We also know of no one in the world of publishing and printing capable of doing the kind of analyses that Stralberg and Mitchell did – analyses that the Commission has already recognized as making “a major contribution by identifying and quantifying cost drivers associated with bundles, sacks and pallets” (Docket No. C2004-1, Order Addressing Complaint of Time Warner Et Al. (Order No. 1446), issued October 21, 2005, at 4).) Generally in the real world, we pay for what we get; if we want to print more copies, use fancier paper, or ship copies a greater distance, we expect to pay more because we know that our vendors’ costs would also rise. But Periodicals postage is an Alice in Wonderland world where U.S. News subsidizes larger, publicly traded corporations whose

mailings are less efficient than ours. Mitchell's proposed rates would bring the Periodicals class into the real world.

4. *The "co-mailing of U.S. News with Information Week" is "a special case that has nothing to do with . . . medium and small circulation weeklies and bi-weeklies"* (ABM Int. Br. at 20). That statement and the accompanying discussion demonstrate a complete misunderstanding of the commingling of the two publications and of the economics of commingling in general. *U.S. News and Information Week* are co-bound, not co-mailed; *U.S. News* tried co-mailing but found it to be impractical because of the large number of versions, which is sometimes in the hundreds for a single issue. The co-binding of *U.S. News and Information Week* demonstrates that several alleged barriers to commingling (including time-sensitivity, multiple versions, and mail quantities that are generally greater than commingling's economic sweet spot) can be overcome. We would urge our publishing colleagues who have been stymied in attempts to co-mail to investigate other forms of commingling, such as co-binding, co-wrapping, and co-blending. Those companies that, unlike *U.S. News*, have several weekly publications with similar production schedules and formats might be able to create their own co-mail or co-binding pools. ABM quotes Witness McGarvy's statement that "it is not possible to coordinate the much larger number of separate weekly publications with circulations of 50,000, or 5,000 that would be necessary to make up a co-mail pool of sufficient size" (Int. Br. at 20). We have seen co-mail pools containing

fewer than 100,000 copies, and in fact the economics of commingling two publications mailing 50,000 copies each could be quite favorable. Besides the estimated 0.82 cents savings per piece from doubling the number of pieces (U.S. News Int. Br. at 3), the incremental dropship savings could be substantial. (Our experience is that combining two national mailings of 20,000 pounds each -- for example, each with 50,000 copies weighing 0.4 pounds -- would substantially increase the number of copies on dropship pallets because a "tipping point" occurs at about 30,000 pounds. But larger mailers like *U.S. News* and *Information Week* can put the vast majority of their copies on dropship pallets without commingling, meaning that commingling yields them virtually no dropship savings under current rates or those proposed by the Postal Service.)

5. *The Commission has only three Periodicals rate structures from which to choose (see, for example, ABM's reference to the "triad of Periodicals proposals": ABM Int. Br. at 1). In addition to the proposals put forward by the Postal Service, MPA, and Time Warner, the Commission has additional options for Periodicals rates. It could, for example, maintain the current structure and simply increase all rates and discounts by the same percentage. We do not recommend that approach, but it would be preferable to the Postal Service's proposal, because it would at least maintain incentives for more efficient mail preparation. The current structure could also be improved by including the Postal Service's proposed dropship discounts for*

editorial matter. Mitchell in essence has provided the Commission with numerous options by providing a model that easily allows some factors to be dialed up or down. If the Commission finds Mitchell's proposal to be unacceptable in part, we recommend that it use the Mitchell model as the starting point for Periodicals rates and then tweak the model as it sees fit.

Respectfully submitted,

s/ _____
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