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

Postal Rate and Fee Changes, 2006) Docket No. R2006-1

REPLY BRIEF OF AMERICAN BUSINESS MEDIA ON PERIODICALS RATES

(January 4, 2007)

David R. Straus
Attorney for American Business Media

Law Offices of:

Thompson Coburn LLP
1909 K Street, NW
Suite 600
Washington, DC 20006-1167
(202) 585-6900
dstraus@thompsoncoburn.com

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American Business Media made a mistake when it began to read the initial briefs of the other parties. That mistake was to start with the brief of Time Warner. Even though American Business Media and Time Warner hardly see eye-to-eye in this proceeding, and even though American Business Media strongly opposes implementation of the "rate grid" approach for Periodicals mail that has become Time Warner's mantra, we saw very little in the Time Warner brief that warranted a reply. Its arguments do not rely on "evidence" outside the record, and its citations to the record are reasonably accurate representations of the evidence relied upon. To its credit, Time Warner does not pretend that its proposal will land softly on small and medium sized publications but argues that its harsh impact is necessary and appropriate. That is not to say that American Business Media agrees with Time Warner. It is to say that the issues between American Business Media (and McGraw-Hill), on the one hand, and Time Warner, on the other, are fairly joined in the initial briefs of these parties, and it therefore appeared that very little in the way of a reply brief would be necessary.

But a reading of the initial brief of MPA/ANM, and then the initial brief of U.S. News & World Report, disabused American Business Media of that unfortunately mistaken notion. In contrast to Time Warner, MPA/ANM and to a lesser extent U.S.

News do pretend that the adverse impact of the proposals they support is either nonexistent or ephemeral, and, worse than that, they support their erroneous conclusions both by citing to alleged facts and even in one case to "research" nowhere appearing in this record and by multiple, grotesque distortions of testimony in the record. By doing so, they have made a more comprehensive reply brief necessary and unduly added to the burden of the Commission as it struggles with the alchemy necessary to transform this typically massive record into fair and equitable postal rates.

I. **Impact**

MPA/ANM use several techniques to camouflage the adverse impact of their rate proposal, ranging from a virtually useless comparison of the single largest increase it would produce with the single largest increase that the Postal Service would produce[1] to misrepresentations of the extent to which most periodicals can be co-palletized or co-mailed. In the following discussion, American Business Media will identify and refute these errors, addressing as well where appropriate equivalent errors committed by U.S. News and Time Warner.

MPA/ANM argue (I.B. at 5, 67-71) that their proposal is less harsh than that of the Postal Service, because the largest single increase in the 259-publication sample is greater under the Postal Service proposal than under MPA/ANM's. Even if nothing were known about the single publication facing the largest increase under the Postal Service proposal, it would of course be wholly inappropriate to analyze comprehensive rate proposals on the basis of the effect on a single publication in a sample (even with recognition that one publication in the sample could represent many more). Postal

[1] In this respect, Time Warner is equally guilty (I.B. at 50).

Service witness Taufique's rebuttal testimony explains (e.g. at Tr. 13,479) why it is necessary to analyze a full array of resulting increases, and both American Business Media and McGraw-Hill, in their initial briefs, show that the MPA/ANM proposal will produce far more unacceptably high increases, especially for small and medium sized publications.

In addition, what is known about the publication with the "single largest increase" under the Postal Service proposal is that it, like the three others that would face bigger increases from the Postal Service than from MPA/ANM, is not really a publication at all but represents only the out-of-county portion of a publication that mails the majority of its copies at the preferred, in-county rate (Tr. 13,480). In fact, the "single largest" USPS impact will fall on a grand total of 17 pieces of such a publication, which shows just how foolish it is to draw any conclusion from this factor while ignoring the fact that nearly three times as many small publications will face increases of 20% or more under the MPA proposal than under the Postal Service's, as shown in the responses to POIR-19.

Finally, seeking support for their erroneous conclusion, MPA/ANM grossly distort the cross-examination testimony of American Business Media witness Bradfield. Their initial brief (at 69) states that Bradfield "conceded that the USPS rate design is 'more destructive' because of its higher maximum increase," citing Tr. 12,098-99 in support of this "concession." But Bradfield conceded no such thing, and in fact in the cited exchange never even addressed the relative merits of the two proposals. Rather, he merely conceded the obvious and abstract point that a larger increase is more destructive than a smaller increase, but he added that to assess the overall impact over a range of publications, one must look at the "aggregate." He never—we repeat,

never—was asked to or in fact did compare the "destructiveness" of the USPS proposal with that of the MPA/ANM proposal. Counsel for MPA/ANM may wish that he had asked that question and received the answer that is now created out of thin air, but he most assuredly did neither.[2]

With hands planted firmly over its eyes in the traditional, simian, "see-no-evil" pose, U.S. News goes so far as to proclaim in its Initial Brief (at 8) that "[n]o credible study of mailing costs by circulation has been presented. . . ." A good deal of time was very well spent by several parties to show the impact of the three rate proposals by circulation size in response to POIR 19, and although the parties have argued about the conclusions to be drawn from the data, no party other than U.S. News has argued that the work performed by the Postal Service, Time Warner and MPA/ANM is not "credible." Moreover, Postal Service witness Taufique presented a chart summarizing and comparing the impacts of the three rate proposals, by size of publication, in terms of the largest and mean increases and the standard deviation (Tr. 13,458).[3] That chart and the initial briefs of American Business Media and McGraw-Hill demonstrate that these data show a clear trend of higher increases for smaller circulation publications, and that demonstration will not be repeated here.[4]

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[2] This is the first of several gross distortions of the record of which MPA/ANM are guilty.

[3] For each of the three proposals, the average size of the increase was smallest for the largest publications and largest for the smallest publications. In fact, under the Time Warner proposal, the average increase for small was 18.38%, nearly twice as high as for the large (9.94%). MPA's proposal was nearly as harsh, with 16.48% for the small mailers and 9.49% for the large

[4] In addition, even the data for the small sample of MPA-member publications show larger increases for smaller publications (50% larger for "medium" than for "large," Tr. 10,414), and examination of the range of impacts on Time Warner publications shows much larger increases for its small publications than for its large ones (see American Business Media Initial Brief at 8-9 and Tr. 10,539-40).

U.S. News's apparently related claim (I.B. at 9) that no one has explained why an "independent, medium sized company like U.S. News should subsidize giant newspaper corporations simply because we distribute our publications mostly through the Postal Service" is an enigma. What "giant newspaper corporations" did it have in mind, and what is the subsidy about which it complains? The "giant newspapers" (represented in this case by the Newspaper Association of America) concentrate their use of the mail on High density Standard mail for their TMC programs, and it can hardly be said that any Standard mail is subsidized by any Periodicals mail. If the U.S. News complaint is about averaging within the class, its complaint is with the Commission, which has expressly ruled that cost averaging is a legitimate way to meet the non-cost rate goals of the Postal Reorganization Act. Rec. Dec. in Docket No. C2004-1, App. A ¶¶ 322-28, App. B ¶9.[5]

II. Efficiency, Incentives and Rewards

MPA/ANM assert as an over-riding principle that their rate proposal will create the greatest efficiencies by properly balancing incentives to those whose mailing practices can and should be changed with rewards to mailers who already engage in favored mailing practices. No party disagrees with the notion that there should be greater incentives for those able to act in response thereto. In fact, the Postal Service proposal toward which MPA/ANM are so dismissive would by their own calculations

[5] If U.S. News's problem is with the fact that some unnamed publications (presumably those owned by the unidentified giant newspaper corporations) do not contribute as much to institutional costs on a per piece basis as it does, it might stop to ponder whether such an argument would put at risk the very low cost coverage for all periodicals in comparison with that, for example, of even nonprofit Standard mail. How would it respond to an argument from the American Cancer Society that it should not have to "subsidize" the publisher of U.S. News & World Report (and the New York Daily News) by paying rates with a higher cost coverage?

increase the incentives for palletization by a range of 8.6% to 14.7%, based upon a rather small sample. MPA/ANM I.B. at 52, table 21.

In defense of their proposal, MPA/ANM create then attack a strawman. Unidentified parties who "seek to block or slow the movement toward greater incentives," they say (I.B. at 62), argue inconsistently that the incentives proposed by MPA/ANM are smaller than needed to overcome the added costs and practical constraints faced by mailers and larger than appropriate to reward mailers already engaged in these mail preparation activities.

First, no party seeks to "block" the movement toward greater incentives. While MPA/ANM may wish to seek refuge in conjunctive in the "block or slow" phrase, this tactic should not be tolerated. The equivalent would be if American Business Media were to identify MPA/ANM as parties whose ultimate goal is to drive small publishers out of business or raise their postage costs somewhat.[6]

Apart from this threshold defect in the MPA/ANM inconsistency claim, it also falls because it is simply not true. In apparent support for the existence of inconsistent claims of "too big" and "too small," MPA/ANM in footnote 43 provide record citations that are limited to instances in which American Business Media witnesses expressed the view that the present incentives are adequate, which presumably would support the assertion that American Business Media views the MPA/ANM-proposed incentives to be too big. Missing from the footnote and the record is the contrary position created by MPA/ANM and falsely attributed to American Business Media that the incentives must be bigger. To the extent that American Business Media's witnesses have thoroughly

[6] In contrast, Time Warner recognizes (Tr. 13.537) that all parties that have filed testimony on Periodicals rates have agreed that progress toward a more cost-based rate schedule is possible and necessary.

explained the present impediments for some publications to co-mailing and co-palletizing, they are not impediments that would be overcome by larger incentives.[7]

In a related but equally false criticism, MPA/ANM (I.B. at 63) describe as a "notion" American Business Media witness Bradfield's documented assertion that larger incentives will do little more than enlarge a demand for services that is already in excess of the ability of the industry to meet it. With a by now hackneyed "Field of Dreams" reference, they claim that when customers come, suppliers will build it. Bradfield's assertion was not a "notion" but a fact unrebutted in the record. He described VNU's unsuccessful efforts to persuade its major printers to co-mail volumes below 5,000 (Tr. 12,064), a different, major printer's announcement on its web site that it will not co-mail any publication with a version below 5,000 or more than two between 5,000 and 10,000 (Tr, 12,065) and his company's unsuccessful efforts to find a printer that would co-mail its tabloids and weeklies (Tr. 12,108). Crain Communications cannot obtain co-mailing service for its weeklies or tabloids (Tr. 12,177; 12,179). Hanley Wood is able to co-mail only 2 of its 15 monthlies (Tr. 12,178). Multiply these unsatisfied demands by the hundreds of publishers with thousands of publications they seek to have co-mailed, and it is clear that the customers have come demanding service, but they have been turned away at the gates because the stadium is sold out.[8]

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[7] MPA/ANM (I.B. at 65) cite Bradfield as agreeing with the proposition that, "logically," if there were greater incentives, there would "probably" be more co-mailing, citing Tr. 12,100. The witness, however, made clear that there are "diminishing returns" and that he doubted that, even with an "incentive" of $100 per piece, he would be able to obtain co-mailing for one of his publications with a circulation of 2,100 (id.).

[8] In an effort to overcome an evidentiary record they find unsatisfactory, MPA/ANM claim (I.B. at 64) with no record citation that there has been a "surge of investment" by industry. The only new investment identified on the record is the addition of co-mailing equipment by Quebecor World that will increase the number of titles that it can co-mail by no more than 225 (Tr. 12,104-06). There is no indication of how much of that capacity will be used for Periodicals as opposed to Standard mail or whether the addition will

Just as they fail to demonstrate that greater incentives will produce a significantly more "efficient" mail stream. MPA/ANM fail to show that the "incentive/reward" ratio in their proposal overcomes Postal Service witness Taufique's criticism that it contains too much reward for existing practices and not enough incentive for additional efficiency (Tr. 13,471). Or, as that witness explained to counsel for MPA/ANM during cross-examination (Tr. 13,475), "our focus is on changing the behavior that needs to be changed, and your focus seems to be on behavior that is already efficient." [9]

The purely theoretical MPA/ANM position is that a mailer will respond to price signals when the benefit to the mailer of one additional unit of co-palletizing or co-mailing exceeds the costs (I.B. at 61). This ivory tower principle, of course, ignores the fact addressed above that there is already unsatisfied mailer demand, because publishers have figured out that, with today's adequate incentives, the benefits from additional units of co-mailing would exceed the costs. Yet a mailer (that is, the publisher weighing the costs and benefits) can respond only to the extent of requesting the service.

Even on their preferred theoretical plane, however, MPA/ANM do not present a compelling argument in favor of incentives significantly greater than those offered in the Postal Service rate design. They press forward (I.B. at 63) with the theoretical proposition that "[i]f mail volume exists at the margin of worksharing, an increase in existing incentives would induce additional worksharing." They fail to consider,

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loosen the Quebecor World circulation size and other limitations. See American Business Media's Initial Brief at 18.

[9] As McGraw-Hill shows in detail in its briefs, the Postal Service's proposed rate design, unlike that of MPA/ANM, will provide meaningful incentives even to small publishers that cannot move from sacks to pallets.

however, that the increased "incentive" necessary to move the marginal publication across the additional worksharing line would require not only the rate reduction to that mailer (whose saving would in this example be very small) but also a rate reduction, that is, a reward, for the typically large mailers already engaging in the favored mailing practice.

If the discussion were truly centered on incentives, such as in the case of providing payments to electricity consumers for replacing low efficiency air conditioners with high efficiency units, there would be a compelling logic to the MPA/ANM position, because there would be a net gain, albeit modest, from the marginal consumer's responding to the incentive without harm to anyone else (assuming that the incentive for lower consumption made economic sense in the first place). But the appropriate analog to the situation here would be if the supplier in question also had to pay an additional amount to everyone who had already installed high efficiency air conditioners—for any reason whatsoever—in order to induce the marginal consumer to do so. In that case, virtually all of the revenue loss would have to be offset by rate increases to some or all consumers, including, presumably, those that could not afford to or were otherwise unable to make the change, even with the incentive.[10]

The insistence by MPA/ANM that incentives and rewards should be pushed to much higher levels also highlights their failure (as discussed in American Business Media's Initial Brief at 22-23) to consider the impact of added printer and transportation costs along with the impact of higher postal rates. A mailer who is spared half of a 25% postage increase only by spending nearly that much for co-mailing and drop shipping

[10] For example, those living in rented houses, where the tenant (as is customary) pays the electric bill but the owner would have to pay for new air conditioning equipment.

services is impacted every bit as much as one bearing the entire burden in the form of a postage increase. Yet MPA/ANM insist (I.B. at 61, italics in original) that "efficient pricing signals" should be designed "to influence mailer behavior for the *marginal* piece of mail." As hypothesized above, that marginal piece of mail may be able to avoid 13 percentage points of a 25% postage increase by spending an amount equal to 12 percentage points of that increase to co-mail and drop ship, yet the impact of the 25% postage increase that provided the "incentive" to change mailing practices is hardly affected. MPA/ANM still never come to grips with this issue.[11]

III. **Those left behind**

MPA/ANM contend (I.B. at 67, 72) that American Business Media has understated the extent to which smaller publishers can offset postage rate increases through greater commingling and drop shipping. They address, as will American Business Media, small circulation publications, tabloids and poly-wrapped pieces, weeklies with tight editorial deadlines and multiple versions.[12]

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[11] The Warner (I.B. at 18, n. 19) cites with approval the Commission's statement in Docket No. MC95-1 (at ¶3068) that worksharing helps the Postal Service "expand[ ] volumes of mail and improve its productivity." In the case of Periodicals, however, there has been no increase in volume following the introduction and enlargement of worksharing discounts, and Time Warner's statement that productivity is improved by promotion of worksharing is inconsistent with its own description of the Postal Service's history of negative productivity (I.B. at 15, n. 17). Time Warner provides a prime example: the manual sortation of machinable flats (I.B. at 33-35; see also MPA/ANM I.B. at 37-39).

[12] American Business Media will not respond separately to the contentions of U.S. News, since they are based almost entirely on factual assertions without record citation or basis. The limited nature of U.S. News's participation in this case does not justify its cavalier disregard for the prohibition against recitation of non-record "facts." Among U.S. News's transgressions in this area are: (1) the statement (I.B. at 2) that Publishers Press engages in co-mailing, (2) the statement (I.B. at 2) that Quebecor World's co-mail operation is geared to mailings of 5,000 to 150,000, (3) the statement (I.B. at 3-4) that Vibe magazine has announced its intention to change printers to Quebecor World in order to obtain co-mailing services, (4) the statement (I.B. at 6) that the proposed container charge would represent "a fraction of 1 percent" of the U.S News postage bill, and, most egregiously, (5) the claim (I.B. at 3) that U.S. News has conducted "research on a wide variety of Periodical mailings," along with the alleged results of that previously undisclosed research. The Commission should be on the alert for similar assertions in the U.S. News reply brief.

A. Small circulation

Continuing their common practice, MPA/ANM begin with a strawman created out of a misstatement of American Business Media's position. They claim (at 72) that "ABM contends that comailing requires a minimum circulation of 5,000 copies," typically without a citation to any place at which American Business Media supposedly made such a contention. American Business Media never even implied that, as a theoretical proposition, co-mailing requires 5,000 pieces. Rather, what American Business Media contended is that even though runs that small would benefit from co-mailing (which is why witness Bradfield and others have tried and failed to obtain the service, see e.g. Tr. 12,064), printers are unwilling to "waste" a pocket on that low a volume, and they have not—even in the face of the demand—added the capacity that would allow them to offer the service. Thus, any demonstration that it is in theory possible to obtain co-mailing service for small volumes as a way to offset very high postage rate increases is largely irrelevant.

Yet MPA/ANM persist, once again distorting evidence in the record. They cite (I.B. at 72) Mr. Bradfield's testimony at Tr. 12,063 for the proposition that "Quad/Graphics co-mailed publications down to 1,500 pieces even back in 2004." Even if that were true, the statement would not outweigh the testimony of American Business Media's witnesses that today—not in 2004—they cannot obtain co-mailing service for runs or versions below 5,000 pieces. But, as usual, that is not what the witness or testimony cited actually said. Mr. Bradfield's words concerning witness Schick's testimony in Docket No. C2004-1 were: "he added that publications or versions with fewer than 1,500 pieces cannot be co-mailed as a practical matter." This is a very

different statement than the one MPA/ANM attribute to witness Bradfield: that Quad/Graphics actually "co-mailed" publications as small as that in 2004.

Finally, MPA/ANM point to American Business Media witness Cavnar's statement (ABM-T1-1 at 3) that "two ABM publications with less than 5,000 copies might begin comailing or co-palletizing soon" (I.B. at 72). His statement, in which he was merely reporting on comments received as part of American Business Media's survey, that these small publications might begin to comail or co-palletize "soon" hardly refutes the testimony of witnesses who explained that their efforts to obtain co-mailing for publications this small have been unsuccessful.

B. Tabloids and poly-wrap

MPA/ANM once again lead off with useless theory supposedly in opposition to the factual testimony presented by American Business Media, stating (I.B. at 72-73) that "there are no impediments to co-palletizing tabloids and polywrapped publications." American Business Media never claimed that there are co-palletizing impediments for tabloid or poly-wrapped pieces that are otherwise able to be co-palletized (although witness McGarvy testified (Tr. 12,187) that tabloid shaped publications are typically news oriented and present problems because of their time value, not their shape). American Business Media did assert that co-mailing, which is where the savings are,[13] is highly problematic for many of these types of publications.

As for co-mailing, MPA/ANM retreat once again to theory, stating (I.B. at 73) that co-mailing of tabloids and poly-wrapped pieces "is technically feasible." Again, no one has asserted that it is not. MPA/ANM's efforts to move from the theoretical to the real,

[13] Co-palletizing does nothing to improve the presort level, and it is difficult to create SCF pallets, much less 5-digit pallets, through co-palletization (Taufique, Tr. 13,466).

however, are unsuccessful. They point to a single example of tabloid co-binding—raised voluntarily by witness McGarvy herself (at Tr. 12,186)—although she added that this is not the type of operation that is generally considered to be co-mailing. They also point to the fact that Donnelley would have been willing to co-mail the Crain tabloids if only Crain were willing to give up the crucial time value that is the very essence of the publications. As American Business Media explained in its initial brief (at 21), an "offer" to co-mail Crain's news-filled papers if only they would close editorial on Thursday rather than Friday (or accept delivery no earlier than Tuesday rather than Monday), is no offer at all.[14]

MPA/ANM next turn briefly to the co-mailing of poly-wrapped pieces, claiming (I.B. at 73) that there are poly-only pools available, citing the testimony of witness Schick in Docket No. C2004-1. The Commission must disregard this highly improper attempt after the close of the record to inject into this record material from another proceeding. As MPA/ANM are well aware, Time Warner, McGraw-Hill and American Business Media all sought to incorporate material from that record into this one. MPA/ANM did not. As a result, there is no evidence here (or elsewhere) as to whether there is, or rather was, only one such pool at one printer, whether that pool still exists, whether that pool is full, whether any more will be undertaken, whether the phenomenon is widespread, etc. And because MPA/ANM chose to cite evidence from another record rather than to introduce evidence in this one, there is no opportunity to find out.

[14] This is yet another example of unsatisfied demand, refuting the basic MPA/ANM position that if there is demand, the service will be available.

C. Weeklies with tight editorial deadlines

Theory, not fact, once again dominates MPA/ANM's discussion. They contend (I.B. at 74) that a "sufficiently motivated publisher" can through "proper coordination" assemble co-mailing pools quickly. Nonsense. First, printers, not publishers, must assemble co-mailing pools quickly enough to preserve the time value of weeklies, and the fact that they have not in the face of publisher demand is ample evidence that they cannot, at least not now. Similarly, MPA/ANM's claim that it is "possible" to co-bind weeklies is belied by the fact that printers are not doing so (with one or two possible, rare exceptions). The fact is that even a publisher like Crain Communications, with its multiple titles, has been "unable to find a vendor that can accomplish the co-mailing and meet our dispatch requirements" (McGarvy, Tr. 12,177).[15]

Although MPA/ANM could not with a straight face argue that small circulation publications are small by choice and could always increase their circulation size, they are prepared to pounce with that argument on time value publications, contending (I.B. at 74) that tight editorial deadlines are "voluntary business decisions" that, they suggest, ought to be reconsidered in light of the impact of such decisions on, for example, the ability to co-mail and save on postage. Little response is necessary. Witness McGarvy explained (Tr. 12,186-87) that the core of these publications' business model is to close editorial on Friday night and be in readers' hands by Monday. If they cannot do that, they might as well not exist, and the Periodicals class would as a result be less broad

[15] MPA/ANM claim (I.B. at 73) that Crain can co-palletize its time value publications, but MPA/ANM fail to note witness McGarvy's explanation that Crain is able to co-palletize its time value publications only with its own publications (in order to have absolute control over timing) and only where the publications can be shipped by truck, rather than by air (Tr. 12,176-77).

and less diverse. As she said (Tr. 12,194), if Crain Communications is unable to get its editorial content into the hands of its readers while it is fresh, "we don't have readers."

It appears, however, that MPA/ANM to their credit do not really believe that a tiger should be asked to change its stripes but are arguing that tigers should recognize that stripes impose costs that they should be willing to pay. Or that publishers whose business models require expedition that is not available when co-mailing or co-palletizing are involved and who are faced with limited choices by the Postal Service should pay whatever non-postal costs are necessary to obtain that expedition and accede to postal rate design shifts that widen the gap between highly workshared and less highly workshared publications. They should do so, MPA/ANM add (I.B. at 74), because publishers "do not expect freight providers, trucking companies or printers to subsidize such decisions."

Surely, we hope, MPA/ANM have not lost sight of the fact that the Postal Service is not a private sector entity like freight providers, trucking companies and printers. It is a public service, governmental entity with certain statutory obligations not found in the private sector, obligations from which MPA/ANM members benefit greatly (as do American Business Media members). Do MPA/ANM members expect their freight providers, trucking companies or printers to reflect the "educational, cultural, scientific and informational" value in their pricing, such that, for example, they would pay much lower prices than catalogs? Of course not, yet they would be aghast (and no doubt in court) if they did not obtain that dispensation from the Postal Service and this Commission. Would MPA/ANM members take with equanimity the imposition of

private-sector-like Ramsey Pricing on the apparently price inelastic Periodicals class, with its likely doubling (at least) of Periodicals rates? Of course not.

Accordingly, their contentions that American Business Media seeks postal pricing unlike private sector pricing should be given no weight, to match their relevance. The Postal Service clearly understands this concept and has employed it in devising its rate design proposal. The Commission does as well, as evidenced by its recognition of the need for a "vibrant" and "diverse" Periodicals class and its determination that cost averaging is a legitimate way to meet that goal.[16]

D. Multiple Versions

MPA/ANM claim that multiple-version publications raise the same issues as do publications with tight deadlines (I.B. at 75), and American Business Media's response is in many ways the same. The so-called "business decision" (see MPA/ANM I.B. at 76) to create multiple versions is not taken lightly by publishers, who thereby incur greater costs, but is essential in the highly competitive world for both editorial attention and advertising revenues (Tr. 12,064).[17] Certainly, as MPA/ANM suggest, a publication could in the face of a new Periodicals rate design decide to reduce or eliminate versioning, but to do so would imperil the publication's future every bit as surely increasing postal rates. The question here is whether the Commission should blind itself to that potential for demise in pursuit of greater "efficiency." It should not.

[16] Rec. Dec. C2004-1, App. B ¶36; App A ¶¶322-28; App. B ¶9. It is ironic that both MPA/ANM and Time Warner seek to make the rates for the class that ought to be the least cost-based into the most cost-based.

[17] "[A] publication to survive must make available to its advertisers editions broken down geographically and/or demographically."

Unable to overcome their addiction to generalizations and theory of little if any utility, MPA/ANM add (I.B. at 74-75, emphasis supplied) that, in any event, versioning does not "disqualify a publication from co-mailing," relating the fact that Quebecor World "allows publications with multiple versions to participate if the [sic] each version exceeds a minimum required size," citing Tr. 12,056. Surely, MPA/ANM have saved the worst for last. Yes, if each version is very big, then the publication can be co-mailed, at least in theory. If each version is not big enough, it cannot be. The Quebecor World rule is that no more than two versions may be between 10,000 and 5,000 pieces, and no version may be smaller than 5,000 pieces (Tr. 12,065). The problem does not go away simply because if facts were otherwise, there would be no problem. The fact is that when publications with 50,000, or 25,000, or even smaller total circulation are required by the marketplace to be split into versions, those versions will almost by definition fail the "size test' imposed by printers notwithstanding the demand for co-mailing services.

MPA/ANM's concluding speculation (I.B. at 75) that "larger incentives are likely to lower the minimum size requirements" is of little comfort to those who at today's incentive level are already asking for services that the printers simply cannot or will not provide. And even if this prediction is correct in the long run, publishers are faced with very real financial challenges in the short run.

IV. Manual sortation of automatable flats

In addressing the phenomenon, apparently widespread, of the Postal Service sorting manually a relatively high percentage of flats—especially Periodicals—containing barcodes and otherwise capable of much less expensive automated sortation, American Business Media admits that it should have paid more attention to

this issue earlier, but its significance was not apparent until the topic was discussed in the initial briefs of Time Warner (at 33-35) and MPA/ANM (at 37-40). Time Warner concludes (I.B. at 34) that the proportion of Periodicals flats receiving manual incoming secondary sortation (that is, from 5-digit to Carrier Route) exceeds the 44.7% for all flats estimated by witness McCrery, although it settled on 40% in Stralberg's mail flow model (I.B. at 35). Time Warner also contends (I.B. at 36) that a very significant reason for this high percentage is that, as explained by McCrery, mail with higher volume, such as Standard mail, will be given precedence over mail with lower volumes, such as Periodicals, when both cannot be processed during a given window.

MPA/ANM agree that the Postal Service's calculation of Carrier Route cost avoidance is understated, because the Postal Service witness Miller has substantially understated the volume of Periodical flats that will receive manual secondary sorts (I.B. at 37), and that the actual percentage is in the 44.7% neighborhood identified by witness McCrery (I.B. at 38).

As American Business Media understands it, both MPA/ANM and Time Warner seek to expand the rate differential between 5-digit and Carrier Route pieces, at the expense of the former and to the benefit of the latter, based upon the fact that the Postal Service has for operational reasons chosen to process non-Carrier Route Periodicals flats in large numbers manually, at greater cost. Such an outcome, American Business Media submits, would be unfair.

This is an issue that has surfaced, but not to the point of decision, in earlier cases. Periodical mailers have argued in prior rate cases that some portion of the sortation costs—the incremental cost of manual sortation over the cost of machine

sortation—should not be deemed to be a cost attributable to Periodicals, because it is not incurred for the benefit of Periodicals. A Postal Service plant manager faced with machine sorting either a million Standard pieces, at a saving of $10,000 over manual sortation, or to machine sort half a million Periodical pieces at a saving of $5,000 over manual sort, would be wise to machine sort the Standard mail and manually sort the Periodicals. To seek the overall saving in processing costs is the appropriate choice for the Postal Service as a whole, even if that choice reduces the costs attributable to Standard mail by $10,000 while increasing the costs attributable to Periodicals by $5,000. Nevertheless, that selection, which is apparently made routinely and frequently, would have cost implications of the type relied upon here by MPA/ANM and Time Warner that are detrimental to mail that was more "costly" only because of a management decision to save costs on an overall basis. This issue is closely analogous to one raised by ValPak, which has argued in this case that the cost of DPSing ECR Saturation letters made necessary only by the constraints of the "three-bundle rule" were not incurred for the benefit of those letters and should not be attributed to them. See ValPak I.B. at III-3, et seq. [18]

American Business Media submits that it would be unfair and inequitable to saddle non-Carrier Route pieces with the incremental costs incurred by the Postal Service to sort manually those Periodicals that are fully machinable and automatable, as we understand has been proposed by MPA/ANM and Time Warner.

[18] This issue is also analogous to that involved with the "Alaska air" costs, which are not attributed to Package Services despite their having been incurred to handle parcels.

V. Conclusion

American Business Media's three witnesses each stressed that their companies and other publishers of small and medium-sized periodicals have increased their co-palletizing and co-mailing and are pressing their suppliers for more, all with the incentives for doing so built into today's Periodicals rates. As a result, survey data reveal a 30% increase in the palletizing performed by American Business Media members in five years, with more to come as printers add capacity. MPA/ANM witness Cohen agrees that co-mailing "has really grown" (Tr. 10,184), and Postal Service witness Taufique added that palletization has increased by 33% from 2003 to 2005 (Tr. 13,454).

This record hardly supports the notion advanced by MPA/ANM and Time Warner that stronger "price signals" and "incentives" are needed; rather, it appears that what is needed is time.[19] Nevertheless, all of the parties addressing Periodicals rates support changes that would increase those incentives (along with the rewards for those already palletizing), with the primary difference among them being the extent and form of the increase.

As the Commission correctly stated on Docket No. C2004-1 (¶ 4023), "great strides" toward increased co-palletizing and co-mailing had been made to that point (and they have taken off since then), but "threshold volume, frequency, trim size and other factors constrain use" of these options. As Time Warner correctly noted in its initial brief in that docket (at 40), "there obviously are many small- and medium-sized

[19] Even Time Warner uses the future tense in stating (I.B. at 56) that, for medium-sized publications that are not time sensitive, the incentives it proposes "will increasingly mean co-mailing or co-palletizing as such options become available and affordable." American Business Media has made clear throughout this brief and its initial brief that for many publications, the problem is availability.

publications that for some time will remain without access to co-mailing, co-palletizing and drop shipping."

Both statements retain their validity today. Progress toward a rate structure that is more cost based and toward heightened incentives for the presentation of mail that is less costly for the Postal Service to handle will occur under any of the three proposals, and the Commission should not lose sight of the crucial fact that the Postal Service's action last year banning nearly all sacks with fewer than 24 pieces has already eliminated a major category of pieces carried well below cost, accomplished to a significant extent one of the goals sought in the Time Warner complaint case and muted one of the major criticisms of the present rate design. But even though all three proposals pursue the same goals, protection for those who "for some time will remain without access to co-mailing, co-palletizing and drop shipping" is inadequate under the MPA/ANM and the Time Warner proposals.

Respectfully submitted,

/s/ David R. Straus
David R. Straus
Attorney for American Business Media

Law Offices of:

Thompson Coburn LLP
1909 K Street, NW
Suite 600
Washington, DC 20006-1167
(202) 585-6900
dstraus@thompsoncoburn.com