

**BEFORE THE
POSTAL REGULATORY COMMISSION
WASHINGTON DC 20268-0001**

POSTAL RATE AND FEE CHANGES, 2006

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Docket No. R2006-1

**MOTION OF COALITION OF CATALOG MAILERS
TO REOPEN AND SUPPLEMENT THE RECORD
(April 12, 2007)**

The Coalition of Catalog Mailers ("CCM") respectfully moves to reopen the record to file limited testimony on the avoidable and economically wasteful costs imposed upon catalog mailers by unanticipated rate increases for Standard Mail Regular flats. CCM is an ad hoc coalition of catalog mailers formed after the issuance of the Commission's Notice of Request for Reconsideration on March 29, 2007. Because CCM members did not anticipate rate increases of the magnitude recommended by the Commission on February 26, 2007, they did not have a meaningful opportunity to offer testimony earlier on the need for a reasonable transition period to those rates.

I. INTRODUCTION

On February 26, 2007, the Commission recommended rates for Standard Mail Regular flats that represented significant increases over the rates proposed by the Postal Service. The Board of Governors subsequently requested reconsideration of

certain aspects of the Commission's Decision, including those rate increases. In support of the Postal Service's request, CCM seeks to submit supplemental testimony on the adverse effects of the abrupt rate increases on the catalog industry and the need for a gradual transition.

CCM's objective is to permit catalog companies a reasonable transition period to adjust their businesses in the most efficient manner possible. CCM offers to provide the Commission specific information, on the record, describing the practical difficulties that catalog mailers will experience in responding to unexpectedly high rate increases beginning on May 14, 2007. Many of these difficulties could be avoided by allowing catalog companies adequate lead time to work with the Postal Service and vendors to make significant changes in an essential component of their business plans. CCM is offering testimony from a single witness, a well-known expert in the direct marketing industry, Edward J. "Ted" Spiegel, Professor of Integrated Marketing Communication, Northwestern University. Professor Spiegel's resume is attached to this Motion as Appendix A.

II. PROCEDURAL HISTORY

In its Opinion and Recommended Decision issued February 26, 2007 ("Decision"), the Commission recommended increases for a wide range of postage rates. On March 19, 2007, the Postal Service's Board of Governors requested that the Commission reconsider its Decision with respect to three topics,¹ only one of which is at

¹ Decision of the Governors of the United Postal Service on the Opinion and Recommended Decision of the Postal Regulatory Commission on Changes in Postal Rates and Fees, Docket No. R2006-1 (March 19, 2007).

issue in this Motion. On March 28, 2007, the Postal Service filed its Initial Statement on Reconsideration ("Statement on Reconsideration").

On March 29, 2007, the Commission issued a Notice of Request for Reconsideration and Order Establishing Procedures ("Order No. 8"). The Commission stated that although reopening the record may preclude resolving one or more issues prior to the May 14, 2007 implementation date, "[t]he process is best served if participants are provided an opportunity to demonstrate that the record should be reopened." Order No. 8 at 2 n.4. The Commission also noted that "[a]necdotal comments unconnected to the record . . . are problematic and cannot be relied on by the Commission in resolving issues raised on reconsideration." Order No. 8 at 6. This Order was the impetus for the formation of an ad hoc coalition of members of the catalog industry, named the Coalition of Catalog Mailers ("CCM").

On April 3, 2007, CCM filed for late intervention and requested an extension of time to submit a Motion to Reopen and Supplement the Record for Reconsideration.² On April 5, 2007, the Presiding Officer granted CCM's request for an extension of time. Presiding Officer Ruling No. 130.

² See CCM's Notice of Intervention, Motion for Acceptance of Late Notice of Intervention and Motion for an Extension of Time in which to File a Motion to Reopen and Supplement the Record for Reconsideration. CCM filed a Supplemental Notice of Intervention on April 5, 2007, to notify the Postal Regulatory Commission of additional catalogers and vendors joining the coalition.

III. TEST FOR REOPENING THE RECORD

Order No. 8 sets forth the Commission's test for reopening the record:

Each participant, if any, seeking to reopen the record must provide thorough justification for its request, including specific identification of the purported deficiencies in the current record for purposes of reconsideration and an explanation why that participant did not proffer the purportedly necessary materials during the hearing. Any such movant must also provide an estimate of the time needed to supplement the record.

Order No. 8 at 2.

For reasons set forth below, CCM respectfully submits that its Motion meets this test. The record is deficient on the avoidable and economically wasteful costs³ created by the unexpectedly high rate increases. Because CCM did not have meaningful notice of the magnitude of the recommended rate increases, it cannot be deemed to have had an opportunity to proffer testimony during the hearing on the need for a gradual transition to those rates. We estimate that Professor Spiegel's testimony should take no more than one hearing day and that expedited discovery, cross-examination, and briefing concerning his testimony can be concluded within sixty (60) days of reopening the record.

IV. ARGUMENT

A. Reopening Will Provide the Commission with Record Evidence in Support of Rate Relief.

In its Statement on Reconsideration, the Postal Service declared that "[i]t

³ As used in this motion, "economic waste" consists of any unproductive allocation or misuse of resources (money, labor, etc.). Such misallocation is economically inefficient.

is especially important to hear the views of the Standard Mail mailers whose rates would be affected.” Statement on Reconsideration at 11 (emphasis added). The Postal Service also noted that basic issues of fairness and equity are presented: “A reasonable objective would be to provide some rate relief, *particularly for those catalog and other flat mailers who otherwise bear percentage rate increases substantially above the expectations they had based upon the Postal Service’s proposed rates.*” *Id.* (emphasis added).

CCM is a coalition of catalog mailers facing rate increases “[s]ubstantially above the expectations they had based upon the Postal Service’s proposed rates.” *Id.* We support the Postal Service’s request for reconsideration. We agree with the Postal Service that, in order to address this request, it is appropriate for the Commission to hear the views of catalogers whose rates would be affected. At the same time, as the Commission has already recognized, administrative law requires evidence to be entered in the record. “Anecdotal comments unconnected to the record are problematic and cannot be relied on by the Commission in resolving issues raised on reconsideration.” Order No. 8 at 6. Hence, CCM must ask the Commission to reopen the record to the extent that essential facts are not already in the record to support transitional rate relief.

B. Rate Shock Creates Economic Waste.

CCM’s concern is the abrupt introduction of large rate increases for Standard Mail Regular flats. For example, the Postal Service proposed 19.3 percent and 9.1 percent rate increases for 3-digit and 5-digit flats posted at origin. The Commission, however, recommended dramatically higher rates, so that final rate increases for this type of mail are 42.5 percent and 21.8 percent, respectively. Although

much of this flat mail is dropshipped, dropship discounts, while helpful, do not ameliorate the situation.⁴ From any perspective, these are drastic rate increases.

However, it is not only the magnitude of these increases that threatens the catalog industry. Although catalog companies have had since May, 2006 to plan for the rate increases originally proposed by the Postal Service, they have had only a few weeks to address the much higher rates actually recommended by the Commission. The abruptness of these additional rate increases will impose serious financial hardship that can be avoided. A reasonable transition period would prevent this economic waste.

The Decision strongly suggests that the Commission does not have a complete understanding of the transitional problems presented by substantially higher-than-expected rate increases.⁵ The premise underlying this portion of the Decision appears to be that mailers of lightweight catalogs can relatively easily and quickly change their business practices to adapt to the new shaped-based rate structure. For example, the Commission identified a specific marketing strategy that it believed could be used immediately to mitigate the effects of rate increases:

Mailers should be able to convert lightweight pieces to more efficient, less costly letters if they feel that these cost-based rates are no longer the most cost effective way to send their mailings.

Decision at ¶ 5470 (emphasis added). As Professor Spiegel will explain, however, this premise is factually incorrect.

⁴ If discounted rates for piece-rated flats are weighted by acceptance point, the effect of the Commission's decision in this example is to raise the effective rates for 3-digit and 5-digit piece-rated flats from the Postal Service's proposed increases of 18.9 percent and 7.7 percent to 42.2 percent and 19.2 percent, respectively.

⁵ We note that, in contrast, the Commission took "significant steps" to temper the rate impact on periodicals by charging less than full cost at the outset. Decision at ¶ 5769.

C. The Proffered Testimony Is Limited and Focused on Transitional Issues.

CCM realizes that a motion to reopen the record may prolong the period of uncertainty about specific rates. Fairness and equity dictate that catalog mailers have an opportunity to be heard, but, at the same time, the postal community has a legitimate desire to resolve R-2006 issues quickly. Accordingly, CCM has attempted to limit its proffered testimony to address only those facts essential to support transitional rate relief for Standard Mail Regular flats.⁶ Professor Spiegel will testify to the following facts:

- Unique characteristics of catalogers that affect their ability to respond to abrupt rate increases
 - The catalog industry includes many small entrepreneurs offering niche products.
 - Catalogers have greater dependency on a continuous stream of mailings to generate future sales volume.
 - Catalogers use extensive sample testing to drive mailing decisions.
 - The catalog industry follows an elongated planning cycle.
- Immediate impact on catalogers of the additional rate increases for Standard Mail Regular flats recommended by the Commission.⁷
 - Mail is a key component of catalogers' business plans and drives revenue.
 - Postage already constitutes a substantial portion of catalogers' costs, which magnifies the impact on the bottom line of additional large rate increases.

⁶ CCM does not seek to reopen the record on issues relating to the underlying costs of Standard Mail Regular flats.

⁷ Professor Spiegel does not intend to conduct an econometric study quantifying the impact of the specific rate increases because such a study would take several months, an unrealistic delay given that the new rates will be implemented on May 14, 2007.

- The economic waste that would result without a transition period.
 - Difficulty in quickly changing cost structure (due to, *e.g.*, restraints imposed by existing contractual commitments with vendors).
 - Impracticality of converting catalogs from flat format to letter format (*e.g.*, by folding).
 - Difficulty in quickly adjusting mailings to decrease postage costs (*e.g.*, by decreasing the size or number of pages of the catalog).
 - Limitations on passing through an increase in costs to customers (due, *e.g.*, to the fact that catalogers compete with non-catalogers, which do not have postage as an input).
 - Long-term effect of recommended rates on catalog mail volume resulting from the migration of catalogs to other forms of advertising and the decreased vitality of the catalog industry.
- A transition period would allow catalogers to mitigate the impact of the rate increase.

Efficiently adjusting to a significantly higher set of postage rates

necessarily takes time, and the costs of making the transition can be substantially mitigated if large increases in postage rates, to the extent they are deemed necessary, are phased in over a reasonable period.

It may be that the Commission will determine that the record is already sufficient to grant rate relief for Standard Mail Regular flats.⁸ CCM is presenting this Motion to provide the Commission the opportunity to receive additional testimony, if deemed necessary, on the specific transitional difficulties that will be imposed on catalog mailers and the resulting economic waste. CCM has no desire to prolong this proceeding unnecessarily or to delay the introduction of new postage rates. On the other hand, CCM urges the Commission not to deny a request for reasonable transitional rate relief merely because of the formal absence of evidence on the

⁸ See, *e.g.*, Rebuttal Testimony of James M. Kiefer, USPS-RT-11 at 20-22.

practical, and unnecessary, costs that will be imposed on catalog mailers.

Fairness and equity weigh in favor of reopening the record before denying rate relief to catalog mailers. Catalogers did not have a meaningful opportunity to enter the proffered evidence before the record was closed. In fact, most catalog companies were unaware of the possibility that their rates would be increased significantly above the Postal Service's proposed levels. Although the Postal Service's plan to shift to shape-based pricing foreshadowed cost-based rate increases, its proposed rates in this case offered a transitional approach. To organize companies to participate in an expensive rate proceeding in Washington, D.C. is practically impossible without a "clear and present danger." Technical arguments raised during the course of a rate proceeding are inadequate to motivate mailers to underwrite the costs of lawyers and expert witnesses. In fact, CCM was organized in response to the "clear and present danger" raised by the specific rates recommended by the Commission on February 26, 2007. Neither CCM, nor any other cataloger, can be expected to have introduced testimony on difficulties in transitioning to rate levels that were unannounced and unanticipated.

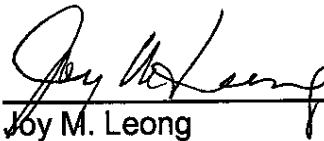
CCM is proposing a single witness and therefore expects that under an expedited schedule (including limited discovery, oral cross-examination, and briefing), the Standard Mail Regular flats rate issue can be resolved by mid-June unless other parties seek to expand this proceeding.

V. CONCLUSION

A healthy, growing catalog industry benefits the Postal Service as well as the entire mailing industry. Imposing unexpected rate increases of the magnitude recommended by the Commission without adequate lead time will unnecessarily threaten the vitality of the catalog industry. CCM seeks to supplement the record with testimony on the inability of catalogers to adjust quickly to unexpectedly steep rate increases. If the Commission reopens the record, CCM will submit evidence that much of the potential damage from these rate changes and the resulting economic waste can be avoided by allowing catalogers time to prepare for these changes.

For the foregoing reasons, CCM respectfully requests that the Commission reopen and supplement the record to introduce the limited testimony described above.

Respectfully submitted,



Joy M. Leong
James I. Campbell, Jr.
Brown Rudnick Berlack Israels LLP
1201 Pennsylvania Ave.
Washington, DC 20004
Telephone: (202) 536-1700
Fax: (202) 347-4242
E-mail: jleong@brownrudnick.com
Counsel for the
Coalition of Catalog Mailers

APPENDIX A

Professional Biography:

EDWARD J. "TED" SPIEGEL

**Professor of Integrated Marketing Communication
Medill School of Journalism
Northwestern University**

PERSONAL

Marital Status: Married to Audrey McIntyre

Home Address: 2403 Fox Meadow Lane
Northfield, Illinois 60093
(847) 446-6378

Office Address: Northwestern University
1870 Campus Drive, 3rd Floor
Evanston, Illinois 60208
(847) 491-7951
(847) 491-5925 FAX
t-spiegel@northwestern.edu

Spiegel Marketing Associates
2403 Fox Meadow Lane
Northfield, Illinois 60093
(847) 446-3438
spieg3mkt@aol.com

EDUCATION

1980	Professional Certificate	Strategic Marketing Management Harvard Business School, Harvard University Cambridge, Massachusetts
1968	Professional Certificate	IBM Advanced Management Computer Course San Jose, California
1954	MBA	Amos Tuck School of Business Administration Dartmouth College Hanover, New Hampshire
1953	BA	Dartmouth College Hanover, New Hampshire

MILITARY SERVICE

1954-1956 U.S. Army Ordnance Corps. Eire Ordnance Depot, Port Clinton, Ohio
 ■ First Lieutenant

PROFESSIONAL BUSINESS CAREER

THE CALLAHAN GROUP, LLC (1997-Present)

General Partner

A consulting group helping organizations to compete more effectively in the changing world of global business.

- 2005 Hon Office Furniture Co., Muscatine, Iowa
- Strategic Review of their Catalog Marketing Program
- 1999 National Committee for the Preservation of Social Security and Medicare,
 Washington, D.C.
- Develop marketing business plans to aid in alternative sources of income
- 1998 The Bruss Company, a Division of IBP
 Chicago, Illinois
- Consulting assignment to assess catalog operations and marketing alternatives.

SPIEGEL MARKETING ASSOCIATES (1987 to present)

President

Consultants to the direct marketing industry and to general businesses on strategic planning

- 2001- 2006 American Blind, Wallpaper, and More-Plymouth, Michigan
- Consulting on Strategic Marketing issues, Catalog introduction to increase cross marketing channel activity, credit marketing initiatives, help staff marketing organization, engaged in all marketing planning
- 1999- 2000 Balducci.Com
- Consultant to new owners on emerging .com/catalog food business.
- 2000-2001 Strategic Directions, Inc., a division of the Allen Drey Co.
- consulting on opportunities in E Commerce.
- 1998-2001 Atelier American
 Toronto, Canada
- Consultant on Strategic Marketing matters and Direct Marketing tactics.
- 1997-1999 Federate Racine, Inc.
 Racine, Wisconsin

- Advise on start up catalog in flow meters
- 1997-Present Swiss Colony Catalog and its marketing subsidiary,
Integrated Marketing Solutions
Monroe, Wisconsin
- Adviser on strategic solutions to Swiss and general marketing credit matters to IMS.
- 1994-1997 The Greenwich Workshop
Shelton, Connecticut
- Consultant for strategic planning
- 1995-1998 The Reader's Digest Co.
Pleasantville, New York
- Consultant on strategic marketing matters and Catalog marketing and planning
- 1995-1996 The Vermont Country Store
Manchester, Vermont
- Consultant for strategic planning
- 1996 The Walt Disney Co.
Orlando, Florida
- Consultant in strategic marketing for the Disney Vacation Club
- 1994 DEMCO Catalog Co.
Madison, Wisconsin
- Consultant on catalog direct marketing matters
- 1993 Procter & Gamble Co.
Cincinnati, Ohio
- Consultant on start up catalog business
- 1991-1994 Senior Advisor for Business and Marketing
Library of Congress
Washington, D.C.
- Develop consumer marketing programs in the licensing arena.
- 1992 International Voyager, Inc.
Miami, Florida
- Development of perfume and jewelry catalogs.
- 1993 Mayo Medical Ventures
Rochester, Minnesota

- Advise on catalog opportunities.

1988-1992

The Swiss Colony
Monroe, Wisconsin

- Advised on both strategic and tactical planning.

Jan. 1990 to
June 1990

National Postal Forum
Washington, D.C.

- Feasibility research and study on the development and establishment of a Postal Marketing Management Development Center.

1989

Goldring, Inc.
Chicago, Illinois

- Feasibility study to determine need for mail order Customer index.

1990

Apple Computer
Cupertino, California

- Research consumer rebate concept.

1989

Sara Lee
Winston-Salem, North Carolina

- Advise on UPS pick-up concept for Fuller Brush Company catalog subsidiary

1987-1994

Spiegel, Inc.
Oak Brook, Illinois

- Consultant on marketing and advertising matters.

SPIEGEL, INC. (1957 TO 1987)

1980-1987

Senior Vice President for Marketing and Advertising

- Including responsibility for marketing, advertising, corporate development, corporate strategic planning, customer service, credit and collection. In eight years, turned the catalog file of customers over 100% in order to acquire a market in the top 1/3 demographic group while maintaining positive bottom line results.

1976-1980

Vice President for Marketing

- With the new reorganization of Spiegel, assigned the critical role of changing the company's image from a budget-minded chain store-type catalog to one that represented an upscale, "department store in print".

1966-1975

Executive Vice President

- Responsibility for all catalog order stores producing 40% of the company's sales; corporate planning department; Fairfax Family Fund, a small loan by mail subsidiary; Medaillon Mode GmbH, a German catalog subsidiary.

1963-1965	Medaillon Mode GmbH, Offenbach, Germany <ul style="list-style-type: none"> • Resided in Germany and managed an acquired catalog operation. • President, of this subsidiary
1962-1987	Member, Board of Directors, Spiegel, Inc.
1962-1963	Financial Relations Vice President <ul style="list-style-type: none"> • Responsible for relations with more than 100 credit line banks.
1960-1962	Market Development Manager, Marketing Division <ul style="list-style-type: none"> • Responsible for opening the eastern region of the U.S. with catalog order stores and a mail order bank operation in Philadelphia.
1958-1960	Buyer, Menswear
1957	Control Buyer, Women's Sportswear

PROFESSIONAL EDUCATION CAREER (1987-Present)

1998-Present	Associate Director of the Residency Program, Integrated Marketing Communications Professor Emeritus- In Service- Integrated Marketing Communications
1987-1998	Director, Direct Marketing Program Associate Professor of Direct Marketing Integrated Marketing Communications Department Medill School of Journalism, Northwestern University Evanston, Illinois

INDUSTRY AFFILIATIONS

2001-Present	Member, Direct Marketing Educational Foundation Executive Committee of the Foundation
1991-1995	Member of Editorial Advisory Board, Direct Magazine

- 1990-1994 Member of Marketing Advisory Board, U.S. Postal Service
- 1977-1987 Board Member, Mail Order Association of America
 • President, 1985-1987
- 1977-1987 Voting Member, Direct Marketing Association
 • Lecturer at most Annual Conventions and
 Catalog Days.

CIVIC RESPONSIBILITIES

- 1999-Present Chicago Symphony
 Chicago, Illinois
 • Member, Trustees Committee on Marketing
 • Member, Board of Governors
 • Vice-Chairman, Annual Fund, Governing Members
- 1997-Present Defense Orientation Conference Association
 • Member
- 1984-Present Economic Club of Chicago
 • Member
- 1996-Present Aspen Music Festival and School
 Aspen, Colorado
 • National Council Member
- 1967-1992 National Louis University
 Evanston, Illinois
 Board Member, Executive Committee
 • Vice-Chairman of the Board, 1972-1992
 • Chairman, Financial Affairs Committee, 1983-1992
 • Past Chairman of Academic Affairs and Development
 Committees
- 1970-1985 Big Brothers - Big Sisters of Chicago
 Chicago, Illinois
 • Board Member
- 1972-1982 National Paraplegic Association
 Chicago, Illinois
 • Board Member, Executive Committee
- 1960-1970 Adrian College
 Adrian, Michigan
 • Board Member

- 1954-1992 Dartmouth College Alumni Fund
- Class Agent, 1954-present
 - Head Class Agent, 1958-1962
 - Executive Committee Member of the Class, 1978-1989

AWARDS

- 2005 Elected and Inducted into the Direct Marketing Hall of Fame
- 1991 Edward N. Mayer, Jr. Award for Educational Leadership
Direct Marketing Educational Foundation
- 1990 Charles S. Downs Award:
Chicago Direct Marketer of the Year
Chicago Association of Direct Marketing
- 1991 Named One of the Two Hundred Most Influential People
in Direct Marketing
Target Marketing Magazine
- 1988 Doctor of Laws, Honorary Degree
National College of Education
Evanston, Illinois
- 1958 J. R. Mason Award for Extraordinary Service
for Dartmouth Alumni Fund

BOARD OF DIRECTORS

- 2001-2006 American Blind, Wallpaper, and More
Plymouth Michigan
Largest Direct Seller of Blinds, Wallpaper, etc.
- 2001-2005 Digital Impact
San Mateo, California
Public Co, engaged in email marketing, and associate services to largely
Enterprise type Co's
- 1999-2001 Shop 2U
Fairfax, VA
• Internet E mail Catalog Service Developer
- 1997-Present Integrated Marketing Communications, subsidiary of Swiss Colony
for all marketing and credit functions

- 1996-1998 CM Partners
Rolling Meadows, Illinois
• Direct Marketing Advertising Agency
- 1995-2000 Main St. Marketing Corp. (Target Smart)
Denver, Colorado
• Developer of software for target marketing
- 1962-1987 Spiegel, Inc.
Oak Brook, IL
• Catalog Co.

BOOK

MARKETING CONVERGENCE by Susan Jones and Ted Spiegel
How the leading Companies are Profiting from Integrated Online and
Offline Marketing Strategies Thomson ISBN:0-538-72719-5