

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

**RATE AND SERVICE CHANGES TO
IMPLEMENT FUNCTIONALLY EQUIVALENT
NEGOTIATED SERVICE AGREEMENT WITH
THE BRADFORD GROUP**

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**DIRECT TESTIMONY
OF
WENDY RING
ON BEHALF OF
THE BRADFORD GROUP**

Communications with respect to this document may be sent to:

Ian D. Volner
Rita L. Brickman
Venable LLP
575 7th Street NW
Washington, DC 20004
(tel) 202-344-4800
(fax) 202-344-8300

Counsel for The Bradford Group

1 **Direct Testimony**

2 **1. Autobiographical Sketch**

3 My name is Wendy Ring. I am Vice President of Customer Promotions for
4 THE BRADFORD GROUP. I have been with THE BRADFORD GROUP since
5 1985. My primary responsibility is the management of the marketing plans to
6 THE BRADFORD GROUP internal files. In addition, I work with the various
7 marketing groups on new systems development initiatives. I manage 17 people
8 in this regard. Prior to joining THE BRADFORD GROUP I was a student at
9 Michigan State University where I graduated with a degree in business.

10

11 **2. Purpose of Testimony**

12 The purpose of this testimony is three-fold. First, I provide some
13 background on THE BRADFORD GROUP, and place THE BRADFORD GROUP
14 in its industry context. Second, I describe THE BRADFORD GROUP's approach
15 to marketing, and how marketing decisions are made in the context of its marketing
16 plans. Finally, my testimony reviews THE BRADFORD GROUP's volume
17 forecasts, including the Before-Rates (before Negotiated Service Agreement)
18 and After-Rates (after NSA) forecasts, and places those projections in context for
19 THE BRADFORD GROUP.

20

21 **3. Background on THE BRADFORD GROUP and its Industry Context**

22 THE BRADFORD GROUP's primary mission is to provide the public with
23 fine collectibles and other products which are promoted to consumers by direct

1 mail solicitations, catalogs, and advertising through magazines and the Internet.
2 Most products are shipped to our clients through the USPS. Collectible products
3 include collector's plates, miniature buildings, electric trains, ornaments,
4 figurines, and porcelain and vinyl dolls. Other products include jewelry, state of
5 the art electronics and other household items. Some examples of our advertising
6 will be provided in Library Reference BG-LR-1.

7 Our most formidable non-direct response competition is from specialty gift
8 shops, department stores, and on-line shopping sites, but also includes large
9 discount chains (such as Wal-Mart and Target). While it is difficult to generalize
10 collectible trends industry-wide, the collectibles industry is usually considered a
11 mature industry with few recent entrants. Industry statistics suggest that the
12 overall rate of growth in the collectibles industry is relatively flat or declining. In
13 fact several well known collectible companies have recently cut back drastically
14 on their business. Despite broad competition in a relatively flat market, THE
15 BRADFORD GROUP attributes its continued success to its innovation and
16 product development expertise, its understanding of and ability to respond to its
17 customers' preferences, and its success in managing operational costs and
18 achieving economies of scale. THE BRADFORD GROUP's customers value
19 three essential characteristics of THE BRADFORD GROUP: the convenience of
20 at-home delivery, innovative products, and a 365-day guarantee offered for most
21 products.

22 Since THE BRADFORD GROUP uses the mail both to serve existing
23 customers and reach new customers, postage costs are obviously a major factor

1 influencing THE BRADFORD GROUP's business. Other factors which have
2 influenced THE BRADFORD GROUP's ability to grow its business – not
3 necessarily in order of importance – are:

- 4 ▪ the general state of the economy (the disposable income of our target
5 markets, and their expectation of future disposable income);
- 6 ▪ THE BRADFORD GROUP's success in the creation and offering of
7 collectibles and other innovative products;
- 8 ▪ the cost and price of the products (both our ability to negotiate a good
9 price on our bulk purchases, and the perceived value of those products in
10 relationship to the price);
- 11 ▪ the cost of printing and paper.

12

13 **4. Marketing at THE BRADFORD GROUP**

14 THE BRADFORD GROUP spends a significant amount of financial and
15 other resources up front on acquiring each new customer, with the hope that this
16 customer will buy not only one collectible, but additional collectibles or products
17 not necessarily related to their original purchase. Generally speaking, it is these
18 purchases beyond the initial purchase that provide the positive return on our
19 investment. THE BRADFORD GROUP grows its customer base nearly
20 exclusively through direct marketing. As a direct marketer, THE BRADFORD
21 GROUP manages a portfolio of marketing channels and programs to promote its
22 products.

1 We use a very significant amount of direct mail: primarily Standard Mail
2 letters and flats. We also use print advertising, which would consist of on-page
3 advertising in various magazines such as *Ladies' Home Journal* or *Good*
4 *Housekeeping*, and other specialty publications. We market through inserts into
5 newspapers and enclosures in third-party mailings and shipments, and through
6 the Internet. The percentage that each media represents in our overall marketing
7 portfolio shifts, largely depending on price and relative effectiveness. These
8 media are priced very differently, and there are vast differences in the
9 effectiveness of the various channels. On average, the cost to reach one
10 consumer is much lower in print advertising, inserts and enclosures, and Internet
11 advertising, relative to the costs of a typical Standard Mail piece. However, our
12 ability to target customers with a common set of characteristics is generally
13 superior through the mail than through print ads. For this reason, we find that
14 direct mail, while more costly on average, is frequently more effective in terms of
15 response than print advertising. It is essential to our business that we can invest
16 in replenishing and building our customer base.

17 Direct mail is primarily responsible for our profit generation. We mail our
18 customer base, on average, 40 solicitations for new product offers each year.
19 Our marketing plan is developed through a complex and iterative process. We
20 begin with annual growth, revenue, cost and profitability goals that are set by our
21 senior management. Based on various business metrics such as historic
22 revenues, costs, and profitability, our active customer figures, how many
23 products an average customer will purchase, and the duration of a typical active

1 customer, we develop an overall marketing budget that we expect would enable
2 us to meet our owners' goals. Also, THE BRADFORD GROUP is constantly
3 designing new potential marketing campaigns. Our media managers and their
4 teams – print, mail and Internet – are responsible for the campaigns specific to
5 their particular marketing medium. Our house file marketing managers are
6 responsible for the marketing success of specific products or product series,
7 particularly to our internal files. Together they develop a set of marketing
8 campaigns for each product or product series. We plan thousands of campaigns
9 per year. Determining which marketing campaigns actually get executed
10 requires complex, multi-factor decision analysis. Each campaign (and in direct
11 mail, each list or segment of a list) is evaluated by applying a common set of
12 business metrics, such as expected cost per mailing, response rate, and average
13 revenue contribution. These metrics are used to determine the expected
14 profitability for the campaign in question. The campaigns are then ranked, and
15 those campaigns that are high enough in rank so that they meet our internal
16 profitability thresholds are ultimately the campaigns that are executed. Thus,
17 individual marketing campaigns form the details of the overall promotional
18 budget. Even small differences between the campaigns (such as differences in
19 postage, cost of paper, list costs and rental terms, as well as expected response
20 rates) can change the ranking of a campaign, or the ranking of particular lists
21 within a campaign. Postage typically constitutes a significant percentage of the
22 costs of our direct mail campaigns – roughly half of the cost per thousand
23 customers reached in a typical campaign. Thus, when postage rates go up or

1 down only a few percentage points, particular direct mail campaigns (or specific
2 lists and segments within lists) go off or on our list of executable campaigns.

3 Each month, THE BRADFORD GROUP management reevaluates actual
4 results with respect to meeting our annual financial goals. While we establish
5 marketing budgets at the beginning of a year, variances in the actual results
6 compared to the financial goals can trigger a re-evaluation and re-allocation of
7 the marketing budget. In general, campaign plans are reviewed and re-planned
8 on a monthly basis, with adjustments occurring both on the overall and at
9 detailed levels. Marketing campaigns and lists may go on or off our list of active
10 campaigns depending upon actual financial and marketing performance.
11 Campaign rankings can even suggest the value of accelerating a product's
12 growth by allocating more marketing resources to it. Another way of saying this
13 is that with each monthly financial forecast, our forward-looking marketing budget
14 for operational purposes is subject to adjustment. We rely on our latest
15 marketing budget to determine order volumes for paper, print production,
16 envelopes, catalogs, and staffing levels in customer service and transaction
17 processing. In short, we operate on the basis of our marketing budget. Our
18 marketing budget thus determines a significant percentage of our costs, which
19 affects our cash flow projections, and overall financial management at THE
20 BRADFORD GROUP. This, in turn, factors in to the financial management of our
21 owners. Thus, our budget and volume forecasts are determined analytically, and
22 subject to considerable internal scrutiny.

1 Postage constitutes such a significant percentage of the costs of a typical
2 campaign that it is arguably the single most influential cost factor dictating which
3 direct mail campaigns get executed, as well as the volume of the direct mail
4 campaign. Each segment of our house list is evaluated based on its projected
5 profitability and is included or excluded based on that projection. The larger a
6 potential price incentive, the more direct mail campaigns wind up on our
7 execution list, the larger those campaigns can be, and more of our budget is thus
8 moved to mail. For example, consider a direct mail campaign that costs
9 approximately \$400 per thousand mailpieces. If postage costs roughly
10 \$.20/piece, postage costs are roughly half the costs of the campaign. As little as
11 a \$.01 change in postage rates is \$10 per thousand pieces, or 5% of the
12 campaign's postage costs. A \$.02 change in rates is \$20 per thousand pieces -
13 5% of total campaign costs per thousand mailpieces. Considering that THE
14 BRADFORD GROUP ranks thousands of campaigns, and each campaign has
15 the option of purchasing as many as 150 different lists, or evaluating 100
16 different list segments, even small changes in postage can have significant
17 effects on THE BRADFORD GROUP's mail volume. Simply, the greater the
18 price incentive, the more THE BRADFORD GROUP would mail.

19

20 **5. THE BRADFORD GROUP's Volume Forecasts**

21 My colleague Steve Gustafson provides the BRADFORD GROUP's last
22 four years' history of Standard Mail letter and flat mail volumes.

1 THE BRADFORD GROUP also provides its current best estimate of its
 2 three-year volume forecasts (see Table 1 below). While the Postal Service may
 3 project its future mail volumes based on its historic experience, THE BRADFORD
 4 GROUP cannot forecast total numbers of mailpieces independently from its
 5 planning of other direct marketing campaigns. Its decision process with respect
 6 to the operation of its campaigns dictates that it cannot offer a mail volume
 7 forecast with great precision more than a few months in advance. Nevertheless,
 8 we have developed the best possible three-year Before-Rates and After-Rates
 9 Standard Mail volume forecasts based on information THE BRADFORD GROUP
 10 possesses at the present time.

Table 1

THE BRADFORD GROUP's Forecasted Solicitation Volumes

(Next Three Postal Service Fiscal Years)

	FY 2008	FY 2009	FY 2010
Est. Volume Before-Rates			
Standard Mail letters	146,500,000	147,600,000	147,000,000
Standard Mail flats	53,500,000	54,400,000	57,000,000
Total	200,000,000	202,000,000	204,000,000
Est. Volume After-Rates			
Standard Mail letters	168,000,000	167,000,000	167,000,000
Standard Mail flats	58,000,000	58,000,000	60,000,000
Total	226,000,000	225,000,000	227,000,000

1 The single most predictable indicator that affects mail volume is postage
2 rates, which limit the segment of names that would qualify for a mailing
3 campaign. As can be seen from the first table above, the Before-Rates forecasts
4 show a drop of over 20 million units in Standard Mail letter solicitations in 2008
5 then relatively flat volumes. We anticipate drop in Standard Mail letter volume
6 based upon the compounded effect of the 5.4% rate increase in FY2006 and the
7 postal rate increase implemented in May 2007. The Before-Rates forecasts also
8 show a drop of over 3 million units in Standard Mail flat solicitations in 2008 then
9 modestly increasing volumes. In total, if incentives are not provided, we project
10 that our combined mail and flats volume would decline by more than 25 million
11 units in 2008 and stay at that reduced level through 2010.

12 In contrast, the After-Rates volume forecasts show no appreciable decline
13 in Standard Mail letter and flat volumes. Incentives offer the opportunity to
14 maintain Bradford's volume in both Standard Mail letter and flats, allowing us to
15 mail marginal segments and shift more acquisition efforts from other media to
16 direct mail.

17 **6. Conclusion**

18 The proposed NSA offers tremendous potential to avoid a substantial
19 decline (and possibly increase) THE BRADFORD GROUP's direct mail
20 solicitation letter volume. Providing volume discount incentives allows Bradford to
21 test and expand use of mailing lists and list segments which don't meet
22 Bradfords profitability thresholds at the scheduled new rates. The more lists we

1 test and expand on the more we grow our business, which in turn generates
2 additional opportunities for mailing our customer files.

3 THE BRADFORD GROUP conducts its relationship with its customers
4 through the mails, so adding new customers contributes in predictable ways to
5 the mailstream. Furthermore, THE BRADFORD GROUP rents our own lists to
6 carefully screened marketers that are launching promotions likely to appeal to a
7 particular Bradford brand demographic. Our customer base growth enhances
8 these list rentals, and these rentals contribute to further growth of direct mail. To
9 the Postal Service, this means even higher mail volumes, with no additional
10 investment in incentives.