

TESTIMONY OF DON ROWLEY

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BEFORE THE POSTAL REGULATORY COMMISSION

Flagstaff, Arizona

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Good afternoon. My name is Don Rowley. I am Publisher of the *Arizona Daily Sun* here in Flagstaff. We are a subsidiary of Lee Enterprises, which also owns more than fifty daily newspapers across the country. I am pleased to welcome you to Flagstaff. With me today is Jeremy Alexander, the *Daily Sun's* Circulation Director.

The purpose of my appearance here today is to discuss our views on universal service. As customers of the U.S. Postal Service since the founding of the Republic, newspapers have long depended upon reliable and predictable delivery of our mail products. Because we compete with many other advertising mailers, we also want to have the same access to postal facilities, rates and services as our competitors.

After I describe the *Arizona Daily Sun*, I will talk about certain aspects of universal service that are important to us and the daily newspaper industry more broadly. In doing so, I will also discuss our concern that the Postal Service's planned implementation Flats Sequencing System ("FSS") will unreasonably restrict access to postal facilities, increase operational costs, and reduce service quality for many Lee newspapers.

## **I. DESCRIPTION OF THE *ARIZONA DAILY SUN***

The Daily Sun is daily newspaper with circulation of over 11,000 on weekdays and Saturday and Sunday circulation of more than 12,000 homes. We serve Coconino County with subscribers as far away as Page, Arizona, but most of our circulation distribution is concentrated in and around Flagstaff.

The Daily Sun also publishes a weekly non-subscriber publication called *Midweek by Mail*, delivered to about 18,000 homes through the US mail.

I might also mention that the Daily Sun owns and operates Direct Impression Mail Services, a full-service direct mail company that prepares over three million pieces a year that are mailed through the postal service.

## **II. UNIVERSAL SERVICE**

The Commission has solicited comment on the roles of geographic scope and range of product offerings in universal service. Let me address this primarily from the point of view of the *Arizona Daily Sun*.

First, we, like most other newspapers, use First-Class Mail to deliver statements and invoices to our subscribers and advertisers and receive a substantial portion of our payments through the mail. This service is, and should remain, a fundamental component of universal service – the need for physical delivery of statements, invoices, and payments is likely to remain strong for years to come.

As for the delivery of newspapers and periodicals, let me admit at the outset that the *Arizona Daily Sun* makes only small use of Periodicals class,

mailing only about 90 subscription copies daily, almost all to out of town recipients. However, we care deeply about that class of mail, and many of our newspaper colleagues – especially community papers and non-dailies – depend on Periodicals class for their distribution. Although we mail relatively few newspapers, timely delivery is very important to us and other newspapers, because it is very important to our subscribers. It is very frustrating for a subscriber not to receive today's news until next week, or to receive several days' editions in a big stack on one day.

For these reasons, we continue to support a definition of universal service that includes delivery on a timely basis to our subscribers wherever they live. To do that, it is necessary that we continue to have access to the Postal Service facilities that provide the best service quality to those subscribers.

I understand that the Commission has also asked whether advertisements should be covered by the universal service obligation. As mailers of a substantial amount of advertising, we believe that advertising mail is, and should be, part of the universal service obligation. This conclusion is supported by the fact that advertising mail – First and Standard combined – now comprises the majority of the mailstream. That level of demand implies a need for the service and that the Postal Service should provide that service.

I understand that the Commission has also invited comment on the role of access to postal facilities and services to universal service. Although often people think of access in terms of individuals' access to post offices and mailboxes, access is vitally important to business mailers as well. We need the

ability to put our mail in the mailstream at the locations that give us the best combination of service quality, postage cost, and our own preparation and transportation costs. If the Postal Service takes steps to restrict our access to the postal facilities that work best for newspapers, that impairs the universality of the service.

Although I would prefer to leave legal issues to others, I think that the mailbox rule and the postal monopoly are related to universal service. In particular, if the Postal Service chooses to curtail service, such as prohibiting entry at certain facilities, then it may be appropriate to consider relaxing the monopoly or the mailbox rule in order to allow others to provide the service that the Postal Service would no longer offer.

### **III. IMPACT OF FLATS SEQUENCING SYSTEM ON UNIVERSAL SERVICE**

Speaking on behalf of the daily newspaper industry, we are concerned that the Postal Service intends to implement the Flats Sequencing System (or “FSS”) in a manner that would curtail our access to the postal facilities which enable the best service, while raising costs and decreasing service quality. It also would impose burdensome requirements on newspapers which would not be imposed on our competitors. We believe these effects would be contrary to universal service.

#### ***Background***

As you are aware, daily newspapers’ predominant use of Standard Mail is for the delivery of our Total Market Coverage (“TMC”) products, which typically

consist of preprinted advertising inserts. Our TMC programs provide advertisers with “total coverage” of a geographic area. We do this by delivering the advertising inserts as part of the newspaper to our subscribers in the target geographic area, combined with Standard Mail delivery to households in the same areas who do not subscribe to the newspaper.

Typically, TMC mailings are sent at Standard Enhanced Carrier Route rates. Depending upon a newspaper’s subscription density on a particular route, the mailings typically qualify for high-density rates, but they often qualify for saturation rates on routes where there are fewer newspaper subscribers.

Newspaper TMC mailings have been a significant source of revenue and volume growth for the Postal Service in recent years. According to NAA data, newspapers spent nearly \$786 million on Standard Mail in 2006, an increase from less than \$713 million in 2004. About one-third of this mail qualified for saturation rates on their routes, and two-thirds were mailed at high density flats rates.

Newspapers currently enter much of our TMC mail at destination delivery offices to assure timely delivery. Because our advertisers demand that our TMC packages arrive to consumers on the same day in conjunction with in-store sales, newspapers have developed mutually satisfactory mailing arrangements with local postmasters to meet the necessary critical entry times.

Lee Enterprises is part of this story. Currently, multiple Lee properties – like most daily newspapers – prepare their high-density and saturation TMC mailings together and deliver them to the same DDU entry units at the same

time. In the last week we've heard concerns from Lee properties in Wisconsin, Pennsylvania, and Kentucky just to name a few. According to NAA data, about half of TMC mailings nationwide are entered at delivery units. Our property in Carlisle, Pennsylvania alone enters over 70,000 weekly TMCs at DDU entry units. This access to the delivery unit is vital. In some cases, newspapers would face two major challenges: A competitive disadvantage in delivery time and price versus saturation mailers, and unattractive deadlines for newspaper advertisers.

### ***The Problem***

Apparently to build volume for the FSS machines, it's our understanding that the Postal Service is planning to prohibit newspaper TMC programs from entering their high-density flats mailings at DDUs served by SCFs equipped with FSS. Instead, our high-density flats will have to be entered at the SCFs. However, saturation rate mail – typically used by newspapers' saturation advertising mail competitors (and also by newspaper TMC programs on routes where subscriber penetration is low) – will not be required to go to the SCF facilities. They can still be entered into local delivery units or post offices where they receive the best possible service. This change would force newspapers into a bi-furcated distribution process for essentially the same product.

Eliminating the ability of newspapers to enter high-density flats at the postal delivery units, which demonstrably provide us with the best delivery would materially increase our costs, degrade the service we receive, and increase our postage rates. Newspapers regard this reduction in access to facilities that have

used successfully for years, and that our competitors can continue to use, as a reduction in both the quality of service that we receive and as a reduction in universal service.

(Let me pause here to make clear that my remarks here are as a representative of the newspaper industry. In our particular case, the effect of the new policy on the *Arizona Daily Sun* is unclear. One of the first SCFs in which FSS equipment will be deployed is Phoenix, more than two hours away from here. Flagstaff has its own SCF and thus is not in the Phoenix SCF region. We hope that the Postal Service will not divert any of our mail to the Phoenix SCF, since there is an SCF in Flagstaff.

Even if the *Arizona Daily Sun* ultimately will not be forced to have its flats mail processed on FSS machines, at least until FSS equipment is installed in Flagstaff, this problem is a real one for many other newspapers across the nation. As we learn more about the FSS system, many newspapers have come to believe that the restrictions on access that will accompany FSS implementation will impede access to postal facilities and harm service. A reduction in service quality caused by an inability to enter our mail at a convenient facility is an impairment of universal service.

***Restricting entry options is harmful***

A requirement that newspapers enter high-density route TMC mailings at FSS-equipped SCFs, instead of the delivery units, would harm newspapers at a time when we are already under substantial economic pressure.

First, it would basically double our transportation costs by forcing us send the same product – our TMC mailings – through two separate mail streams, depending upon whether a particular route qualifies for high-density or saturation rates. Mailings that we today enter together at delivery units would instead have to be split and sent separately to SCF processing facilities (high density) and to delivery units (saturation). This would raise our costs significantly and jeopardize our ability to meet the critical delivery time demands of our advertisers.

Second: to meet the new entry requirements we will have to modify production schedules and execute split press runs to prepare high-density and saturation-eligible mailings for different dispatch times. This will increase our operating costs with no offsetting benefit.

Third: our *postage* costs would increase because the SCF discounts are smaller than the delivery unit discounts. At the new rates that just took effect on May 12, our high-density products would both suffer an increase and be at a 20 percent rate disadvantage to our saturation mail competitors such as Red Plum.

Fourth: most importantly, our service will decline. The USPS's own service standards provide a 2-3 day delivery window for mail entered at SCFs, compared to a 1-2 day window for mail entered at DDUs. Since newspapers cater to timely demands from readers and advertisers, SCF entry for FSS processing will, by the USPS's own admission, put newspapers' at risk of having our products delivered late. If advertisers perceive our service to be unreliable, they will take their business elsewhere.

Our solution is simple: The Postal Service should continue to allow newspapers to enter sequenced high-density TMC products at delivery units. This would expand, not reduce, newspapers' access to facilities by allowing those that wished to enter their high-density mail at SCFs to do so, without jeopardizing the service or raising the costs and rates for TMC programs that choose to continue to enter high-density mail at delivery units. This also would preserve competitive equity with our saturation mail competitors, who will be exempt from FSS processing and will be allowed to enter their products at local post offices.

If the USPS imposes FSS-related restrictions on entering mail that (1) substantially increase our production and transportation costs, and (2) results in inferior service, while (3) raising our postage rates *and* (4) giving our competitors both a rate and service advantage, we will have lost a part of universal service. With service declining, daily newspapers will feel that they have no option but to explore alternative means for delivery. This is a very real prospect as most daily newspapers are exploring cost cutting measures in this difficult economic climate.

Thank you for your time and consideration. I would be happy to answer any questions that you may have.