

UNITED STATES OF AMERICA  
POSTAL REGULATORY COMMISSION  
WASHINGTON, DC 20268-0001

Before Commissioners:

Dan G. Blair, Chairman;  
Nanci E. Langley, Vice Chairman;  
Mark Acton;  
Ruth Y. Goldway; and  
Tony L. Hammond

Consideration of Workshare  
Discount Rate Design

Docket No. RM2009-3

**Comments of the National Newspaper Association (NNA)  
(August 31, 2009)**

National Newspaper Association is a 2,500 member organization representing community newspapers across America. Its members use all classes of mail.

Though NNA's appearances before this Commission have historically been on behalf of Periodicals mailers—particularly those relying on the Within County subclass—NNA's member newspapers are much heavier users of Standard Mail, if usage is measured solely in dollars spent. Though NNA has not to date participated in the discussion of the issues in this docket, it finds the matters under consideration of such potential importance to newspapers that it is now offering comments for the Commission's consideration, in response to Order No. 243, NOI #1 of August 27, 2009 as well as some further thoughts generated by the Aug 11 forum.

NNA's interest in the proceeding focuses upon the Commission's examination of the differences between High Density and Saturation categories within Standard Mail. At the urging of the Postal Service and some mailers, the Commission posits that the requirements of 39 USC 3622(e) may now call for different treatment between these two categories. It notes that the Postal Service and the Commission have viewed the categories of Enhanced Carrier Route mail as a group, and have assigned own-price elasticities to them as a group. But now the Postal Service and some mailers suggest that Saturation Mail and High Density occupy two distinct spaces within the markets, and that they should be decoupled. To support this new positioning is the suggestion that cost differences between Saturation and High Density are not accounted for by work-sharing activity. The Postal Service has suggested that the cost differences reflect only the eligibility requirements, and not truly avoided work on the Postal Service's part, though this seems to be a departure from the Postal Service's traditional insistence upon the value of the worksharing embodied in Saturation Mail. Some mailers also contend that Saturation mailers have greater delivery options than High Density mailers, and that they therefore have different demand characteristics and are distinct products. The Commission seeks empirical evidence to prove or disprove this possible new theory of pricing.

NNA believes the Commission is correct to approach these questions with caution because of the potentially-negative impact upon mailers if the invitation to sever the product connections between these two categories is taken. Though NNA finds here, as it often does, that the challenge of providing empirical evidence is a barrier to small mailers' full participation in the dockets, it also believes that a fuller picture of the ways small newspapers use the Saturation and High Density rates may aid in the development of the Commission's record. NNA's long history in the postal concerns of newspapers, predating not only the Postal Accountability and Enhancement Act (PAEA) and the prior Postal Reorganization Act (PRA) but also many acts of Congress that led up to the regulatory environment of today, sometimes gives it a unique perspective on the

call to modern rate regulation under PAEA. NNA at times asks the Commission to step back from economic theorems and examine broader public policy interests included in the law. The Commission has often taken NNA's qualitative commentary into account in its deliberations, and sought answers to questions posed by NNA and other smaller parties. NNA hopes it will continue to do so, and it again asks the Commission to step back from the costing proposals offered by the parties here and consider where the next era in postal pricing may be headed.

NNA here provides the Commission with further information about its members' use of Saturation and High Density mail. NNA believes these two categories are much intertwined as the newspaper industry's use of them indicates.

***1. The longer range result of this inquiry requires a deeper look by the Commission into the impact upon markets.***

NNA hopes the Commission will look behind this rulemaking at the broader picture of the advertising marketplace, and consider the Commission's next steps in understanding it. NNA believes the Commission should not examine only the costing rationale proposed for decoupling Saturation and High Density categories without also developing a full understanding of the Postal Service's purposes in proposing them. The Commission has a right to exercise its authority under Section 3622 to examine the potential effects upon the marketplace before it agrees to allow Saturation Mail to take off in a pricing category all its own. The Commission should ask the Postal Service for its road map. The map NNA detects here is one that would lead to deeper discounting of Saturation Mail in an effort to put the Postal Service into renewed competition with newspapers of all sizes. In the Postal Service's effort to do so, it may inadvertently squeeze High Density mailers out of the mails or out of the marketplace altogether. Like some small communities that became one-company towns only to find that one company closing its doors and leaving a dying town

behind, the Postal Service imperils both its own future and that of its stakeholders by increasingly narrowing its favoritism to focus upon fewer and higher density mailers. The Service needs more *mailers* as well as *more mail* if it hopes to give breathing room to the entrepreneurial ideas that will help it to rediscover growth.

The Commission also should consider the footnote #11 in the comments of Newspaper Association of America filed Sept. 8. Within that small note is the tension of this rulemaking, and it should be considered as more than a footnote. Indeed, when many in the federal world are expressing concern about the survival of journalism<sup>1</sup> the possibility of significant harm to newspapers from the outcome here should cause the Commission at the least to step back and consider whether its full obligations under PAEA are being fulfilled. NNA agrees that both the regulated entity and its favored customers will prefer to avoid an interference with price-setting, the very presence of this docket indicates the preference of Congress for tempering those desires with the Commission's longer and broader view. Despite PAEA's allowances of greater pricing flexibility by the Service, the law has not eviscerated the need for regulatory balancing. PAEA requires the Commission to consider its duties under 39 USC 3622(c)(3) and c(10) to examine marketplace impacts.

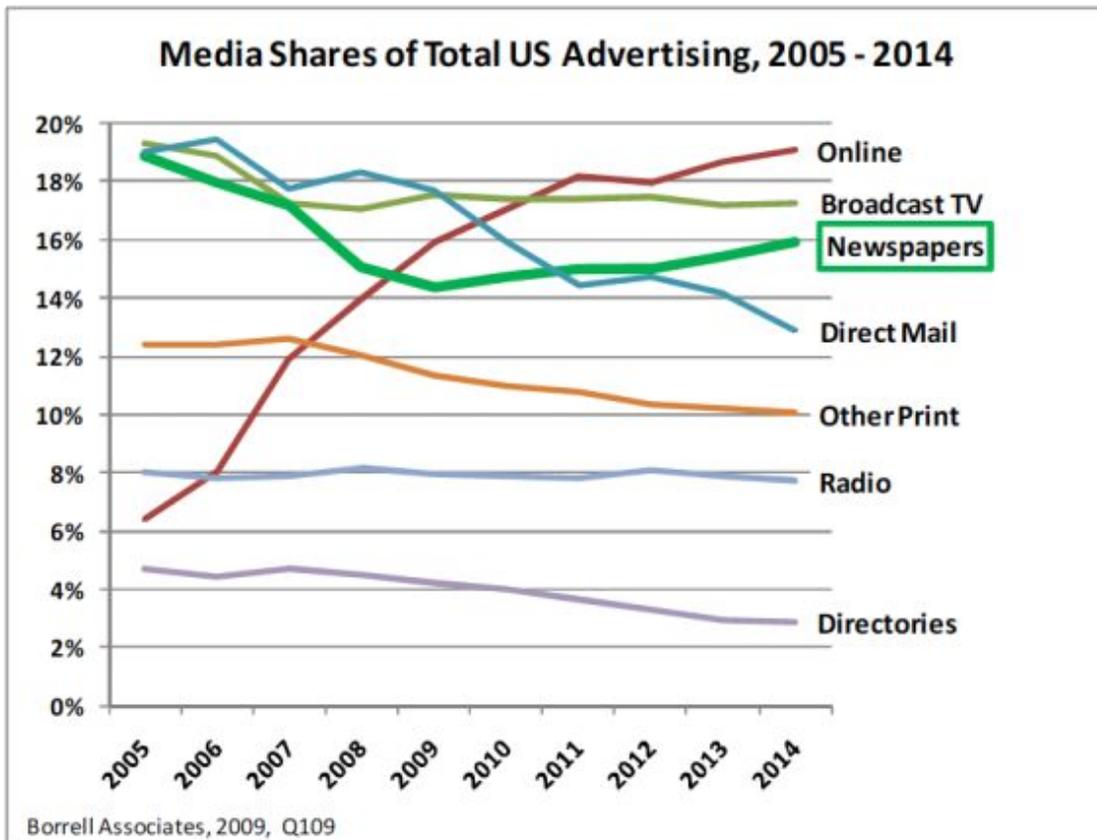
It has been many years since the dockets in 1978-80 when the Postal Service openly announced to the Commission that it intended to explicitly target newspaper advertising in its establishment of the Carrier Route discount. See *generally testimony of Testimony of Witnesses Redic and Porwick, Third Class Carrier Route Presort Proposal, Docket MC78-2*. In 1978, when newspapers'

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<sup>1</sup> See, for example, Extra! Extra! FTC Announces Revised Schedule for Workshop: "From Town Criers to Bloggers: How Will Journalism Survive the Internet Age?" at <http://www2.ftc.gov/opa/2009/08/news2009.shtm>; and Sen. John Kerry's Statement on the Future of Journalism at <http://kerry.senate.gov/cfm/record.cfm?id=312584>, which preceded his subcommittee's May 6 hearing on the topic. [http://commerce.senate.gov/public/index.cfm?FuseAction=Hearings.Hearing&Hearing\\_ID=7f8df1a5-5504-4f4c-ba34-ba3dc3955c61](http://commerce.senate.gov/public/index.cfm?FuseAction=Hearings.Hearing&Hearing_ID=7f8df1a5-5504-4f4c-ba34-ba3dc3955c61)

share of total advertising dollars exceeded 30 percent of the market and direct mail's share was barely 15 percent, the Postal Service's intentions drew little notice. Today, the newspaper market share is barely above 15 percent and the direct mail share has exceeded that of newspapers. If the pricing vector intended by the Postal Service in this matter is intended to further diminish the share of newspapers, USPS should say so, and the Commission should create a public record that puts all on notice that its intention is thus. But in developing that record, NNA believes it is time for the Commission to examine the picture of newspaper and direct mail market shares with a finer microscope. The true picture may not be what it seems. The true picture may not be clear even to the Postal Service.

The reported market share numbers from the advertising analyst, Borrell & Associates follow.



This projection would seem to reinforce the belief that the direct mail advertising share sped beyond that of newspapers in 2005 or earlier, and a precipitous decline of newspaper ad revenues widened the gap until today. But behind these apparent numbers is an additional story. It is possible that analysts would find in digging more deeply into the real world of print advertising that neither the appearances of today's estimates nor the projections of tomorrow are actually good reflections when viewed through a postal lens.

NNA would like to suggest that market share reports have traditionally under-reported newspaper direct mail spending as a part of the direct mail share, rather than the newspaper share, and that the practice may be continuing simply because the data are hard to unravel. In addition, NNA believes that its own members' segment of the newspaper market share, which includes a great deal of High Density ECR use, is under-reported, and in some cases completely unreported. Whether these revenues are found within the direct mail share, the

newspaper share, or nowhere is a key question if the Service wishes to see the direct mail share resume its past patterns of growth.

It is also possible that within this untold story is an incredibly important role of High Density ECR mail that has made it possible for competitors within the print advertising world to co-exist since 1978, despite the Postal Service's then unabashed admission that it wanted to compete with newspapers. If so, the development of good mailing options for newspapers has permitted the Postal Service to increase its reliance upon the advertising markets as first-class mail has evaporated, but to do so without knocking the newspapers out of the markets altogether. Put another way, a reasonable parity between Saturation and High Density may be keeping both markets well enough nourished to have survived this long to the benefit of the ultimate customers: the advertisers, as well as the Postal Service. A major tilting toward one or the other could jeopardize one of the players, to the detriment of the nation and in clear contravention of the intentions of PAEA.

Because this rulemaking seems to be not so much about pricing efficiency as it is about the Postal Service's future marketing plans, the Commission can hardly endorse this apparent road map without fully understanding the markets. Is a dollar spent in a mail-delivered High Density newspaper shopper or Total Market Coverage product actually a newspaper dollar or a direct mail dollar? Is an advertising insert in a Within County newspaper actually periodicals dollar or a direct mail dollar in a market analysis—and furthermore does that insert lead to a further insert in a High Density product that might not be in the mailstream at all but for the Within County newspaper? Would Total Market Coverage newspaper products delivered outside the mailstream even exist if it were not for the saturation mailers' competition? If both were eliminated, would the dollars shift into a High Density category with increased demographic targeting that would make different economic sense in today's environment? Or would advertisers simply lose valued options? In the end, will these products survive

Internet competition, or if they are threatened, how much risk should the Postal Service take on to preserve them? The questions abound.

At the very least, the intensity with which stakeholders in the postal system have battled over the finest points in costing should demonstrate to the Commission that a major front in the competitive battle has been taking place before the Commission's eyes over the past 30 years, and in many cases, with its active participation. That is no less true today where the stakes for survival are ever higher.

None of these questions would matter if the Commission had no role in providing at least some broad competitive protections for the marketplace. The various mandates of PAEA that require "just and reasonable" pricing; the requirements of Section 3622(e); the obligation to look at the positioning of Periodicals within the mailstream as a part of the nation's fabric of information delivery, and a general duty to the public interest all bring the Commission squarely into the middle of these questions. Some will argue that the Commission has no business anointing successful competitors in the marketplace; others would say it already has. Some will argue that the Postal Service was given free rein in PAEA to compete with newspapers and, indeed, knock them completely out of the markets if it can. But Congress did not write the law that way. Congress clearly intended the Commission to oversee it all: examining the costing theories of its own economists and those of others; the impacts upon mailers, upon competitors and upon the general public; the overriding goals of universal service; the role of the mail in developing an informed public and all of the elements in the law. And then the Commission must make its decisions according to all of the elements in the law. If the law were so simple as to just direct the Postal Service to price the mail for its own greatest benefit, there would indeed be no need for this Commission.

Some have posited that the Postal Service should focus on increasing the overall share of print advertising, rather than devoting resources to helping

customers swipe a few percentage points from one another. If that is the case, a pricing decision by the Postal Service that directly accelerates Saturation Mail growth that is taken primarily from other direct mail categories can hardly be the right policy direction for the world of print. The Commission should clearly understand whether simply moving advertising dollars from one category to another is a piece of the strategy for this proposed category “uncoupling” or whether the Service has detected existing potential advertising dollars in some other sector of the print world, and if so, where.

Thus, NNA believes the outcome of this deliberation is of potentially far greater importance than the deliberative posture of economic experts discussing Efficient Component Pricing during the Commission’s August 11 forum would suggest. Entertaining saturation mailers’ desire to release their category from some of the constraints of section 3622(e) so the Postal Service can exercise more pricing flexibility is not an action to be taken lightly.

Before recommending a change in pricing justifications that would take 3622(e) off the playing field, the Commission should be forthright in asking the Postal Service. Is its intention here to increase the market share of direct mail at the expense of newspapers or of advertising delivered outside the mailstream, or both (or neither)? If so, it should say so, and the Commission should decide whether the goal comports with PAEA.

***2. The role of High Density mail in the postal system may not be clearly understood, and it should not be uncoupled from Saturation Mail until it is better understood.***

Newspapers use ECR mail in many ways. Similar to the posture of the members of the Newspaper Association of America described by William Baker in the Aug 11 forum, (Transcript at 77), community newspapers put the several pricing categories in ECR to use:

- Some publish full saturation shoppers throughout their markets, often using them as a “second issue” of the week when a periodical is published on another day;
- Some publish full saturation shoppers only on rural routes, where the Postal Service permits unaddressed mail, but reach only Periodicals’ subscribers on city routes because they cannot purchase or have not purchased sufficient addresses to cover city route requirements, and others are able to purchase lists that allow them to reach everyone in the market, either “full serve” to every household or just to nonsubscribers;
- Some publish High Density TMC products in some neighborhoods, but Saturation products in another, depending upon the penetration into the households that a parent Periodical publication has achieved;
- Some strive for saturation, but cannot achieve it because of inability to achieve density requirements for a variety of reasons; others pray to avoid saturation rates, because it means the paid circulation newspaper itself has failed in a carrier route;
- Some use the mail for portions of their shoppers and TMC products, and their own or neighboring newspapers’ carrier forces for the rest, and it is not uncommon for a newspaper to rely upon their own carriers for dense areas but USPS in more sparsely-populated neighborhoods;
- Many NNA members publish free newspapers that would qualify for Periodicals rates in all respects except for the subscriber/requester requirements. Within those mailings can be found both Saturation and High Density mailings, often within a single issue.

To use a few real world examples from within NNA's mailing population, consider the Bedford Bulletin, a community paper in Bedford, VA. This newspaper also publishes the Bedford Bullet, which in May mailed 21,280 copies at Saturation rates, 443 at High Density and 221 at LOT. Within the same company is the Central Kentucky News Journal in Campbellsville, KY, published as a periodical twice a week; and weekly, it publishes a shopper with 1,893 Saturation copies and 6,203 High Density copies. The Posey County Advantage, a TMC publication in Indiana, puts about 5,500 copies into the mailstream each week at Saturation rates and 1,194 at High Density rates. These are all what the industry calls "non-serve" publications: those intended to serve non-subscribers. But they still have a fair amount of Saturation mail. Conversely, the River City Trading Post, another sister publication within this company, intends to be a full-service shopper, but within its 9,250 copies each week, nearly 25 percent of the distribution travels at either in ECR- HD or ECR-LOT categories.

Obviously in some cases, the publication reaches sufficient density to be considered saturation, sometimes not. There is no good way to predict how these uses will shift from time to time as the newspaper's penetration changes or, as the Postal Service itself experiences, the need to serve more households as housing developments spring up requires more mail and greater density.

The bottom line is that within the newspaper industry, at least, these two rates and density levels are part and parcel of one mailing plan, shifting and changing as the markets change. To know how pricing might cause volumes within just these companies to shift from one category to another, it would be necessary to know more.

For example, If a forecaster were to attempt to devise price elasticities within the newspaper ECR mail markets—whether own-price within the categories or cross-price among delivery options, the forecaster would need to capture information about many forces at work in the delivery choices. The inquiry would have to reach into data that the Postal Service has never been able

to fully capture, if the many explanations of forecasting experts in the cost-of-service dockets before the Commission are a fair indicator. It would need to know something about projected subscriber behavior, advertiser needs, workforce development of the private carrier forces and likely some qualitative data about the profile each publisher wishes to achieve within the community. There being possibly 6,000 to 10,000 newspapers in the US (the counts varying by the analysts' definition of a newspaper), with many different marketing plans, capturing enough data for the Postal Service to make an accurate guess would be problematic at best. That is probably one reason why USPS has not delved deeply into this discussion, choosing instead to use data from a few large mailers within its preferential service networks and those that appear before the Commission. In fact, the proxies of some large national mailers may have worked well enough until now.

But if the Postal Service is really intending to remove the hinges on the jaws within the ECR categories, it and the Commission should have a better understanding of how these mailing patterns work. Competitive concerns aside, a deeply discounted Saturation rate could pull more mail out of the higher priced High Density category than USPS realizes.

NNA does not know and it feels certain USPS does not know how these markets might behave if the decoupling of Saturation and High Density rates led to the conclusions this docket seems to suggest. It is conceivable that some newspapers would abandon their High Density shoppers altogether and simply blanket carrier routes, whether or not subscribers were present in them. Would the Postal Service come out ahead in the end? No one knows.

The Commission, therefore, should more squarely ask the questions of both the Postal Service and mailers: if Saturation ECR is indeed freed from 3622(e) constraints, what happens next? Do far deeper discounts, based upon "density" and not work-sharing, receive sanction in the Saturation category? Does High Density mail pick up the slack in a pricing world where revenues

continue to fall? Does a decoupling of Saturation from High Density, the former being deemed not work-sharing-related, mean that the Postal Service would not need to report under section 3622(e)(4)<sup>2</sup> if it decided to make Saturation Mail a bargain basement offering? Does it mean that even in a dynamically changing postal environment where the Service seems concerned about volume for its new Flat Sequencing Sortation automation plans, its pricing could irrationally drive more advertising mail to the Saturation categories that do not need the FSS machines? And if so, what is the economic end-game for the Service and for the purportedly captive mailers in the High Density category?

### ***Conclusion***

The Commission clearly has already begun to delve into some of these questions, for good reason. Its quest for quantifiable evidence is a logical step. It may be impossible for most of the parties to produce the empirical evidence or the forecasting that the Commission would like to have. But NNA suggests that more is at stake in this rulemaking than efficient component pricing. NNA here provides some mailing models common within the ECR rates that are the subject of the inquiry to show how the Saturation and High Density rates are intertwined. It also strongly suggests that the Postal Service should be required to more clearly state its intentions for the use of the pricing power it seeks, and that if the directions NNA posits are indeed on the road map USPS has in mind, that market examinations should be considered and made public, even if they require a new and separate inquiry from the instant docket.

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<sup>2</sup> Subsection 4 requires: Report. Whenever the Postal Service establishes a workshare discount rate, the Postal Service shall, at the time it publishes the workshare discount rate, submit to the Postal Regulatory Commission a detailed report that--

- (A) explains the Postal Service's reasons for establishing the rate;
- (B) sets forth the data, economic analyses, and other information relied on by the Postal Service to justify the rate; and
- (C) certifies that the discount will not adversely affect rates or services provided to users of postal services who do not take advantage of the discount rate.

Respectfully submitted,

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