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Before the
Postal Regulatory Commission
Washington DC 20268-0001

USPS Five Day Delivery Plan: Docket Number N2010-1

Statement of Grady L. Hesters, Jr.

(Sacramento, CA Field Hearings)

Good Morning, I am Grady L. Hesters, Jr., Chief Executive Officer of The Audio Partners, Inc., 1135 High St., Auburn, CA. 95603, publisher of the Audio Editions Books on Cassette and CD catalog, a 25 year old specialty catalog selling audiobooks to individual consumers and to libraries.

My wife, Linda Olsen, and I have been privileged to be pioneers and leaders of the audiobook industry since 1981. I have managed the Audio Editions catalog since its inception in 1985 and together, Linda and I have owned and operated the catalog for the last 23 years. During that time our company has been named to the *Inc. 500* List of America's Fastest Growing Companies twice, the *Sacramento Business Journal's* List of the 100 Fastest Growing Companies four times, and has been recognized by *Catalog Age* for Excellence in Catalog Design. Our company employs 26 people, all based in Auburn, CA. Among catalog companies, we are considered small; but we believe we are a representative company in an industry segment made up of lots of small companies.

Thank you for coming to Northern California and for giving us the opportunity to share our needs and concerns with you. We want the US Postal Service to be financially healthy and we need for the Postal Service to understand that the survival and growth of our print catalog operations and all the mail, jobs, commerce, and service we generate is dependent on controlling postal rates.

We do not want postal delivery service cut from 6 days to 5. We use postal services in every aspect of our operation. The proposed reduction of a delivery day each week will impact the timeliness of our catalog request and order fulfillment, as well as the efficiencies of our workflow. However, further increases in postage costs and rule changes as significant as those implemented in 2007 will threaten the viability of our print catalog and, in turn, our business.

So if changing from 6 to 5 day delivery frequency is the only way to

- delay implementation of rate increases,
- reduce the size of rate increases, and
- facilitate investment in cost saving automation, especially for Standard Mail Flats,

we would reluctantly support the proposed change.

It is my position then that your fundamental goal should be to do all that is possible to moderate the cost of postal services, however which way it must be accomplished. If a reduction in delivery days is a means toward this goal, then as a postal customer, we will support it.

I want to devote the balance of my time to explaining why I believe it is good policy to encourage, or at least not hinder, the growth of print catalogs. I will use our catalog as an illustrative example.

Audio Editions is a 25-year-old, full-service independent catalog company with a marketing program driven by print catalogs, personal service, comprehensive selection, and good value. We like to believe that our company is unique, but we know it is also true that we are representative of thousands of small- to medium-size companies who rely on the USPS for customer relationship management.

Perhaps most relevant to this presentation is the fact that Audio Editions uses mail services to create business that requires a lot more mail service. In 2009, Audio Editions' expenditures for all types of postage represented 20% of our net operating expenses and 43% of our catalog marketing expense. This makes the USPS one of our biggest suppliers. We estimate that over the 25 year life of the catalog, Audio Editions has generated over 40 million pieces of mail including Standard, First Class, Priority, Machineable First Class Package, and Media Mail with delivery notification..

It is clear to us that without catalogs like Audio Editions and the related postal services, many people and organizations who rely on remote shopping would be seriously underserved. Consider the following:

- 50% of our best consumer customers either do not have access to the Internet or they are not comfortable with the Internet;
- 60% of our revenues are received by check sent through First Class mail;
- 24% of our orders are submitted by First Class mail;
- up to 80% of our online sales are generated by a print catalog.

We also know that automated, self-service, on-line shopping does not provide the personal attention and help that catalog customers need. Here's an example:

Last week I heard one of our representatives coaching a customer on where to look in her house for a misplaced package of four audiobooks. The call center supervisor explained that Mrs. K., a long-time customer who loves audiobooks, was on the phone and that she has been getting more disoriented recently, so we try to help when we can. In addition to the commerce we generate, our one-on-one customer service to people such as Mrs. K clearly makes a difference in her quality of life.

Affordable postage rates are essential for that level service to be available to Mrs. K. Amazon.com is not the answer for her.

We live by our mantra “Everyone and Everything Counts.”

Everything we do is tested, retested, and honed to find the right combination of service, selection, price, and cost effectiveness so we can keep our balance on razor-thin margins, while still providing the personal service that we give customers like Mrs. K. The good news for the USPS is that everything we do tends to generate more mail. The downside for us is that almost anything the USPS does to change rates or rules, however minor, may knock us out of balance, destabilizing finances and customer relationships.

To put this in perspective, in 2009 for every dollar we spent on Standard Mail Flats, we spent \$5.12 on other types of postage.

- \$2.30 on SM Letters;
- \$2.50 on Media Mail and machineable First Class Packages;
- \$0.32 on First Class Letters and Priority Mail.

As you can see, we are not just a Standard Mail Flats mailer.

Rate changes and rule changes that began in May 2007 were a body blow to our company of far more lasting consequence than the Great Recession that followed. The 40% rate increase for Standard Mail Flats was huge and the new rules requiring tabs, heavier paper, and more frequent NCOA processing to qualify Standard Letter Rate Mail were a double whammy. Those requirements increased our mailing preparation cost, expressed as a percentage of catalog marketing expense, by 5 percentage points and the tabs cut into our response rate on prospecting mailings to potential new customers, as confirmed in repeated A/B tests, by more than 10%. These are very material and drastic changes in a small and highly competitive business such as ours.

This gets us to the most critical reason why cost containment is more important than a sixth delivery day. New customer acquisition costs compared to lifetime value and a new customer acquisition rate that equals or exceeds our attrition rate are the most critical metrics for any free-standing, independent catalog.

To continue our operation we must find a few new, avid, individual listeners and libraries, among millions of potential customers, who value what we offer and the way we offer it. The best method to find new customers who prefer to do shopping by mail is to mail sample catalogs to prospects selected carefully by sophisticated computer modeling. The lower the cost to produce and mail the sample catalog, the more samples we can mail and the more new customers who like to use mail services will become buyers. These are buyers that generate dozens and even hundreds of mail transactions as repeat customers.

The combination of mail prep cost increases, and response rate reduction caused by tabs that started in 2007 have increased our customer acquisition costs from 2006 to 2009 by more than 50% and decreased our acquisition rate by a similar amount. There is a clear and direct relationship between our cost to prospect for a customer and the number of

prospecting attempts we can make, both having a significant impact on the amount of mail we generate across all USPS products.

We urge you to avoid increasing catalog postage further for as much and as long as possible and to encourage postal customers who use catalogs extensively with appropriate incentives.

Below is a list of postal services that Audio Editions uses and their respective purposes:

- 1) First Class mail outbound
 - a. to fulfill catalog and information requests
 - b. to send customer service correspondence, notifications and invoices
 - c. to ship individual replacement tapes and CDs and provide self mailers for return of defectives.
- 2) First Class Mail inbound
 - a. to receive our orders
 - b. to receive returns and exchanges
 - c. to receive payments for invoices.
- 3) Priority Mail
 - a. Rush Orders
 - b. Shipments to AK, HI, PR, APO and FPO
- 4) Package mail
 - a. Media Mail with delivery confirmations (70%) and First Class machine-able (30%) packages.
- 5) Standard Mail Letter Rate (73%) and Flats (27%)
 - a. 10 Standard Mail Letter Rate and 5 SM Flat Rate drops annually, with 48- to 132-page four-color catalogs in both magazine and digest size
 - b. 6 Standard Mail Letter Rate drops with an aggregate of 50,000 8-to 12-page magazine-size promotional flyers.

Thank you for considering the impact of postal policy on small businesses such as ours. As you can see, even a smaller-size company, such as Audio Editions, can generate significant amounts of mail across all classes. Like catalog companies of other sizes, we are directly impacted by all actions concerning postal costs and resulting postal rate increases. We would be happy to answer any questions you have on our catalog and mail operations and we appreciate your taking the time to understand our use of mail.