Postal Regulatory Commission
Submitted 8/17/2010 1:49:56 PM
Filing ID: 69742
Accepted 8/17/2010

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

Rate Adjustment Due To Extraordinary Or Exceptional Circumstances	:	**Docket No. R2010-4**

INITIAL COMMENTS OF THE SATURATION MAILERS COALITION AND VALASSIS DIRECT MAIL, INC.

(August 17, 2010)

The Saturation Mailers Coalition and Valassis Direct Mail, Inc. hereby submit their initial comments on the Postal Service's request pursuant to section 3622(d)(1)(E) of the Postal Accountability and Enhancement Act (PAEA) for rate adjustments due to "extraordinary or exceptional circumstances," filed with the Commission on July 6, 2010.

INTRODUCTION AND SUMMARY

We agree with the position of the Affordable Mail Alliance (AMA) that the Postal Service's filing does not satisfy the "extraordinary or exceptional circumstances" test of the statute and should be denied.[1] We further submit that an exigent rate increase at this time is particularly perilous for mailers and ultimately the Postal Service because of the still-fragile condition of the nation's economy and the marketplace. Consumers and businesses are guarding their pocketbooks and are not receptive to price increases. That, along with the Postal Service's poor financial condition and the prospect of greater-than-CPI rate increases, are creating a crisis of confidence in postal distribution that could precipitate a steeper downward cycle in mail volumes.

---

1 *See* Answer Of The Saturation Mailers Coalition, Valassis Direct Mail, Inc., Valpak Direct Marketing Systems, Inc. And Valpak Dealers' Association To Motion Of The Affordable Mail Alliance To Dismiss Request, August 2, 2010. Our only disagreement concerns AMA's further contention that the Postal Service's current financial predicament is due primarily to mismanagement. *Id*. *See also*, Comments of Senator Susan Collins to the Commission, August 9, 2010.

Nowhere is that risk greater than in the case of saturation mail. Not only does saturation mail have the highest price sensitivity *and* cost coverage of virtually any mail product, but it operates in a highly competitive marketplace with non-postal alternatives. The retail and service-sector customers of saturation mailers are themselves highly price-sensitive and have been hit especially hard by the recession and its uncertain aftermath filled with continuing fears of a double-dip or deflationary economy. Those customers that remain cannot or will not accept advertising rate increases, and will either cut back distribution to maintain budgets or leave the mail for non-postal alternatives. Those saturation mailers that have weathered the first round of the recession are likewise not in a position to absorb those postage increases, but will have to seek ways of cutting their own costs by paring distribution or converting some or all of their programs to alternative distribution channels. In sum, even what the Postal Service might believe to be a relatively "modest" increase is, in the reality of the current marketplace, unsustainable.

In these troubled circumstances, the Commission must assess whether the increases proposed by the Postal Service will, indeed, be likely to generate the volumes and revenues it has projected. In the case of saturation mail, they will not, raising the risk of permanently driving away profitable mail volumes.

In the face of these uncertain times and the consequent risk of unaffordable postal rates, the better course now is to first fix the underlying public-policy problem that is causing the Postal Service's financial hemorrhaging. Even the Postal Service acknowledges that its highest priority for near-term financial relief is *not* this exigent rate increase, but instead obtaining legislative relief from the overfunding of its pension obligation and its burdensome and excessive prefunding obligation for retiree health benefits. On that point there is unanimous agreement within the postal community – including not only mailers and postal workers and management but even the Commission. The time and energy that is being consumed by this proceeding could be far better spent securing that legislative relief which is far more critical both to the Postal Service's short-term cash needs and its long-term viability.

We submit that the Postal Service should instead be focusing its pricing initiatives on understanding its products and their market characteristics and then designing price and service programs that meet mailer needs. If properly constructed, such initiatives could retain and increase postal revenue and contribution. Thus, we support the Postal Service's proposed High-Density/Saturation Incentive Program, although we believe it is way too restrictive and overly optimistic in light of current market conditions, and that it should be reconsidered after consultation with the industry.

Market-based pricing initiatives are critical especially in today's tough environment. By contrast, this exigent rate request is the wrong remedy at the wrong time, as it could well do more harm than good for the Postal Service.

I. THE PROPOSED INCREASES FOR SATURATION MAIL COME AT A PERILOUS TIME IN THE MARKETPLACE.

At the time the Postal Service filed its exigency proposal in early July and in the preceding months when it was planning the filing, the general sentiment was that the American economy was beginning to recover from the worst recession and financial crisis since the Great Depression. That hope has now faded. This changing circumstance greatly compounds the risk that postal rate increases at this precarious time would harm the Postal Service's short- and longer-term position in the market, particularly in the case of the highly price-sensitive saturation mail market.

A. The Worsening U.S. Economy

The bleak economic news over the last few weeks makes clear that the shallow recovery from the recession has stalled. As reported in the *Wall Street Journal* just one week ago:

> Downgrading its assessment of the economy, the policy-making Federal Open Market Committee said the recovery "has slowed in recent months," and that the "pace of economic recovery is likely to be more modest in the near term than had been anticipated."
>
> ...
>
> The Fed noted that *high unemployment, modest income growth, lower housing wealth and tight credit were holding back household spending*. Meanwhile, lending by banks "has continued to contract," the Fed said, while construction remains weak and employers remain reluctant to increase payrolls. (emphasis added).[2]

This growing pessimism is reflected not only on Wall Street but on Main Street and among economists:

> The optimism that had pervaded Wall Street only weeks ago has faded quickly. In its place is a growing realization of what many Americans have been feeling in their bones: this is not the economic recovery that the nation had hoped for…. Given the uneven rebound in the United States, and now signs that the world's other economic engines are slowing, economists say Americans may confront high unemployment and lackluster growth for some time to come.[3]

---

[2] Sudeep Reddy, "Fed Sees Recovery Slowing, Central Bank Worried About Economic Vigor, Won't Shrink Securities Portfolio," Wall Street Journal, August 11, 2010.

[3] Graham Bowley and Christine Hauser, "Trouble Abroad Adds To Worries For U.S. Recovery," New York Times, August 12, 2010.

Growth in real GDP has slowed since the last quarter of 2009[4] and, without substantive intervention, is expected to slow even more over the rest of the year with 2011 starting off very weakly.[5] Unemployment remains at a high 9.5% which does not include 2.6 million persons "marginally attached to the labor force;" and total employment is actually down from a year ago, causing concerns about a stalled recovery or second recessionary dip.[6] Personal incomes have stagnated or declined, consumer confidence remains low, and consumer spending is restrained.[7] The housing market, a key driver of the economy, remains slumped and faltering despite the lowest mortgage rates in history.[8] Availability of commercial credit remains tight, especially for

---

4 Bureau of Economic Analysis, National Income and Product Accounts Gross Domestic Product: Second Quarter 2010 (Advance Estimate), July 30, 2010, http://www.bea.gov/newsreleases/national/gdp/2010/pdf/gdp2q10_adv.pdf.

5 Economy.com. *See also*, John W. Schoen, "Weak Job Market Puts Recovery At Risk," MSNBC.com, August 6, 2010.

6 Michael A. Fletcher, "July Jobs Report Renews Concerns Over a Stalled Recovery," Washington Post, August 7, 2010.

7 The Conference Board, Inc., "Consumer Confidence Index Declines Again," July 27, 2010. *See also*, Phil Izzo, "U.S. Incomes Tumbled in 2009," Wall Street Journal, August 9, 2010; *and* Reuters, "US Consumer Sentiment Edges Up in Early Aug-Survey," August 13, 2010:

> U.S. consumer sentiment inched up in early August from July and was a tad above expectations, but consumers see little improvement in the economy ahead… The slight pickup in sentiment follows a drop in July to the lowest level since November, the data from Thomson Reuters/ University of Michigan's Surveys of Consumers showed…. The sentiment index is just several points above where it was a year ago, with worries about prospects for job growth and income hanging over sentiment. "The gain was too small to represent a meaningful improvement," Richard Curtin, director of the surveys, said in a statement. "Consumers have increasingly come to expect lackluster income and job growth for an extended period of time."

8 Standard and Poors.com, S&P Indices, "For Past Year Home Prices Have Generally Moved Sideways According to the S&P/Case-Shiller Home Price Indices," July 27, 2010. *See also*, Meena Thiruvengadam and Tom Barkley, "Home Builders Remain Wary," Wall Street Journal, August 16, 2010:

> U.S. home builder confidence continued to stagnate in August, as economic uncertainty kept buyers at bay despite ultra-low mortgage rates. The National Association of Home Builders … said its housing market index, which measures builders' attitudes toward sales prospects for single-family homes, fell to 13 in August. The reading is down from 14 in July and the lowest since March 2009. A reading above 50 on the index indicates more builders view sales conditions positively than see them negatively. "Builders are expressing the same concerns that

(footnote continued next page)

small businesses.[9] Economic difficulties in other parts of the world, including key European and Asian markets, weigh heavily on the prospects for America's near-term recovery and are creating fear of an extended economic "malaise":

> Investors around the world scrambled for safe havens as fears of a global economic slowdown grew…. "It's pretty clear that economic gravity is setting in," said Talley Leger, portfolio strategist at Barclay's Capital…. Market sentiment has soured quickly. It underscores just how jittery investors remain nearly two years after the collapse of Lehman Brothers Holdings sent markets world-wide crashing…. With bond yields dropping amid the specter of deflation, or a decline in prices, investors are worried that a prolonged Japanese-style malaise is about to grip the U.S. and Western Europe.[10]

For all these reasons, the Fed is concerned about deflation and is attempting to address it by recently announcing after its August 10 Open Market Committee meeting that it will maintain the very low interest level of its securities for some time to come.[11] That deflationary concern is widely shared by knowledgeable economic observers:

(continued from prior page)

> they are hearing from consumers right now, particularly the sense that the overall economy and job market aren't gaining any traction," NAHB Chairman Bob Jones said.

See also, PRNewswire-FirstCall, " 'Unusually Uncertain' Outlook Tamping Down Economic Activity According to Fannie Mae's Economics & Mortgage Market Analysis Group," August 16, 2010.

9 Federal Reserve Bank of New York, U.S. Credit Conditions, http://data.newyorkfed.org/creditconditions. *See also*, Sudeep Reddy, op.cit.; *and* Katherine Ryder, "The Wrong Fix For Small Business Lending," CNNMoney.com, July 20, 2010: "…Federal Reserve chairman Ben Bernanke said banks across the country are systematically denying loan requests from financially credible small businesses…." http://money.cnn.com/2010/07/20/news/economy/small_business_lending.fortune/index.htm.

10 Mark Gongloff, Alex Frangos and Tom Lauricella, "Markets Swoon On Fears," Wall Street Journal, August 12, 2010. *See also*, Sudeep Reddy and Emmiline Zhao, "Wider Trade Gap Signals Weak Growth," Wall Street Journal, August 12, 2010:

> The U.S. ran a surprisingly large trade deficit in June, raising concerns that the economic recovery is losing steam faster than previously thought…. U.S. consumers appear to be concentrating on imported tech gadgets, rather than on furniture and other items that tend to be more domestically produced…. Trade could remain a drag on the U.S. economy in the second half of the year as growth around the world remains weak.

11 Travis J Berge and Oscar Jorda, "Future Recession Risks," FRBSF Economic Letter, August 9, 2010.

> Some Fed officials, as well as private economists, have been warning that the risk of deflation – broadly falling prices and wages across the economy – is rising. A Wall Street Journal survey of economists, mostly from Wall Street, found this week that, by a two-to-one margin, they see deflation as a greater risk over the next three years than inflation.[12]

These and other negative factors are causing concern that the economy is at risk of deflation and/or a double-dip recession. Ominously, conditions seem to be getting weaker, not stronger.

B. The Fragile Market For Saturation Mail

The nature of the saturation mail market makes it particularly sensitive to these economic uncertainties and to increasing postal rates. Saturation mailers serve the advertising needs of local, regional, and national retail and service businesses, both large and small, as well as individual entrepreneurs in markets throughout the nation. These are the very sectors that have been under greatest duress over the last two years of economic turmoil, particularly hard hit by the severe crimp on consumer spending. As recently reported:

> Most major retail categories reported lower revenues, including the previously strong electronics stores where sales fell 0.1%…. Overall, the soft retail activity underscores the *tight budgeting by households*. When higher prices (gasoline) or big-ticket purchases sop up more of the monthly, spending gets cut elsewhere. The recent continuing upward trend in gasoline prices could continue to *exert an unwelcome drag on discretionary spending*. – David Resler, Nomura Global Economics http://blogs.wsj.com/economics/2010/08/13/economists-react-consumer-cant-drive-recovery/ (emphasis added).

This general drag on discretionary spending is particularly acute in the retail categories that form the core of many saturation mail programs, especially in the key

---

12 Sudeep Reddy, "Fed Sees Recovery Slowing, Central Bank Worried About Economic Vigor, Won't Shrink Securities Portfolio," Wall Street Journal, August 11, 2010.

grocery store client sector:

> The most notable drag on spending continues to be *persistent weakness in the heavily weighted grocery store component*, which accounted for 13% of overall retail sales in July and 20% of retail control. Grocery store sales fell 0.3% in July, a fifth straight decline for a 4.3% annualized drop over this period. Food prices in the CPI report have risen 0.9% annualized over this period, so the decline is even bigger in real terms. – Ted Wieseman, Morgan Stanley (emphasis added), *id.*

And, the distress extends across other key saturation mail client categories:

> The rebound in motor vehicle sales was also encouraging. *But that gain contrasts sharply with the weakness evident in other discretionary spending categories*. *Furniture and clothing sales have contracted in every one of the last four months. Building material sales have contracted for three months in a row*. Admittedly, the staples don't look much better. *Food sales have fallen for five consecutive months, but those modest declines reflect a stagnation in prices as much as falling demand*. – Paul Ashworth, Capital Economics (emphasis added), *id.*[13]

Another key saturation advertising client category that is under the greatest duress is small businesses. Most small businesses lack the financial resources to weather sharp and extended downturns, with limited access to capital and, as noted earlier, now virtually frozen out from commercial lending sources. Unlike large retailers that have the leverage to demand price concessions at the threat of switching to lower-cost non-postal alternatives, small businesses have few or no effective alternatives but simply cannot afford to increase their advertising budgets, or in many cases even to maintain existing budgets in these harsh economic times. Faced with these consumer-spending-related economic pressures, the customers of saturation mailers that are still in business are in no position to accept price increases.

---

13 We would note that the "rebound" in motor vehicle sales has undoubtedly been aided by the massive federal intervention to bolster the American auto industry with capital infusions, stimulus programs, and bankruptcy valves that have enabled the industry to shed much of its debt and mitigate its retiree pension and health benefit obligations. By contrast, the American retail and small business sectors – and the Postal Service as well – have had to "go it alone."

These acute economic concerns and the adverse impact of a postal rate increase are compounded in the saturation mail market by a number of other factors inherent to the industry:

- Saturation program mailers undertake a large risk when they establish a regular weekly or monthly mail program. Not only is there a large start-up cost to set up the program, but they must for market reasons mail to all addresses within the program coverage-area and pay the postage, regardless of the number of advertisers or ad revenues generated within the mail piece.

- Postage is typically the largest cost component of saturation mailings, in many cases constituting up to one-half of the total program cost.

- Saturation mailers compete for local advertising with non-postal distribution alternatives such as newspapers and private delivery that are generally lower-cost than mail. They also compete with increasingly sophisticated electronic and broadcast communications.

- A growing number of saturation mailers have converted some or all of their distribution to non-postal alternatives due to high postal rates, either through arrangements with newspaper total market coverage (TMC) programs or private delivery.

- The advertising customers of saturation mailers – large and small retailers and service businesses – themselves operate in highly competitive markets that have been particularly hard-hit by the recession. Most cannot afford or are unwilling to accept higher advertising costs and are instead demanding price cuts.

To assess this impact, the Saturation Mailers Coalition recently requested its members to respond to a questionnaire concerning the impact of a 5-percent postal rate increase on their businesses. The responses that have been received are presented in Appendix A hereto.[14] While we do not claim that these constitute a statistically "representative sample" of the industry, the responses do accurately describe the general nature of the market and the grave concerns of saturation mailers about the

---

14 In some cases, at the request of a respondent, we have redacted identifying information due to concerns about the commercial sensitivity of their response. Such redactions are indicated in the attached statements.

adverse impact of a postal rate increase at this time. Among other things, these responses clearly demonstrate that in the current economic and market climate:

- The customer base of saturation mailers has been eroded by recent customer closures, bankruptcies, and consolidations. Many of the remaining customers, particularly small businesses, are under extreme financial pressure due to the poor economy.

- Most saturation mail customers are unable or unwilling to accept rate increases, but are instead demanding *price cuts*. Rather than pay higher rates, they would either cut distribution to maintain existing advertising budgets or switch to non-postal competitors.

- Because saturation postal rates were already high relative to the marketplace, saturation mailers have maintained lean cost structures. With this economic downturn, they have further slashed costs and in some cases have dramatically scaled back operations. They are not able to absorb a postal rate increase.

- Many saturation mailers currently use non-postal alternatives for a portion of their distribution. Most are considering new or additional conversions to private delivery or newspapers if postal rates are increased. Some have recently converted entirely to private delivery due to high postal rates, and others plan to do so if postal rates increase.

- Those saturation mailers that intend to stay in the mail are planning cuts in their distribution "footprint" or their frequency in order to control their postal distribution costs.

- For at least some saturation mailers, the proposed rate increase would be "devastating" or "deadly" or "put us out of business."

In short, saturation postal rates are already too high and at the "tipping point." Mailers are actively assessing private delivery – which has become far more reliable and user-friendly than in the past – and some are already beginning to convert at existing rates. A rate increase at this time thus threatens the highest margin, most price sensitive mail in the postal system – mail that, once it is gone, is not likely to come back.

C. Saturation Mail Is Already At Or Near The "Tipping Point"

The Postal Service in this case used its traditional demand models, based on historic volume response to price changes, to estimate volumes and revenues. Witness Kiefer acknowledged that this was done because the Commission was familiar with the models and that no better data were available. Yet he also acknowledged that, given the uncertain state of the economy, those models might not accurately reflect volume response under current conditions as expected in 2011.

We do not "fault" the Postal Service for using those models as a "default." However, it is now clear that they are not reliable or credible in the face of the current and foreseeable economic environment. That is especially true for saturation mail given its characteristics and the realities of the current saturation mail market. A rate increase in these circumstances will certainly cause a far greater loss of volume than predicted by the historically-based demand models.

At the recent hearings with Postal Service witnesses, the Commissioners asked a number of probing questions concerning the expected impact of the economy on the Postal Service's financial projections. The witnesses were, understandably, cautious and non-committal in their responses. The simple truth is that no one – not even the world's greatest economists – can predict with any assurance what the American economy will be like in 2011.

This itself is a telling reality. At no time in memory has there been so much economic uncertainty, particularly on the downside. Nevertheless, there are some general boundaries of current expectations that should guide the Commission. On the high side, no one is predicting that the economy will be robust next year. The very best of expectations are for a sluggish and bumpy gradual recovery over the course of several years, but even those are filled with grave caveats. The growing fear, if not consensus, is that the recovery will slow or stall – or much worse, will slide backward – a prospect that was not of widespread concern when the Postal Service prepared and then filed its request in early July.

This brings into serious question the wisdom of raising postal rates at this time. The Commissioners themselves, in their questioning of Postal Service witnesses, have probed whether postal rates may be near the "tipping point" where the historically-based estimates of price elasticity are no longer valid. We submit that, when faced with uncertainty that encompasses very dire economic outcomes, the far better course is to exercise extreme caution in raising rates for price-sensitive, high-markup products that are at risk of leaving the system permanently. That is unquestionably so in the case of saturation mail, where the marketplace even today is unable to sustain price increases.

The Commission can and must take this into account in assessing whether the proposed rates will achieve the results assumed by the Postal Service, or whether a smaller or no increase for saturation mail would better serve the Postal Service. The latter course – no rate increase – is in these unique and worrisome circumstances the most prudent.

II. THE POSTAL SERVICE'S AND COMMISSION'S FIRST PRIORITY SHOULD BE ACHIEVING A LEGISLATIVE FIX TO THE CORE PUBLIC-POLICY PROBLEM THAT IS CAUSING THE FINANCIAL HEMMORAGING, RATHER THAN IMPRUDENTLY RAISING POSTAL RATES IN A DEPRESSED ECONOMY.

For the reasons explained above, the proposed exigency increases – particularly for saturation mail – should be denied as improvident, unwarranted, and counterproductive in the current depressed economy. More fundamentally, this exigency filing is a symptom of a far greater disease caused by faulty public policy that is bleeding the Postal Service far beyond its ability to recover through self-defeating rate increases – namely, the pension and retiree health overfunding problems that are drowning the Postal Service in red ink. If not cured, they will inevitably drive the Postal Service into insolvency. The first priority must be to legislatively fix those core problems which, if rectified, would obviate the need for an exigency rate increase.

The primary cause of the Postal Service's immediate financial woes is the onerous and unfair burden imposed upon the Postal Service by Congress in the PAEA to prefund the retiree health benefits obligation on an extremely aggressive payment schedule. In total, these obligations amount to a cash drain well in excess of $7 billion annually, representing a staggering 11% of the Postal Service's total expenses.[15] Not only is this prefunding requirement unique among American business, but the Postal Service has absolutely no control over these expenses. They are etched into law, and can only be changed by an act of Congress. Significantly, absent these payments, the Postal Service would have been profitable even in this era of declining mail volume.

Fortunately, Congress also included in the PAEA a new section 802(c) allowing the Postal Service to appeal determinations by the Office of Personnel Management concerning its pension and retiree health obligations to the Postal Regulatory Commission. The Commission has just concluded its watershed review of the Postal

[15] This $7 billion annual figure includes over $5 billion in prefunding and $2 billion for current retiree health premium payments. This aggressive prefunding schedule was written into the PAEA at the insistence of the Administration for purposes of maintaining "budget neutrality," a burden made even worse by a late amendment that the annual premium payments also be paid by the Postal Service rather than being drawn from the Retiree Health Benefits Fund.

Service's appeal of OPM's pension determination in Docket SS2010-1, issuing the report of its independent actuarial consultant, the Segal Group. That report concurred with the USPS Office of Inspector General's contention that the Postal Service had been overcharged in the allocation of pension costs for employees of the old Post Office Department who continued employment with the USPS, concluding that under a "fair and equitable" allocation based on generally accepted accounting principles, the Postal Service has indeed overpaid its pension obligations in the magnitude of $50-55 billion.

The priority now must be obtaining corrective legislative relief. That task will require the cooperative effort of all interested parties – mailers, management, and labor groups working together – to credit the pension overfunding to the retiree health benefit prefunding obligation, thus placing the Postal Service on sounder financial footing so that it will be better able to manage in the difficult times ahead.[16]

The Commission will know by September 30th – the due date for Postal Service payment of the next installment on retiree health prefunding – whether and to what extent Congress has acted to mitigate that prefunding burden, and will likely also know whether and how Congress intends to pursue a permanent fix on these obligations. That information will be available *prior* to the statutory 90-day deadline for Commission action on this exigency rate request. The Commission should and must take into account any such Congressional actions and statements of intention in determining whether and to what extent the Postal Service has justified and needs the proposed rate increases, in whole or in part.

---

[16] We recognize that such funding legislation is not a long-term panacea. The USPS must continue its restructuring and cost-cutting efforts, and needs further relief on other constraints that impair its ability to manage.

III. THE SATURATION AND HIGH DENSITY INCENTIVE PROGRAM

In general, we support Postal Service initiatives to stimulate volume growth of saturation mail. However, we are concerned that the proposed “Saturation and High Density Incentive Program” is unlikely to achieve that goal in a meaningful way. A principal impediment is the “baseline” requirement that a mailer will be eligible for incentive rebates *only* on that portion of its incremental volume growth that exceeds its calendar-year 2010 baseline volume by 5.5 percent, which the Postal Service states is its “forecasted growth projected to occur in FY2011 for these product categories.” Testimony of USPS witness Kiefer, Appendix A at 4.

Even *without* an exigent rate increase, that projected 5.5-percent growth of saturation and high density volume is unrealistic for all the reasons discussed above. With the uncertain economy and saturation mail marketplace, even a “no growth” assumption might be optimistic. But if an exigent increase is implemented in January 2011 – coinciding with the start of the incentive program – saturation mail volumes will almost certainly *decline* in calendar year 2011. Requiring saturation mailers who will be reeling from a rate increase in a harsh economy to grow their volumes by 5.5 percent at the higher rates before they can qualify for incentive rates is self-defeating.

What the Postal Service should instead be focusing on are incentives designed to keep saturation mailers *in business* and *in the mail*. The Postal Service’s highly restrictive incentive will not help mailers who are in difficulty or who are considering shifts to private delivery to stay in the mail. Nor will it provide the kind of effective, *longer-term* incentive to encourage saturation mailers to expand volumes on a permanent basis. Saturation mailers, because of their market need to commit to a regular weekly or monthly mailing schedule in a market on a long-term basis – and because of the risk that such a commitment entails – need to have incentives that "match the market need." For the Postal Service, the greatest benefit of such longer-term incentives is that, if successful, they will generate new volumes and revenues on a permanent basis that will continue even beyond the expiration of the incentive.

Finally, while our focus has been on the need for effective pricing incentives for saturation mail, this business objective must extend further to encompass *all* forms of mail whose retention and growth can help bolster the Postal Service's financial condition. It would be of no long-term benefit to saturation mailers if they ended up being the last ones left standing to foot the cost of universal service. It is in the interest of the Postal Service and *all* mailers to expand the base of volume supporting the postal system.

Respectfully submitted,

Thomas W. McLaughlin
Burzio McLaughlin & Keegan
1054 31st Street, N.W., Suite 540
Washington, DC 20007
(202) 965-4555
bmklaw@verizon.net

Counsel for Valassis Direct Mail, Inc.
and the Saturation Mailers Coalition

ATTACHMENT A

STATEMENTS OF
SATURATION MAILERS COALITION MEMBERS
CONCERNING
IMPACT OF A 5-PERCENT POSTAL RATE INCREASE[17]

---

[17] In some cases at the request of a respondent, information that might reveal the identity of the responding company has been deleted due to the commercially-sensitive nature of the response. Such redactions have been marked.

Statement of Jeff Demers, Co-owner, C&G Newspapers

My name is Jeff Demers and I am co-owner of C&G Newspapers (along with my mom and dad, two brothers and two sisters) located in Warren, MI. We publish free local newspapers that are mailed to 95% of the homes in our distribution area. C&G's 19 newspapers cover the local news in 47 communities and 66 ZIP codes, serving more than 600,000 homes every week. Our newspapers are the only source of local news available to the vast majority of the cities we serve. Since our newspapers are free, the only source of C&G's revenue is advertising.

Given the current state of the economy, the effects of a 5% increase in postage will be devastating for our business. The increase in postage will amount to $250,000 - $300,000 per year. If we try to pass along this increase to our customers we will lose much more revenue due to ad down-sizing and less frequency than we would generate with the increase in advertising rates. This obviously puts us in a bad spot and will force us to consider making some drastic changes. These changes may include down-sizing circulation, going to private delivery, closing marginally profitable newspapers and publishing less frequently.

Over the past two years we have had to cut back in our production and editorial departments as well as our front office due to the down-turn in the economy and advertising. We have maintained our circulation and frequency through this difficult time so we can still provide our customers with the best response possible. If we are forced to cut our circulation and reduce the frequency of our newspapers, our customers will not get as good of a response and they will begin to cut back on their advertising or spend their shrinking budgets in other media. Then the downward spiral begins and it won't be a happy ending.

The onslaught of internet advertising and the decline in circulation and viability of the daily newspapers hasn't helped the image of newspapers in general. In fact it's extremely challenging to educate advertisers on the difference between daily newspapers and weekly community newspapers. Competition for advertising dollars has never been as fierce as it is today.

The truth is that C&G Newspapers provides a valuable service to the communities it serves. It's not just the news we bring that helps bind more than a million residents to the 47 communities in which they live. It's also our contribution to the success of local businesses that helps make these 47 communities better. We all know that without a strong local business community neighborhoods start to decline. In addition, C&G employs more than 100 hard working and dedicated individuals.

So, will the postage increase affect C&G Newspapers? You bet it will, along with the businesses and the lives of everyone associated with it. With the fragile state of our economy, this is the worst possible time to raise postal rates.

Jeff Demers
Publisher
C&G Newspapers
Warren, MI 48089
jdemers@candgnews.com; 586.291.1874
"In Your Mail, Every Week"
Visit our website: www.candgnews.com

Statement of Steven Silver, The Yankee Pennysaver

A 5% increase will be deadly to our business. The Pennysaver's clientele are small business owners. Our largest small business used to be car dealers. GM, Chrysler and Ford have shut down 7 franchised dealers in our small market. Those dealers spent on average $700 per week in our direct mailed publication. There are no businesses filling that void. $4,900 per week in lost revenue that is not coming back was a major loss to us. We had to eliminate 2 Full time positions.

The economic down turn has been and continues to be a disproportionately harsh on the small business owner. We don't trade derivatives, or currencies, and we have had no government help. Credit is not available to us other than in the form of cash advances on our credit cards, and who can afford 20+% interest.

Postage is currently our largest single expense. It is just under twice the cost of printing and salaries. Our rates in order to keep our small business advertisers are the lowest rates in our 17 year history. WE HAD TO LOWER OUR RATES AND ACCEPT LONGER PAYMENT TERMS IN ORDER TO STAY IN BUSINESS.

In good times, our publications averaged 56 pages. Even after dropping our rates in order to defray to postal expense we still lost customers remember those 7 car dealers (7 pages in 4 zones). Here is the math: In one of our zones, we mail used to mail 15,000 homes at 14.2 cents each (total $2,130 including the DAL) or $38.04 for postage per page. Our current page count has dropped to 32 pages and postage is now 15.9 cents. Our per page postal cost has risen to $74.53 almost doubling. The bigger publications want a reduction in the pound rate. If I was overweight (64 pages) I wouldn't complain. Why not offer a more variable weight rate?

If the Post Office were to increase our rates by 5% will probably will not be able to maintain our current level of mailings. Our best alternative would be to mail on an every other week schedule. The Post Office may get an increase on a per piece basis, but I guarantee they are going to significantly loose volume. The postal service by increasing rates is going to encourage every business and individual to look for alternatives. In my case going every other week, or using carriers, emailing bills and statements, paying online to avoid buying stamps. Increasing rates would have the same effect as an airline raising their ticket prices and getting more per passenger and only having half the seats sold.

Steven Silver
Publisher
The Yankee Pennysaver
Brookfield, CT 06804

Statement of Greg Belair, Director of Shared Mail, Mailbox Merchants

How will a 5% postal rate increase impact your business and your customers?
Will you simply pay the increase or will you cut back on the area and frequency of your mailings?

Increased rates will require a higher level of scrutiny of the current zip profile. Zips that have been marginal in terms of profit will likely be discontinued from our shared mail program.

Will you be able to pass all or any part of the increase on to your customers? What are your customers asking you to do with regard to prices? Are customers insisting on flat rate contracts or are they willing to pay increases in advertising costs that relate to your changes in postage, paper, etc.?

We are probably in the most rate sensitive period of the last 10 years. In the past, a 5% rate increase could be passed on with just some token resistance, but in the current economic environment, clients will choose other media rather than spend more dollars. Their budgets are fixed and if that means cutting back, or changing media all together that's what they will do.

What other things are you seeing in the marketplace with regard to competition or other media?

All competitors are offering "Deals". Clients are expecting price reductions right now, not increases.

Are you doing anything with private delivery, doubling up your distribution with other mailers, or offering your customers different types of media and "deals"?

We have looked for private delivery options, but the rural nature of most of our programs has made that a challenge. If we were able to find a provider we would likely test alternate delivery.

What sacrifices or cuts have you (and your customers) had to make in recent years and going forward?

We have seen clients cancel ads due to budget constraints, some multi store customers are closing marginally profitable locations which means less advertising revenue for us.

Greg Belair
Director of Shared Mail
Mailbox Merchants
15040 NE Mason Street
Portland, OR 97230
503 345-1180 503 256-3450 Fax
www.mailboxmerchants.com

Statement of Mona Garwood, General Manager, Vinton Livewire

Donna - the long and the short of answering your questions below.

In a recent conference call with our corporate office, we have been directed to look at developing our own private distribution system and leaving the post office all together due to this recent proposed increase. Currently 75% of our total distribution is delivered by USPS. It is possible that we will make this move one way or the other, regardless of whether the increase goes through or not, as it seems an increase will be inevitable at some point or another. Most likely, our three other sister publications in NE Iowa will be directed to make the same move.

Hope this helps,

Mona Garwood
General Manager
Vinton Livewire
108 E. 5th St., Vinton, IA 52349
Ph. 319-472-3303 or 472-2311
Fax: 319-472-4811
[mailto:monag@cedarvalleydailytimes.com]

How will a 5% postal rate increase impact your business and your customers?
Will you simply pay the increase or will you cut back on the area and frequency of your mailings?

Will you be able to pass all or any part of the increase on to your customers? What are your customers asking you to do with regard to prices? Are customers insisting on flat rate contracts or are they willing to pay increases in advertising costs that relate to your changes in postage, paper, etc.?

What other things are you seeing in the marketplace with regard to competition or other media?

Are you doing anything with private delivery, doubling up your distribution with other mailers, or offering your customers different types of media and “deals”?

What sacrifices or cuts have you (and your customers) had to make in recent years and going forward?

Statement of Sharon McRoy, Today's AdVantage

Re: How will a 5% postal rate increase impact your business and your customers?

At this point in time, any increase in anything will put us out of business. We have been unable to raise our rates in years and due to economic conditions, that is not possible at this time.

Eliminating a mail delivery day, or even two, is the only possible answer for the post office crisis. I can work with that situation, more expense I cannot.

At this point, "hoping" for no postal price increase is not the point ... praying is.

The only thing we can do is eliminate copies to keep the cost the same which changes our commitment of the last 25 years to our advertisers.

Thank you,

Sharon McRoy
Co-Owner
Today's AdVantage
Alton, IL 62002

Statement of John Sabo, SVP of Production Operations, Money Mailer, LLC

How will a 5% postal rate increase impact your business and your customers? Will you simply pay the increase or will you cut back on the area and frequency of your mailings?

I can say the increase in postage makes our franchise system reluctant to increase frequency or mail additional areas because of the additional overhead attributed to postage.

Will you be able to pass all or any part of the increase on to your customers? What are your customers asking you to do with regard to prices? Are customers insisting on flat rate contracts or are they willing to pay increases in advertising costs that relate to your changes in postage, paper, etc.?

Many customers are reluctant to accept price increases. Most customers are saying they have a fixed budget for advertising or an allotment to advertise through Money Mailer. So the Franchisee or sales rep can decide to either cut back on the client's circulation or mail the same circulation and absorb the postage. If the circulation is reduced the client will shop for a lower price even if it means lower redemption. The family business owners are really hurting. A short-fall in revenue coupled with banks tightening credit limits makes it very difficult for small business owners to absorb price increases. Restaurant owners are faced with inflationary pressures with the cost of food product (rice, flour, sauces, dairy products, vegetables etc.). Landlords are increasing rents to cover increased taxes. Businesses are in fear of a double dip recession with a much longer recovery period therefore controlling spending.

What other things are you seeing in the marketplace with regard to competition or other media?

The printing industry is consolidating at a rapid pace. Printers and mail-shops with a long history of being in business are closing or being acquired by larger companies only to shutdown equipment and obtain the existing business. Direct mail business from major industries auto, home improvement and financing has dried up with a high probability of not returning any time soon. Staff reductions continue at a rapid rate. The paper industry is owned mainly by private equity which is shutting down paper mills creating a shortage of material by limiting allotments and announcing significant price increases. Most of the new social media cannot be monetized quickly enough leaving companies with larger investments and little to no revenue streams. This has been the most difficult period beginning in early 2008 to collect payment from customers. Trucking firms are going out of business and those remaining are raising prices.

Are you doing anything with private delivery, doubling up your distribution with other mailers, or offering your customers different types of media and "deals"?

What sacrifices or cuts have you (and your customers) had to make in recent years and going forward?

Companywide 20% of the staff has been reduced in the past 18 months. Everyone retaining their employment experienced a pay reduction from 5 to 20 percent depending upon the pay grade for a period of time. Matching 401K benefits were reduced along with insurance coverage. Credit has been extended to many customers to retain their business. There are fewer candidates available for franchising and able to invest in a self-owned business due to the tight lines of credit.

John Sabo
Senior Vice President of Production Operations
Money Mailer, LLC
Garden Grove, CA 92841

Statement of Shari Rapone, Circulation Manager, Genesee Valley Penny Saver

At the Genesee Valley Penny Saver we mail about half of our 155,000 weekly distribution. We currently spend about $12,500 a week in postage. A 5% rate hike will increase that by about $600.00 a week. This comes at a time when we are filling full time positions with part time positions and asking our current members to take on more work in a companywide effort to battle these tough economic times.

We will be raising our rates in October by 5% and it is something our advertisers are not happy about... as all businesses are under the same economic pressures. This will inevitably force our advertisers to place a smaller ad so their advertising costs remain the same.

Over the last few years we have converted over 20,000 pieces of weekly mailings to our own adult carrier delivery system. We are currently switching two areas over from the mail system to our own adult carrier delivery system which will eliminate about 8,000-10,000 more pieces from the USPS mail. We will continue to convert from mail to carrier as we can see that the postage rates are continually rising. We started these conversions due to the ever rising postage rates but it only fueled our efforts when the USPS proposed the 5 day delivery concept. We are a weekend delivery publication and we and our readers want that to continue.

In the end...I can understand that the postal system is also feeling the tough economic pressures. Maybe more than some due to the rapid loss in revenue to the internet and e-mail... that not too long ago was going through the US postal system. We simply ask the USPS to hang on to the customers that are loyal to them and would continue to use the postal system if it was affordable. Go ahead and raise the price of a stamp to the occasional mailer or the parcel piece someone mails once a month, but work with the bulk mailers that are there every day or every week with MAIL. Welcome the idea of "Simplified but Certified" and open the door to new business and keep the current ones from migrating to other means. The USPS has customers they will lose, like these members of SMC, that want to do business with the USPS but they continue to push us into other avenues with across the board rate hikes.

Shari Rapone
Circulation Manager
Genesee Valley Penny Saver
Avon, NY 14414
sharirapone@gvpennysaver.com
(585) 226-8111, Ext. 131
fax (585) 226-3390

Statement of Bill Derby, Publisher, The Johnson City News & Neighbor

We converted our 31,000 mail to carrier three years ago this August. We had used D-cards weekly while in the mail with our community newspaper. We dropped shipped to DDU PO's each week to earn the lowest rate. After thinking about it for two years, we put our conversion plan into action converting our distribution route by route over a three month period. It has worked very well including eliminating non-readers.

We were spending approximately $300,000 per year with the PO. We knew it would be difficult to say in the mail and be competitive with our insert rates as well as publishing numerous special sections. We saved over $72,000 net in our first year. That also is not counting the postal increases we would have had to pay with our heavy special editions. There was no way we could pass along increases to our customers. We have also been able to hold our ad rates over the past two years without increases keeping us very competitive with the local daily.

We also started a volunteer paid circulation newspaper asking readers to buy subscriptions for $20 for one year. We now have nearly 1,000 paid subscribers and were given a periodical postal permit for that separate edition, The Johnson City News. Our renewal rate is over 80% with many buying a two and three year subscriptions. We also now qualify to join the Tennessee Press Association since we have a paid subscription newspaper. They don't allow free papers.

Many of our national customers, grocery chains and ad agencies are asking for rate discounts or added value programs. We do have a little room to negotiate insert rates with these customers since we are not locked into postal weight rates. It's a new world for the industry.

With our good carrier system we have the ability to deliver other products but have not pursued that as yet.

I appreciate your hard work and efforts on behalf of our industry. We are just thankful we were able to convert to our carrier system.

Best regards,

Bill Derby
Publisher
The Johnson City News & Neighbor
Johnson City, TN 37604

Statement of Bill Cotter, National Sales Director, Trib Total Media

While our discussion is fresh in my mind to answer your question on what a +5% postal increase will do to our business, this is our situation in Pittsburgh:

1) We are currently mailing over 800,000 pieces weekly in the Pittsburgh market spending roughly $150,000 per week in postage. At our current distribution we would be adding +$400,000 in expenses. We will not do that. We would be forced to "scale back" our mail quantity to keep our weekly cost with the USPS flat.

2) We also are working with an alternate delivery company currently that is assisting us to deliver 280,000 bags over the weekends so they are certainly an option if our postal rates continue to rise.

Business is beginning to get better in our market. Most of our negotiations with our customers center on "flat rates" and discounted rates for more frequency or more pieces. To just increase rates +5% is absurd and not reality with todays market and economy.

Thanks,

Bill

William M. Cotter
Major/National Sales Director
TRIB TOTAL MEDIA- We Deliver Newspapers. And More.
460 Rodi Road
Pittsburgh, PA 15235
bcotter@tribweb.com
Office: 412.871.2304
Cell: 412.480.0466
Fax: 412.871.2351

Statement of Scott Patterson, Carolina MoneySaver

We were forced to cease publishing our 170,000 weekly direct mail publication. We simply could not handle the postage expense in this economy. Many of our customers are small businesses who are struggling to stay afloat, others have already closed. Since we ceased publishing, we have had dozens of calls from small business owners who needed our publication, and are now concerned that they will go out of business while they struggle to find other viable ways to advertise their business. Of course, when the business closed dozens of people who were on the team joined the ranks of the unemployed.

A new company has formed, with less than 10% of the circulation of the old company, and two partners with no employees. The new company cannot sustain a postage increase. The small businesses who now rely on us will not accept an increase of 5% - when they have no way to raise their prices by 5%. In today's economy, no private business has this kind of pricing power!

Our customers deal with monthly budgets, and pay a flat rate for their ads. When postage goes up, when paper goes up, when ink goes up, they don't care.

Our daily paper, owned by [redacted], is migrating their TMC program from the mail to carrier delivery. This drastically lowers their delivery expenses, and guarantees them a flat rate regardless of weight. They are now selling inserts at pricing we cannot compete with using mail. A rate increase from the post office just makes the gap larger.

Scott Patterson
Publisher
Carolina MoneySaver
Monroe, NC 28110
704-246-0901

[Company Name Redacted]

How will a 5% postal rate increase impact your business and your customers? Will you simply pay the increase or will you cut back on the area and frequency of your mailings?

How we deal with increased postage is determined by what our customers have said. The majority of our large customers, those mailing 6 or more times said they will reduce their mailings and profiles so that any postal increase is offset. The other large clients said they will look for other less expensive alternatives, i.e. the papers and digital. Virtually all of our small customers said they cannot afford the increase thus they will either stop advertising or place ads in the papers. The majority of our customers said increasing prices now when most businesses are maintaining or decreasing their prices is equivalent to business suicide. Should these stats hold up the overall financial impact for us will be devastating. Conservatively speaking we could be looking at losing 30-50% of our existing revenue.

Will you be able to pass all or any part of the increase on to your customers?

See above.

What are your customers asking you to do with regard to prices?

Our customers are asking, some insisting, that prices remain flat or decrease. Are customers insisting on flat rate contracts or are they willing to pay increases in advertising costs that relate to your changes in postage, paper, etc.?

What other things are you seeing in the marketplace with regard to competition or other media?

The papers are becoming more active and aggressive with pricing. As a result we have lost a major grocery store and hardware chain.

Are you doing anything with private delivery, doubling up your distribution with other mailers, or offering your customers different types of media and "deals"?

Our shareholders are now insisting on moving as much if not all to a distribution method other than the mail. We are looking to develop alliances with some of the more than 200 weekly papers and use their adult carriers for our distribution. Additionally we are looking into developing our own adult carrier system in some of the metro areas.

What sacrifices or cuts have you (and your customers) had to make in recent years and going forward?

We have reduced staff by 20%, frozen compensation increase for the past two years, and implemented 5 unpaid holidays. Going forward we will have to

continue with these measures so as to keep our costs down and remain competitive in the market. Many of our customers have had to do the same.

[name redacted]
General Manager
[company name redacted]

Statement of Camille Stinton, ValuMail

How will a 5% postal rate increase impact your business and your customers?
Will you simply pay the increase or will you cut back on the area and frequency of your mailings?

ValuMail will have no choice but to reduce frequency and or cut geography.

Will you be able to pass all or any part of the increase on to your customers? What are your customers asking you to do with regard to prices? Are customers insisting on flat rate contracts or are they willing to pay increases in advertising costs that relate to your changes in postage, paper, etc.?

Rate increase are also a challenge, a portion of pass along will be tolerable, however from past experience the advertiser reduces frequency and coverage area. Especially now that we have not had a full economic recovery.

What other things are you seeing in the marketplace with regard to competition or other media?

Alternate delivery being rolled out, Non Postal Carriers, routes with lower rate for delivery. Saturated and targeted.

Are you doing anything with private delivery, doubling up your distribution with other mailers, or offering your customers different types of media and "deals"?

This year we tried one program merged with another postal customer it went well and a significant postage savings. The downfall was that we were not a standalone product.

What sacrifices or cuts have you (and your customers) had to make in recent years and going forward?

Reduced placement.

Camille Stinton
Preprint & Direct Mail Advertising Manager
ValuMail
285 Broad Street
Hartford, CT 06115
cstinton@courant.com

Statement of Marcia Hulet, The Dandy Dollar

How a 5% Postal Rate Increase will Impact my Paper:
Will you simply pay the increase or will you cut back on the area and frequency of your mailings?

Our publication will most likely cut back on the area of our mailings.

Will you be able to pass all or any part of the increase on to your customers? What are your customers asking you to do with regard to prices? Are customers insisting on flat rate contracts or are they willing to pay increases in advertising costs that relate to your changes in postage, paper, etc.?

We will be forced to institute a rate increase to offset the cost of the increased postage, even though our customers are going through rough times also and have requested a hold on rate increases for the time being.

What other things are you seeing in the marketplace with regard to competition or other media?

Our competition is a daily newspaper, corporate owned, and they are doing everything in their power to put us out of business. Offering cut-throat rates on advertising, smear campaigns, etc. This postal increase will only hurt us even more.

Are you doing anything with private delivery, doubling up your distribution with other mailers, or offering your customers different types of media and "deals"?

I am looking into the costs associated with private delivery. I already pay over $2700 each week to the post office so I may actually save money by going to private carriers.

What sacrifices or cuts have you (and your customers) had to make in recent years and going forward?

In recent years we have changed printers to save money rather than increase rates due to postal increases. Myself and other company executives have also taken drastic pay cuts. Going forward I will have to ask my employees to wait on pay raises and increase their duties. Shutting down the office and not putting out a paper for one week over the Christmas holiday will also save on printing and postage expenses.

Marcia Hulet
The Dandy Dollar
118 West 3rd Street
Ottumwa, IA 52501
[mailto:mhulet@thedandydollar.com]

Statement of Tom Loury, TomL Publishing LLC

How will a 5% postal rate increase impact your business and your customers?
Will you simply pay the increase or will you cut back on the area and frequency of your mailings?

Will you be able to pass all or any part of the increase on to your customers? What are your customers asking you to do with regard to prices? Are customers insisting on flat rate contracts or are they willing to pay increases in advertising costs that relate to your changes in postage, paper, etc.?

What other things are you seeing in the marketplace with regard to competition or other media?

Are you doing anything with private delivery, doubling up your distribution with other mailers, or offering your customers different types of media and deals?

What sacrifices or cuts have you (and your customers) had to make in recent years and going forward?

Hi Donna

I will have to figure out how to change my method of delivery, probably carriers. I prefer the mail but they keep raising prices I will change. I can get it delivered for half of what the postage is now and don't have to many problems but as it goes up it is no longer worth it to me.

Tom Loury
Publisher
Lady Lake Magazine, Ocala Downtown, Seniors Voice, Village Spectator
TomL Publishing LLC
Dunnellon, FL 34430

Statement of Shane Goodman, President, Big Green Umbrella Media, Inc.

How will a 5% postal rate increase impact your business and your customers?
Will you simply pay the increase or will you cut back on the area and frequency of your mailings?

Both.

Will you be able to pass all or any part of the increase on to your customers? What are your customers asking you to do with regard to prices? Are customers insisting on flat rate contracts or are they willing to pay increases in advertising costs that relate to your changes in postage, paper, etc.?

We will not be able to pass on to customers, as we must hold prices or lose them.

What other things are you seeing in the marketplace with regard to competition or other media?

Electronic media seems to be coming back after a tough 2009. Election revenue is helping. 2011 will prove to be tough for them again. With decreasing revenues, increasing printing costs and increasing mail costs, the print industry will be in trouble. Us included.

Are you doing anything with private delivery, doubling up your distribution with other mailers, or offering your customers different types of media and “deals”?

We will be heavily exploring carrier delivery and rack distribution to replace mail in some areas.

What sacrifices or cuts have you (and your customers) had to make in recent years and going forward?

Margins are much slimmer. Not much room left to cut anywhere. We are deeply concerned.

Shane Goodman
President and Publisher
Big Green Umbrella Media, Inc.
414 61st Street
Des Moines, Iowa 50312
phone: 515-953-4822, ext. 305
fax: 515-953-1394
www.dmcityview.com
www.iowalivingmagazines.com
www.iowamomentum.com
www.desmoinesdollardealer.com

Statement of Maureen Gipprich, Market Select, Inc.

In response to your questions concerning the 5% postal rate increase:

1. We absolutely will cut back on areas that we mail. We would take a very close look at each and every zip to see if we should continue to mail it.

2. Passing on an increase in today's economy is very difficult. We have had to "Hold" a lot of the pricing from last year. Our customers will see 5% as above the inflation rate and not accept that as a legitimate increase. Also, as we have been able to retain our customers, some have cut down on the circulation that they once mailed. This increase would only have them cut again, much like us cutting out zips.

3. We have had much better success in our business as opposed to other media. We have been able to convert some clients from the newspaper to direct mail. Postal increase will have them thinking about moving back to the paper.

Maureen Gipprich
Market Select, Inc.
P.O. Box 3855
Reading, PA 19606

Statement of Janelle Anderson, Executive Director, Wisconsin Community Papers

Here is a summary of a couple big publishers who are in the mail.

How will a 5% postal rate increase impact your business and your customers?
Will you simply pay the increase or will you cut back on the area and frequency of your mailings?

CUT BACK.

Will you be able to pass all or any part of the increase on to your customers?

I doubt it. Would try not to because revenue would decrease.

What are your customers asking you to do with regard to prices?

Lower them. They don't care what the Postal rates are.

Are customers insisting on flat rate contracts or are they willing to pay increases in advertising costs that relate to your changes in postage, paper, etc.?

Flat rate...

What other things are you seeing in the marketplace with regard to competition or other media?

E-mail, texting, social media.

Are you doing anything with private delivery, doubling up your distribution with other mailers, or offering your customers different types of media and "deals"?

Yes, doubling up and Mobile texting.

What sacrifices or cuts have you (and your customers) had to make in recent years and going forward?

Circulation and change method of delivery.

Janelle M. Anderson
Executive Director (Janelle@wisad.com)
Wisconsin Community Papers
President (Janderson@pdsadnet.com)
Publishers Development Services, Inc.
101 S. Main Street
Fond du Lac, WI 54935
Phone 920-922-4864 Fax 208-441-8802

Statement of Chris Brewer, MoneySaver Coupons

How will a 5% postal rate increase impact your business and your customers?
Will you simply pay the increase or will you cut back on the area and frequency of your mailings?

> **We have already cut back by 20,000 mailings per month and may reduce again by another 10 to 15,000 if this next rate increase comes through. We have considered reducing our frequency by half which would lower our annual mail volume by nearly one million.**

Will you be able to pass all or any part of the increase on to your customers? What are your customers asking you to do with regard to prices? Are customers insisting on flat rate contracts or are they willing to pay increases in advertising costs that relate to your changes in postage, paper, etc.?

> **The simple answer is no. Some might pay it, but most hate price increases and we end up looking like the bad guy.**

What other things are you seeing in the marketplace with regard to competition or other media?

> **It is as competitive as it has always been, but I've been seeking mergers and shared mailings with other mailers so we can cut our postage rates. The government never considers how entrepreneurs will adapt to this type of brutal, short-sided regulation.**

Are you doing anything with private delivery, doubling up your distribution with other mailers, or offering your customers different types of media and “deals”?

> **See above.**

What sacrifices or cuts have you (and your customers) had to make in recent years and going forward?

> **We've cut employees, we've cut benefits...while the postal employees get tremendous benefits and could care less about my books getting delivered without our DAL card or worse things like our books ending up in postal dumpsters. (you don't have to print that) As you can see, I'm just about fed up with the postal service and can't wait to get my online site redone and my mobile app completed so I can fire the postal service completely...a loss of $150,000 a year to them.**

Chris Brewer
President
MoneySaver Publishing, Inc.
Springfield, MO

[Company Name Redacted]

How will a 5% postal rate increase impact your business and your customers? Will you simply pay the increase or will you cut back on the area and frequency of your mailings?

Probably a combination of both. Some of our current circulation is close to break even and a 5% postal increase would drop that circulation into the loss column. Because that effected circulation may include market-wide customers, we'll need to determine if we absorb the loss in order to retain those customers in the remainder of our profitable circulation.

Will you be able to pass all or any part of the increase on to your customers? What are your customers asking you to do with regard to prices? Are customers insisting on flat rate contracts or are they willing to pay increases in advertising costs that relate to your changes in postage, paper, etc.?

We are being hammered daily by customers seeking rate decreases. We have non-mailed competitors waiting to take advantage of any type of increases associated with mailings. We are also being forced to take significant newsprint increases. Though there may be some select opportunities to pass on some of the incremental costs to do business, those will be few and far between....and nowhere near enough to mitigate the additional expense we have to absorb.

What other things are you seeing in the marketplace with regard to competition or other media?

As it relates to mailed competitors, we are seeing an increase in the marriage mail of like competitors inserted into each others products. All in order to offset postage expense. We are also seeing a drop in mailed frequency from some competitors; ie. quarterly vs. monthly. And some have just folded. The local newspapers are aggressively packaging and bundling their product lines, to include their cable and local network holdings, to attract or retain customers.

Are you doing anything with private delivery, doubling up your distribution with other mailers, or offering your customers different types of media and "deals"?

We continue to evaluate private delivery options and have had conversations with newspapers about joint distribution ventures. So far, none of the options are attractive enough that we would consider diluting our brand with marriage (mailed or non-mailed) distribution. I know these increases in postage and newsprint will re-ignite conversations about those options. Maintaining market share is a strategic position for us, so we continually look for opportunities (or deals) to retain our customers and to help keep them afloat during this difficult economic environment. Additional cost increases will negatively impact our opportunities to maintain those relationships.

What sacrifices or cuts have you (and your customers) had to make in recent years and going forward?

For our [redacted] operation, those cuts and sacrifices have been monumental. Over the past 18 months we have consolidated manufacturing operations, having to let go well over 100 employees. The range of additional value-added services for our customers has been scaled back to bare essentials. We curtailed nearly 19% of our mailed circulation that had fallen below our break even point. We are more aggressive with our circulation strategy, tightening up on mailings...all designed to reduce our postage liability.