

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

NOTICE OF CLASSIFICATION AND PRICE ADJUSTMENTS
FOR FIRST-CLASS MAIL AND STANDARD MAIL
INITIATIVES

Docket No. R2011-1

**COMMENTS OF THE
THE NEWSPAPER ASSOCIATION OF AMERICA**
(November 23, 2010)

The Newspaper Association of America (“NAA”)¹ hereby submits these comments on the Postal Service’s proposal to improve the “volume incentive” proposal in Standard commercial flats by including High-Density flats as well as Saturation flats.

As the Commission knows, newspaper Total Market Coverage programs compete directly with saturation mailers in the delivery of advertising to homes. Newspapers deliver ads through a combination of in-paper delivery to subscribers and by “Total Market Coverage” (“TMC”) advertising products to households that do not subscribe to the newspaper. When mailed, TMC products pay either High-Density or Saturation rates, depending upon the density of newspaper subscribers on a particular route.

Throughout the 2000’s, newspapers substantially expanded their use of Standard Mail, especially the High-Density and Saturation flats categories, for

¹ NAA represents the interests of nearly 2,000 newspapers in the United States and Canada. Its members account for nearly 90 percent of the daily newspaper circulation in the United States and a wide range of non-daily U.S. newspapers. NAA members use all classes of mail, including First Class Mail, Periodicals mail, and Standard mail.

delivery of their nonsubscriber TMC products. This growth story was a success both for newspapers and for the Postal Service. In the past two years, however, this trend has reversed as newspapers' use of the mail to deliver their TMC products to nonsubscribers has declined.

While newspapers certainly experienced a decrease in the demand for advertising distribution during the recent recession, which meant less advertising both in the newspaper and in mailed TMC products, a major factor in the decline in newspaper TMC programs' use of the mail has been the unfavorable postal rates offered to newspaper TMC mail by the Postal Service. In recent years, the Postal Service has persistently given saturation mailers an unwarranted competitive rate advantage over newspaper TMC programs by steadily raising the already-higher High-Density rate while giving modest, if any, increases to Saturation rates. This has resulted in a substantial rate gap between the two closely-related and competitive rate categories.

In addition, the Saturation mail volume incentive program introduced by the Postal Service in May 2009 was another example of the Postal Service tilting rates in favor of saturation mailers. Newspaper TMC programs that primarily used High-Density rates, and had few Saturation-rated mailings, were effectively ineligible. As a consequence, the saturation mailers with which they competed enjoyed a substantial price advantage, up to 39 percent in some circumstances.²

NAA noted at the time that this rate favoritism would hurt the Postal Service. One way it did so was by encouraging third-party advertising inserts to

² Under the 2009 incentive, "new" flats weighing less than 3.3 ounces entered at a DDU paid 10.2 cents after the "credit," 6.6 cents less than a High Density flat of the same weight.

shift from newspaper TMC mailings (which typically paid higher, High-Density rates) to Saturation mailers (at lower rates). That would result in both less mail for the Postal Service and a shift in the mail mix to lower-priced Standard Mail rate categories, not organic growth. The Postal Service would lose both ways. Furthermore, the higher rates available to newspaper TMC programs created a financial incentive for newspapers to seek alternative ways to distribute their TMC products.

NAA estimates, based on industry data, that newspapers reduced their use of Standard mail by nearly 8 percent in 2009 on account of unfavorable postage rates alone, accounting for a loss of about \$80 million in Postal Service revenue. That decline sharply accelerated a trend that started in FY2008, when the comparable declines were approximately 3.9 percent in volume and \$40 million in postage paid. These losses were above and beyond the losses of volume attributable to economic factors. In total, NAA estimates that some 650 million pieces of newspaper TMC mailings disappeared from the mailstream in the past two years, taking with them the \$120 million in lost postage.

If present trends continue, NAA expects that the Postal Service could easily suffer further losses of more than \$130 million over the next 18 months as newspaper TMC programs accelerate the shift to private delivery.

Given this background, the Postal Service's proposal to extend the Standard Mail volume incentive program to High-Density flats mail is an overdue step in the right direction, making it available to newspaper TMC programs as well as for saturation mailers. Most importantly for the Postal Service, it is an

attempt to address the risk of further erosion of newspaper TMC programs' use of the mail by establishing a rate incentive for TMC programs to increase their use of the mail.

A particular useful feature of the proposal is newspaper TMC programs will have flexibility to qualify either their High-Density and Saturation rate mailings, or both, for the incentive program. This feature expands the number of newspapers that potentially could participate in the program, which can only benefit the Postal Service.

While the proposed new Standard Mail volume incentive proposal should take effect, NAA fears that the program will be less successful than it could be because the Postal Service will continue to give a more favorable incentive to Saturation mailings than to High-Density mailings. The Postal Service should offer the High Density mailers rate incentives that at least equal to those offered to their competitors. Here, unfortunately, the Postal Service will offer Saturation mail a credit of 22 percent of the average revenue per piece, but offer High-Density mailers a credit of only 13 percent.

More broadly, this last point illustrates that, while this proposal is a well-intentioned first step, the Postal Service will need to make further efforts to retain and attract newspaper advertising mail. In particular, the Postal Service needs to reduce still further the discriminatory rate advantage that Saturation-rated mail has enjoyed over High-Density mail. One way to do so would be to replace the current arbitrary distinction between High-Density and Saturation rate categories, which has little operational basis in light of how these mailings are handled, with

a sliding scale of discounts that accurately present the cost savings for walk-sequencing these high volume mailings.

For the foregoing reasons, NAA believes that the Commission should approve the Postal Service's proposed changes to the Standard Mail volume incentive program. However, NAA urges the Postal Service to continue to explore changes to the program to improve the likelihood that it will achieve the Postal Service's goals.

Respectfully submitted,

Newspaper Association of America

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