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POSTAL RATE COMMISSION
WASHINGTON, D.C. 20268-0001

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

MAILING ONLINE SERVICE

Docket No. MC98-1

DIRECT TESTIMONY
OF
C. SCOTT SCHUH

On Behalf Of
MAIL ADVERTISING SERVICE ASSOCIATION INTERNATIONAL

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Due Date: February 8, 1999

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LIST OF EXHIBITS

<u>ITEM</u>	<u>TITLE</u>
(A)	USPS Mailing Online Business Partner Statistics
(B)	Lloyd Schuh Company Pricing Comparison on USPS Detailed Calculation of Costs - Example

1 **Direct Testimony**

2 **Of**

3 **C. Scott Schuh**

4 My name is Scott Schuh. I am President of the Lloyd Schuh Company, Inc.
5 ("Schuh"), a 51-year old direct mail production company founded by my father in 1948.
6 My firm offers data processing, laser printing, lettershop, and fulfillment services to our
7 clients. Our services include, among other things, the production and preparation of
8 materials for direct mail advertising and communications. The company employs 36
9 people and is headquartered in a 24,000 square foot facility in Little Rock, Arkansas.
10 Schuh is a member of Mail Advertising Service Association ("MASA").

11 I hold a B.A. in marketing from the University of Arkansas at Little Rock. I have
12 been employed at Schuh and active in the mailing services industry for 21 years. I was
13 elected to the Board of Directors of MASA in 1997, and I remain on the Board today. I
14 am also an active member of the Sales and Marketing Executives of Arkansas, the
15 state chapter of an international association of sales and marketing executives, as well
16 as the International Association of Business Communicators, an international business
17 association.

1

I. Purpose of Testimony

2 I have become familiar with United States Postal Service ("USPS") plans to offer
3 a new service, Mailing Online. Mailing Online will permit direct mail end users to submit
4 data to USPS over the Internet, after which USPS contractors will produce and
5 assemble the mailings and USPS will deliver them through the mail stream. I am
6 extremely concerned about USPS's attempt to compete with my company and the
7 many others like it, and I know that many MASA members share this concern. The
8 purpose of my testimony is to describe the ways in which Mailing Online will interfere
9 with fair competition, and the resulting effect that Mailing Online will have on private
10 companies like mine.

11

II. USPS as a Competitor

12 For as many years as I have been in the business, we have depended on USPS
13 to provide the essential final step necessary for us to serve our clients: the delivery of
14 the mail. While USPS's services have been essential for us, our efforts have at the
15 same time conferred substantial benefits on USPS.

16 My company provides its clients a full range of mailing and related services, from
17 data processing and production services to delivery to USPS for placement in the mail
18 stream. In performing those services, we act as a non-commissioned sales agent for
19 USPS. We obtain business through the substantial efforts of five sales people and
20 myself. We generate in excess of one million dollars annually in postage expenses for
21 our clients through their use of stamps, metered postage, and permit accounts for their
22 direct mail programs.

23 At Schuh, and at other companies in our business, we make every effort to

1 maintain a cooperative working relationship with USPS. Among other things, we deliver
2 mail to USPS in accordance with its requirements, we provide information USPS
3 requires for its operations, and we exchange suggestions concerning ways to improve
4 our respective operations.

5 USPS has, until recently, fully embraced this cooperative approach. It promoted
6 in recent years a "Business Partners" program through which USPS sought to enhance
7 its ability to offer services and programs to the private mailing industry, creating a
8 "partnership" of sorts between USPS and the industry. USPS employees participate
9 with lettershops, others who provide mailing services, and end users in Postal
10 Customer Councils, which are designed to facilitate communication concerning matters
11 of mutual interest. In these and other respects, USPS has recognized the value of
12 fostering a positive relationship with the companies that support it.

13 Mailing Online is a radical departure from this approach. USPS, on whom our
14 industry depends for mail delivery, now proposes to compete with us on an uneven
15 playing field that favors USPS in many respects. The mere fact that USPS is now a
16 competitor would in any other circumstance cause us to discontinue our relationship; if
17 it were possible, I would engage a different delivery service to see that our mail reaches
18 its final destination. Of course, since USPS has a monopoly, there are no other mail
19 delivery services to which we can turn.

1 **III. The Market Targeted by Mailing Online**

2 USPS has stated that Mailing Online is intended to target small mailings of no
3 more than 5,000 pieces. It suggests that these end users are a small part of the
4 market, and that any inroads it achieves will have little impact on private business. To
5 the contrary, small mailings play an enormously important role for my company and
6 others.

7 Like hundreds of other mailing firms around the country, Schuh specializes in
8 servicing small to mid-size clients with simple to complex direct mail program needs.
9 We are not a “tonnage” mailer that processes hundreds of thousands of pieces of mail
10 for the majority of our clients. The vast majority of our customer base sends 1,000 to
11 5,000 pieces per mailing. For example, one of our largest accounts sends many small
12 mailings, typically between 1,000 and 5,000 pieces. This single account was
13 responsible for \$345,000 in revenues in 1998, which came from 607 separate mailings,
14 the overwhelming majority of which were under 5,000 pieces.

15 More generally, among our more than 1,500 jobs produced in 1998, 60% were
16 jobs of 5,000 pieces or fewer that met the basic production criteria for the Mailing
17 Online program. These jobs represent approximately \$634,000 in revenue for my
18 company – 30% of our total revenues. The servicing of clients who send small
19 mailings is a separate and distinct market in which my company and others compete.
20 For 51 years, the Lloyd Schuh Company and its people have depended on these clients
21 for our livelihood and future business opportunities.

22 But USPS, by its own admission, seeks to take away a substantial part of this
23 core segment of my business. It has projected that 62% of the business of Mailing

1 Online during the two year experiment period will come from existing users of direct
2 mail. This represents a shifting of millions of dollars of revenue from mailing service
3 companies to USPS. These mailing Online customers will be current clients of my
4 company and others that service this market. While these accounts and their mailings
5 may be "small" for USPS, they are the bread and butter of my business.

6 I have personally spoken with many mailers who share my concerns about this
7 program. I recently requested information from mailers concerning the percentage of
8 their jobs that are under 5,000 and the percentage of their total revenues that comes
9 from such jobs. I have attached as Exhibit A a summary of the responses I received,
10 from 14 mailers, together with the corresponding information for Schuh. For the group
11 as a whole, an average of 58% of their jobs accounting for 35% of their total revenue
12 are small mailings

13 **IV. USPS's Unfair Competitive Advantages**

14 In competing for these direct mail customers, USPS enjoys many competitive
15 advantages that are a direct result of its monopoly. These advantages are discussed
16 below.

DECLARATION

I, C. Scott Schuh, declare under penalty of perjury that foregoing testimony is true and correct, to the best of my knowledge, information and belief.

Dated: 2/6/99

C. Scott Schuh

CERTIFICATE OF SERVICE

The undersigned hereby certifies that the foregoing Direct Testimony of C. Scott Schuh was served upon all participants of record in this proceeding in accordance with Section 12 of the Rules of Practice and POR No. MC98-1/4 this 8th day of February, 1999.


James L. Brechin