

ORIGINAL

MASA-T-1

RECEIVED

BEFORE THE POSTAL RATE COMMISSION
WASHINGTON, D.C. 20268-0001
Feb 11 3 00 PM '99

MAILING ONLINE SERVICE

Docket No. MC98-1

ERRATA FOR
REPLACEMENT DIRECT TESTIMONY
OF
C. SCOTT SCHUH

On Behalf Of
MAIL ADVERTISING SERVICE ASSOCIATION INTERNATIONAL

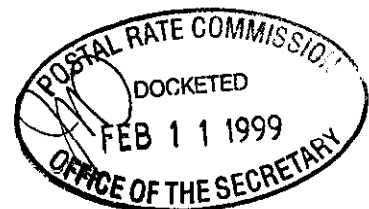
This is an errata to replace the cover page of Replacement Direct Testimony of C. Scott Schuh filed on February 9, 1999.

Communications with respect to this document may be sent to:

Graeme W. Bush
Martin S. Himeles, Jr.
Zuckerman, Spaeder, Goldstein,
Taylor & Kolker, L.L.P.
1201 Connecticut Avenue, N.W.
Washington, D.C. 20036
202/778-1801

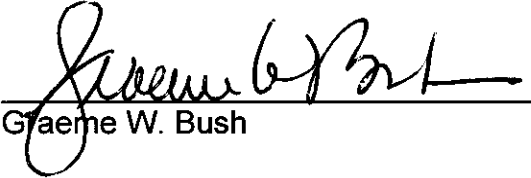
Counsel for Mail Advertising Service
Association International

Due Date: February 11, 1999



CERTIFICATE OF SERVICE

The undersigned hereby certifies that the foregoing Errata for Replacement 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 11th day of February, 1999.



Graeme W. Bush

ORIGINAL

RECEIVED

FEB 9 3 26 PM '99

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

MAILING ONLINE SERVICE

Docket No. MC98-1

REPLACEMENT DIRECT TESTIMONY
OF
C. SCOTT SCHUH

On Behalf Of
MAIL ADVERTISING SERVICE ASSOCIATION INTERNATIONAL

Communications with respect to this document may be sent to:

Graeme W. Bush
Martin S. Himeles, Jr.
Zuckerman, Spaeder, Goldstein,
Taylor & Kolker, L.L.P.
1201 Connecticut Avenue, N.W.
Washington, D.C. 20036
202/778-1801

Counsel for Mail Advertising Service
Association International

Due Date: February 8, 1999

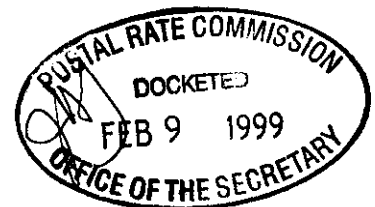


TABLE OF CONTENTS

Page

1
2
3
4
5
6
7 I. PURPOSE OF THE TESTIMONY 2
8
9 II. USPS AS A COMPETITOR 2
10
11 III. THE MARKET TARGETED BY MAILING ONLINE 4
12
13 IV. USPS’S UNFAIR COMPETITIVE ADVANTAGES 5
14
15 A. Access to Superior Advertising and Promotional Activities 5
16 B. Access to Sensitive Business Information 6
17 C. Postage Rate Structure 7
18 D. USPS Pricing Assumptions 8
19 E. USPS Pricing Structure 8
20 F. Exemption from State Sales Tax 9
21
22 V. CONCLUSION 9
23
24

LIST OF EXHIBITS

25
26
27 **ITEM** **TITLE**
28
29 (A) USPS Mailing Online Business Partner Statistics
30
31 (B) Lloyd Schuh Company Pricing Comparison on
32 USPS Detailed Calculation of Costs - Example 1

1 **Replacement 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.

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

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

14 Mailing Online is a radical departure from this approach. USPS, on whom our
15 industry depends for mail delivery, now proposes to compete with us on an uneven
16 playing field that favors USPS in many respects. The mere fact that USPS is now a
17 competitor would in any other circumstance cause us to discontinue our relationship; if
18 it were possible, I would engage a different delivery service to see that our mail reaches
19 its final destination. Of course, since USPS has a monopoly, there are no other mail
20 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.

17 **A. Access to Superior Advertising and Promotional Activities**

18 Because of its sheer size, USPS is able to advertise on a scale that companies
19 like mine cannot even contemplate. It runs periodic national television advertising
20 campaigns; takes out full page ads in newspapers, some of them prominent national
21 papers; sends notices to users of the mails, who are potential users of Mailing Online;
22 and conducts a variety of expensive promotional campaigns. USPS will have the ability

1 to engage in such advertising and promotional activity for Mailing Online, and to
2 incorporate promotion of Mailing Online in ads and promotions for other products.

3 It is simply impossible for my company to compete effectively with a competitor
4 who, by virtue of its national monopoly and resulting size, can advertise on such a
5 grand scale. While my company markets aggressively, it uses such means as direct
6 mail, yellow pages, trade shows and business publications. In 1998 we mailed a series
7 of eight self-promotions to 4,500 customers and prospects in Arkansas. Our target list
8 consisted of numerous small and mid-size companies we felt were either direct mail
9 users or potential users, including companies on our client database. We choose these
10 means of promotion because they are targeted and cost-effective. Our marketing
11 budget is limited, and we cannot support television, radio or newspaper advertising of
12 the sort available to USPS.

13 **B. Access to Sensitive Business Information**

14 USPS's ability to compete is further enhanced by its access to invaluable
15 competitive information. USPS knows the identity of each permit holder and collects
16 data reflecting their usage patterns, such as the type of direct mail they use, the typical
17 quantities and the frequency of use. Moreover, each time we place a mailing in the
18 mailstream using our own permit we are required to complete a form 3602, which
19 identifies the end user. With this information, USPS can assemble the same sort of
20 information for end users without permits.

21 Such information is not available to private businesses. I recently requested a
22 copy of the mailing list of my local Postal Customer Council chapter, in which I am an
23 active participant. Although this list would not have included the sort of data concerning

1 usage patterns that is available to USPS, it would nevertheless have been a valuable
2 marketing tool. The USPS representative on the Postal Customer Council, who
3 maintains a copy of this list on a USPS computer system, advised me that the list could
4 not be shared, due to headquarters directives. He further stated his belief that no
5 private customer of any Postal Customer Council across the country could receive
6 access to this list.

7 USPS appears to be increasing its efforts to maintain such information. For the
8 last few months the USPS mail acceptance clerk in our facilities has been logging the
9 name and address information of our end users in the USPS proprietary database
10 system. USPS is therefore accumulating in a readily usable form information
11 concerning the valued clients that mail on our company's postal permits. It would be a
12 simple matter for USPS to send a direct mail solicitation for Mailing Online to my
13 company's accounts offering printing and production rates as well as postage costs that
14 are below our costs.

15 **C. Postage Rate Structure**

16 The proposed charges for the postage portion of Mailing Online confer several
17 benefits to Mailing Online customers that are not available to the rest of us. USPS
18 proposes to make available to all Mailing Online customers basic presort automation
19 rates, irrespective of the size of their mailings. For all other users of the mails, there is
20 a 200 piece minimum for Standard "A" mailings and a 500 piece minimum for First
21 Class mailings to obtain such discounts.

1 **D. USPS Pricing Assumptions**

2 A significant part of the cost of any job we perform, excluding postage, is the
3 cost of the labor associated with our interaction with our client. When we receive data
4 files from a client, it is invariably necessary to interact with the client regarding problems
5 in the data, the review of proofs, and a broad range of other production and design
6 issues. The effort required for a small job is often as great as for a large job, and the
7 effect of these efforts on the cost per piece is therefore greatest for small jobs.

8 It appears to me from USPS's pricing of four typical mailings, which I discuss
9 below, that USPS has priced Mailing Online as if data will be received in a consistent
10 and highly accurate form and there will be little need for direct interaction with the
11 customer. Once again, in my experience it is entirely unrealistic to disregard the real
12 cost of providing service to the customer. Questions frequently arise concerning
13 matters ranging from layout and content to the appropriate prefixes to be used in the
14 salutation of letters. A help desk that is not directly involved in production will simply
15 not be able to address the many issues that do arise.

16 **E. USPS Pricing Structure**

17 I have reviewed USPS's sample Mailing Online prices for four examples,
18 provided in the updated response of witness Plunkett to OCA/USPS-T5-28 using
19 USPS's actual printer contract prices. Attached as Exhibit B is a spreadsheet for
20 Example 1, reflecting my company's costs per piece based on 1,000, 2,500 and 5,000
21 pieces. My company's selling costs, excluding postage, run from 50% above Mailing
22 Online on larger quantities to 250% above Mailing Online on small quantities. Mailing

1 Online pricing structure is so far below my costs, let alone my prices, that it would be
2 impossible for me to compete with USPS if prices were calculated as proposed.

3 **F. Exemption from State Sales Tax**

4 One of USPS's most obvious advantages is its exemption from state and local
5 sales taxes. In Arkansas, I am required to collect a state and county tax from my clients
6 of 6.25% of the non-labor portion of each order, which includes paper, printing and
7 direct addressing, a substantial portion of many mailing projects.

8 The mere fact that USPS is exempt from state sales tax therefore gives it what
9 would be a substantial cost advantage even if all other costs were equal. USPS plans
10 to undercut my costs in other respects, and the sales tax exemption merely
11 exacerbates an already insurmountable pricing structure.

12 **V. Conclusion**

13 My firm welcomes competition from other private sector companies facing the
14 same business challenges as we face, and seeking to make a return on investment for
15 their shareholders. If a non-monopolistic, private sector company with which I do
16 business chose to compete with me, I would have the opportunity to go elsewhere in
17 order to avoid supporting my competitor's efforts through the revenue I generate for the
18 competitor. Under USPS's current system, the efforts of my company and hundreds of
19 others like mine generate substantial revenue to feed the monopolistic services of what
20 could become our ex-partner and new competitor. Yet we have no realistic alternatives
21 to USPS to get our mail delivered.

22 The proposed Mailing Online service, if approved, threatens to drive a stake
23 through the heart of my business, and will have a similar impact on many others. The

1 service that my company and my industry provides is outstanding and the costs are fair.
2 USPS, if it becomes our competitor, will have the ability to leverage its monopoly on
3 mail service into many unfair competitive advantages. It will exacerbate the problem by
4 pricing its service at a level that does not take into account all of the costs it will incur,
5 shifting those costs to other customers. The inevitable result will be that my company
6 and many others will lose significant portions of our business to USPS, which until now
7 we viewed as our business "partner" rather than our business "predator." The mailing
8 industry will be dramatically effected and business relationships shattered if Mailing
9 Online is allowed to go forward.

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



1 **CERTIFICATE OF SERVICE**

2

3 The undersigned hereby certifies that the foregoing Replacement Direct
4 Testimony of C. Scott Schuh was served upon all participants of record in this
5 proceeding in accordance with Section 12 of the Rules of Practice and POR No. MC98-
6 1/4 this 9th day of February, 1999.

7

8



9

10

Normal L. Eisen

Exhibit A

USPS MAILING ONLINE BUSINESS PARTNER STATISTICS

COMPANY NAME	STATE	% JOBS UNDER 5,000	% TOTAL REVENUE
Colorado Data Mail	CO	52%	23%
Mailmedia, Inc.	WA	59%	24%
The Mail Room	CO	0-40%	15-20%
Publisher's Mail Service, Inc.	WI	45%	16.5%
Lone Oak Mailing Services ¹	MN	80%	65%
First Class Direct, Inc.	CO	80%	35%
Quality Letter Service, Inc.	NY	70%	45%
Mailtech Enterprises, Inc.	IL	12%	2%
K/P Corporation	CA	N/R	20-25%
The Lloyd Schuh Company	AR	60%	30%
Confidential ²	CA	74%	35%
Advertising Mail Corporation	TX	42%	34%
Post Haste Mailing Services	CA	79%	35%
Burke's Mail Service	NE	100%	100%
Hopkins Mailing Services	IL	24%	N/R
Average Percentages		58%	35%

¹ This respondent's provided the percentage of its jobs that are under 6,000 pieces.

² One respondent asked that its name be kept confidential if possible. If necessary, its name can be provided to the Commission

**Lloyd Schuh Company Pricing Comparison on USPS Detailed Calculation of Costs for Exhibit A - Example 1
2 Page, 8.5x11, Simplex, Black & White, First-Class**

	Impression Costs A	Paper Costs B	Envelope Costs C	Folding & Insertion D	Information Systems E	Subtotal	Contributi G	Fee H	Postage I	Total Postage & Fee J
USPS	\$ 0.0396	\$ 0.0094	\$ 0.0150	\$ 0.0336	\$ 0.0016	\$ 0.0992	\$ 0.0248	\$ 0.1240	\$ 0.2700	\$ 0.3940
LSC - 1,000	\$ 0.0870	\$ 0.0300	\$ 0.0250	\$ 0.0790	\$ 0.0965	\$ 0.3175	N/A	\$ 0.3175	\$ 0.2700	\$ 0.5875
LSC - 2,500	\$ 0.0640	\$ 0.0250	\$ 0.0210	\$ 0.0580	\$ 0.0670	\$ 0.2350	N/A	\$ 0.2350	\$ 0.2700	\$ 0.5050
LSC - 5,000	\$ 0.0580	\$ 0.0200	\$ 0.0190	\$ 0.0510	\$ 0.0570	\$ 0.2050	N/A	\$ 0.2050	\$ 0.2700	\$ 0.4750

Percent LSC Fee higher than USPS Fee (H) for 1,000 mailing 256%

Percent LSC Fee higher than USPS Fee (H) for 2,500 mailing 190%

Percent LSC Fee higher than USPS Fee (H) for 5,000 mailing 165%

Production notations:

- * Print two 8.5 x 11 sheets black ink one side on 20# white stock
- * Provide #10 white non-window stock with no print copy
- * Load client file from email, standardize, & postal code
- * Presort client file for lowest possible automation rates
- * Fold each 8.5 x 11 sheet to lettersize (tri-fold)
- * Insert into #10 envelope, seal (assumes permit indicia pre-printed)
- * Inkjet address #10 envelope and prepare for USPS entry

Cost assumptions

- * Presort rate assumes 100% postal qualification and no residual mail pieces
- * Assumes high speed inkjet addressing service
- * Assumes letter copy above is generic with no in-letter personalization or variables
- * Information Systems above include customer file preparation and inkjet address output

Exhibit B