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U.S. DEPARTMENT OF JUSTICE
OFFICE OF THE ATTORNEY GENERAL

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

MAILING ONLINE SERVICE

Docket No. MC98-1

DIRECT TESTIMONY
OF
RICHARD JURGENA

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

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Direct Testimony

Of

Richard L. Jurgena

My name is Richard L. Jurgena. I am President and owner of Mail Advertising Services, Inc. ("Mail Advertising") in Rockville, Maryland. Mail Advertising is a direct mail production company that offers services including maintenance of mailing lists, conversion of lists from multiple formats, personalization of letters, labeling of envelopes and other mail-related functions. We do not provide printing services, as many of our best customers are printers. The company has 15 full-time and 6 or 7 part-time employees. We have a 13,000 square foot plant at our headquarters in Rockville and a 5,000 square foot plant in Frederick, Maryland. Our annual sales are approximately \$900,000.

I have been in the direct mail business since 1970, when I became an employee of Mail Advertising. I purchased the company in 1976, and have been its President since then. In addition to having spent the past 29 years in the business, I am active in Mail Advertising Service Association ("MASA"), and Mail Advertising is a member of MASA. I served on the MASA Board of Directors from 1990 through 1994. Mail Advertising also belongs to the Direct Marketing Association of Washington and the Chambers of Commerce of Montgomery and Frederick Counties, Maryland.

I. Purpose of Testimony

Over the years, I have regularly followed developments in the industry that may affect my company, including in particular developments in products and services offered by the United States Postal Service ("USPS"). I have followed USPS's recent attempts to introduce a new Mailing Online service, and this service is of great concern to me. The purpose of my testimony is to describe the impact Mailing Online will have on my business and the unfairness of USPS's proposal to compete with us.

II. The Importance of Mailing Online's Target Market to My Company

I understand that Mailing Online is intended to target relatively small mailings of 5,000 or fewer pieces. The nature of Mail Advertising's business is such that mailings of that approximate size are critical to our business.

The average size of our jobs is approximately 7,000 to 8,000 pieces. In a typical year, approximately 65 percent of our jobs are under 5,000 pieces. We recently completed a 329 piece job for a large and important customer. The potential loss of such jobs would be of considerable concern, both because we would lose the revenue from those jobs and because our relationships with customers who provide us substantial other business would be jeopardized.

What is of even greater concern to me is that we frequently handle larger jobs that are by design split into multiple jobs of fewer than 5,000 pieces to test different approaches or to time solicitations in accordance with events occurring at different times

in different areas. A job we just completed is a good example. Microsoft hired us to produce a 50,000 piece mailing consisting of five drops over a period of 45 days. Each drop was split into two parts, one sent in the form of an envelope and letter and the other delivered in the form of a self-mailer, in order to compare these different forms of mailing. Thus, although one might describe the job as a 50,000 piece job, it actually consisted of 10 mailings totaling 50,000 pieces. Jobs of this sort are a large part of our business. I would estimate that approximately 30 percent of our revenues come from jobs that are either under 5,000 pieces or divided into mailings under 5,000 pieces.

III. USPS's Competitive Advantages

A. Postage Costs

First and foremost among USPS's advantages in competing with Mail Advertising is the preferential pricing it will provide to its own Mailing Online customers. The Postal Service requires 200 pieces in a mailing in order to provide an automation discount. USPS, on the other hand, proposes to give all of its Mailing Online customers automation discounts, no matter how small their mailings. The effect of this pricing structure will be to provide Mailing Online customers less expensive postage rates for all mailings under these quantities.

The only reason USPS can give itself, but not others, preferential pricing is because it has no competition in the delivery of the mail. It sets the rates, subject to regulatory approval, and the effect of Mailing Online, if it is permitted, will be to give lower

rates to users of Mailing Online than to others who use mail service firms. Because there is no alternative means of mail delivery, we will have no choice but to attempt to compete with Mailing Online notwithstanding the higher postage costs we will incur.

I believe that this lower postage rate alone will be sufficient to cause us to lose a significant portion of our business. Many of our customers for mailings that are under 5,000 pieces are large and sophisticated corporations. While USPS says that it is attempting to target small offices and home offices, these large corporations often send small mailings, and they have sufficient sophistication and technical ability to provide their mailings directly to USPS electronically without difficulty. If USPS will accept their mail directly at lower postage rates than are available if we produce their mail, it will be difficult for us to persuade them to continue using our services.

B. Advertising

USPS's ability to advertise on a large scale is yet another advantage it has. My company advertises by sending newsletters that include inserts promoting our services to our current customers and prospects. We do not have the resources to run ads on national television, or even on local television, or to advertise extensively in the print media. Our funds are limited, and we rely on targeted direct mail advertising of the sort we provide our customers. While I believe that this form of advertising is the most cost-effective, its reach is limited to prospects we are able to identify.

USPS has immeasurably greater resources than we do, and it has the additional advantage of being able to promote Mailing Online in tandem with other products at no incremental cost. Mailing Online will be a new service for USPS, and it can only succeed if potential customers become aware of it. USPS's ability to advertise extensively, which is a result of its monopoly over the delivery of mail and its resulting size and other advertising needs, will permit it to create the visibility that is essential to the success of Mailing Online.

C. Customer Support

Mailing Online is designed on the premise that most of the interaction between USPS and the customer can occur over the Internet. From my experience in the industry, I believe that far more customer interaction will be necessary than USPS seems to believe. It is not practical for a customer to submit data over the Internet, USPS to distribute it to the appropriate contract printers, and the printers to print the mailings and address labels, prepare them for mailing, and deliver them to a BMC, all with little or no direct interaction. Address lists invariably include addresses with cities that do not match states, zip codes that are wrong, and other such problems. Our typical practice is to identify bad addresses using USPS-approved software and notify the customer that these items can only be mailed first class and probably will not be delivered. It is also frequently necessary to communicate with the customer about other matters, such as whether the addresses are upper or lower case, the use of prefixes, and other questions

and problems that arise. The need for such guidance will be particularly acute in Mailing Online if, as USPS projects, the users are in large part small offices and home offices that have not used direct mail previously.

Particularly in light of the projected prices for Mailing Online, I believe USPS has underestimated these costs associated with Mailing Online. While USPS may well be able to adapt to needs that exceed its expectations, it will incur additional costs that are not reflected in its prices. Its proposed prices are unfairly low, and will make it impossible for us to compete with Mailing Online.

D. The Importance of Small Mailings

USPS minimizes the significance of mailings under 5,000 pieces. I can state unequivocally that such mailings are not insignificant to my company. We rely on them, and if we were to lose them the consequences would be severe. Only in the context of an entity the size of USPS are such mailings of minimal significance -- and if that is truly the case, I do not understand why USPS insists on proceeding with Mailing Online.

E. The Loss of Business Referred by USPS

Yet another casualty of Mailing Online will be a stark change in our relationship with USPS, and with that change a corresponding loss of business. USPS has in recent years presented itself as a partner of the direct mail industry. Every year USPS holds a course to teach members of the industry about various aspects of its products and pricing. I have attended these courses for each of the last three years. On each

occasion USPS has made an effort to provide information that facilitates our ability to carry out our business, and we have in turn attempted to work with USPS. Likewise, I have readily provided to USPS information concerning my customers, including telephone numbers that lead directly to the contacts for direct mail advertising, although I would never make a customer list available to a competitor.

The competition with USPS that will accompany Mailing Online can only interfere with this relationship. We will no longer be willing to provide to USPS information that will allow it to construct our customer list, and we will have to make every effort to limit the information we provide, to the extent we can do so without preventing delivery of the mail. I am concerned about USPS's competitive use of the information we have already provided. More generally, our cooperative relationship with USPS can only deteriorate when they begin to take business from us.

In addition, because USPS is the only provider of mail delivery service, it receives inquiries from potential clients who want to send direct mailings in a particular area. In Maryland, USPS has responded to these inquiries by providing a list of its "business partners" in the area -- companies like mine, which have worked together with USPS to further our mutual interests. These referrals have been a source of considerable business over the years. Just as USPS does not send Express Mail customers to Federal Express, it is inevitable that, once Mailing Online is available, USPS will respond to inquiries by referring potential customers to Mailing Online. It is only because of its

monopoly on mail delivery that USPS receives these inquiries in the first instance, and Mailing Online will cost us the business associated with them.

F. Potential Damage to the Industry if Mailing Online Fails

I have discussed above my concerns about the impact on our business if Mailing Online is successful. It is also possible that, notwithstanding USPS's enormous advantages, it will be unable to provide even a minimally acceptable level of service, and Mailing Online will be unable to retain customers. The failure of Mailing Online would also cause serious damage to the industry.

We are constantly attempting to protect the image and reputation of the industry, and to educate our customers and potential customers about the value of direct mail as compared with other methods of advertising. Some of the customers of Mailing Online will be using direct mail for the first time; others will be prior users, but in some instances they too will be relatively new to direct mail. If Mailing Online is unable to provide the quality of service that the private sector provides, these potential customers -- who might otherwise have contacted my company or another like it for their first direct mailing -- may well conclude that other advertising methods are superior to direct mail. I have no doubt that Mailing Online will attract significant numbers of my customers and potential customers. If Mailing Online is successful, it will retain those customers; if it fails, they may be lost forever to direct mailing.

IV. Conclusion

USPS does well for all of us when it provides economical and efficient mail delivery services. I rely on those services every day in my business, and I do everything I can to facilitate USPS's efforts.

At the same time, USPS's position as the sole provider of such services confer on it enormous competitive advantages in other areas. If USPS is permitted to become my competitor rather than my partner, I have grave concerns about the impact on my business. I respectfully submit that the USPS's proposed Mailing Online program will spell the end of fair competition in the direct mail business.

DECLARATION


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

Dated: 2/8/99

A handwritten signature in black ink, appearing to read "Richard Jurgena", is written over a horizontal line.

CERTIFICATE OF SERVICE

The undersigned hereby certifies that the foregoing Direct Testimony of Richard Jurgena 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. Brochin