
Valassis NSA

Docket No. MC2012-14

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Docket No. R2012-8

REPLY COMMENTS OF VALASSIS DIRECT MAIL, INC.

(June 1, 2012)

Valassis Direct Mail, Inc. (Valassis) hereby submits its reply comments concerning the Negotiated Service Agreement between Valassis and the Postal Service, filed with the Commission on April 30, 2012.

The Valassis NSA, which would create new Saturation shared mail programs that do not exist today coupled with requirements that Valassis maintain its existing shared mail programs, offers the Postal Service an important opportunity to generate new incremental mail volumes and contributions to its institutional costs. The marketplace purpose of this proposal is to provide national durable and semi-durable goods retailers an optional way to expand the reach of their weekend advertising circular distribution through a saturation mail program in the face of declining newspaper subscriber circulation. Consistent with this objective, it is Valassis's position and belief that this NSA proposal *should be made available* for use by newspapers as "similarly situated" mailers.

A. The Valassis NSA Proposal Will Meet An Important Marketplace Need.

The Valassis NSA is designed to serve an increasing market need. For decades, national durable and semi-durable goods retailers have depended primarily on newspapers to distribute their general-circulation weekend advertising circulars to households in their primary market areas. This preference has been due to a variety of perceived advantages of newspaper subscriber circulation, varying by retailer, such as demographics, readership and response, delivery timing, and price. As the Newspaper Association of America (NAA) and the Public Representative (PR) acknowledge, most large retailers do not use total market coverage (TMC) distribution to non-subscribers, preferring the demographics and opt-in nature of the Sunday subscriber. See NAA at 21-22; PR at 4 (“national brand name department stores and home improvement hardware stores ... prefer the Sunday insert packet because they know that the majority of their circulars are going to customers who have requested the publication...”), and that “participating in the Sunday packet protects the status of their brands and is more effective in building a relationship with the customer.”).

However, newspaper subscriber circulation has been declining for well more than a decade due to changing readership habits, an adverse trend accelerated by the wide availability of alternate channels of news and information on the internet. Over just the last five years, Sunday print circulation of the top one-hundred newspapers has declined by an average of 25 percent.¹ These sharp declines in circulation are of increasing concern to the large retail advertisers, who are seeking ways to expand their

¹ Source: Audit Bureau of Circulations, March 2012 ABC Publisher’s Statements for the top 100 newspapers, Sunday Print Circulation five-year trend, March 2012 compared to March 2007.

² Source: <http://www.nanigans.com/2011/11/16/big-box-retailers-go-digital-home->

advertising reach. Most, however, have not been using the mail for general distribution of their weekend advertising circulars either in saturation or TMC programs. Instead, many have begun taking advertising dollars out of print media and shifting to broadcast and digital media, as in the case of Home Depot:

“Home Depot has determined these print inserts are declining in impact, alongside the decline in print newspaper circulation and readership. According to MediaPost, expenditures on these freestanding print inserts were down over 6 percent in the first half of 2011. Home Depot is pulling away from them this holiday season in favor of digital ad buys, citing real-time bidding and the ability to target and track this ad spend’s impact as core reasons for the shift.”²

Valassis believes that print advertising distribution through a targeted saturation mail program will be an effective way to expand weekend advertising coverage and proficiency for these retail advertisers. The Valassis NSA proposal is tailored to meet this need in a narrow manner. Valassis is restricted to carrying only the advertising circulars of national durable and semi-durable goods retailers, as defined in the agreement. It can do so only in markets where it has an existing regular shared mail program, and is confined to the existing geographic footprint of those programs. In any market where Valassis introduces a new mail program under this NSA, it must maintain its existing program at the same frequency as before, and is prohibited from shifting advertisers in its existing program or migrating advertising circulars from the USPS solo mail stream into the new program.

Valassis will pay full postage on each mailing when it is entered in the mail stream. The mailings will subsequently be eligible for annual rebates to be paid after the end of each year of the agreement. Under the agreed-upon rebate schedule, only

² Source: <http://www.nanigans.com/2011/11/16/big-box-retailers-go-digital-home-depot-kohls-and-walmart/>, November 16, 2011.

mail pieces weighing at least four ounces will be eligible for rebates. The rebates are dependent upon meeting the requirements for eligibility. For example, the inclusion of any advertising circular in a mailing from an advertiser that does not meet the definition of a “national durable and semi-durable goods retailer” will disqualify Valassis from receiving a rebate for such mailing.³ In the case of any circulars migrated from the USPS solo mail stream, Valassis will pay a surcharge equal to the published solo mail price for each such circular.

Valassis does not view this proposal as a replacement for newspaper advertising distribution. Rather, it is simply an additional option in the marketplace for those retail advertisers that want to expand their reach through a saturation mail program – an option that Valassis believes can also be made available to newspapers.

B. NAA’s Prediction That Newspapers Will Choose To Convert Their Mailed TMC Programs To Private Delivery Is Not An Appropriate Basis To Deny This NSA Proposal.

This NSA proposal involves creation of new saturation mailing programs that do not exist today, together with conditions that ensure Valassis will maintain its existing mail programs in those markets. Thus, the mail volumes generated by this NSA proposal will represent new incremental volumes and contribution for the Postal Service. Moreover, because the national retailer segment covered by this NSA currently makes little or no use of the mail for distribution of their general-distribution weekend advertising circulars, the proposal will not divert any appreciable advertising from other mailers.

³ USPS Response to ChIR No. 3, Question 7. This prospect of rebate disqualification provides the strongest incentive for Valassis to ensure that each advertiser in each mailing meets the required definition, particularly since Valassis knows that competitors will be monitoring its program.

Noticeably, NAA does not contend that this NSA will cause any *direct* diversion of existing mail from other mailers. Nor does it claim even an *indirect* diversion effect, such as diversion of advertising from existing mail programs that causes the mailing program to go out of business. It essentially concedes that most mailed TMC programs are mid-week programs that carry little or no circulars from the national retailers encompassed by this NSA. NNA at 21-22; see also PR at 4.

Instead, NAA posits what might be termed an *external volitional* effect. It claims that *if* newspapers lose revenues from their weekend programs (which are mostly privately delivered) to the Valassis NSA, *they may choose* to convert their mid-week programs to private delivery as a cost-cutting offset. As if to prove that this is not an idle threat, NAA cites the experience in FY2008-2009 when a number of newspapers switched their mailed TMCs to private delivery in pique over a short-lived increase in High Density rates relative to Saturation rates.

The problem with this kind of “volitional” threat is that anyone can make it in response to any proposal that they oppose. To the extent that switching mailed TMCs to private delivery would cut costs, NAA’s linkage of this threat to the Valassis NSA is peculiarly convenient in its timing, since newspapers have long had that incentive in the face of these tough economic times that have affected all mailers. Moreover, newspapers have other alternatives to respond to this NSA, such as improving their current advertising distribution programs or pursuing similar NSAs with the Postal Service. This volitional threat is not the kind of “diversion” that should be considered in assessing the “net financial impact” of the NSA on the Postal Service. Otherwise, the

Commission would be inviting boycott threats and closing the door on almost any kind of NSA in the future.

C. NAA's Threat Of TMC Conversion To Private Delivery Exists Without Regard To This NSA.

The threat that newspapers will convert their mailed TMC programs to private delivery is hardly new, and the risk to the Postal Service of that occurring will continue to exist regardless of this NSA proposal. The reason is the emergence of private delivery as a sophisticated and lower-cost delivery channel than either Saturation or High Density mail.

Private delivery has always been less costly than mail, but in the past it suffered from a perception of inferior service and reliability. That has now changed. Private delivery has become much more sophisticated, employing modern technologies for managing delivery operations, including advanced software for delivery planning and routing, GPS systems for route mapping and real-time tracking, and delivery verification systems. Moreover, private delivery companies are aggressively marketing their services both to newspapers and to mailers. Private delivery programs are created and executed at distribution costs well below (up to 50 percent) the costs for mail at current Saturation postal rates.

As an example of this threat, Valassis invites the Commission's attention to the website of CIPS Marketing Group, Inc., a private delivery company jointly owned by the Tribune Company (which filed a letter opposing this NSA) and MediaNews Group (a large newspaper conglomerate). See <http://www.cipsmarketing.com/>. In addition to describing its state-of-the-art distribution system, CIPS describes its primary services:

“With the continued steep declines in the newspaper and publication industry, CIPS Marketing continues to bring the most innovative and

cost-effective solutions to the industry. Our delivery services include advertising TMC packages, alternate newspaper publications, phone directories, and a wide assortment of Direct to Door products including door hangers, product samples, and advertising circulars.”

Source: <http://www.cipsmarketing.com/CIPS-marketing-inc.php>

It then describes its core program for converting mailed newspaper TMC programs to private delivery:

“Due to the endless increases in postage rates, newspapers across the country are aggressively converting their advertising TMC packages out of the US Post Office. The benefits of working with CIPS include:

- Up to 50% in distribution savings
- Pinpoint delivery with more accuracy
- 7-day a week delivery opportunities
- No weight limitations”

Source: <http://www.cipsmarketing.com/tmc-packages.php>

With these advantages over postal distribution, it is hardly surprising that CIPS (Tribune and MediaNews) is continuing to aggressively convert TMC programs out of the mail and into private delivery, as touted in its various press releases at <http://www.cipsmarketing.com/tmc-packages.php>. These ongoing conversions by CIPS and other private delivery companies and newspapers, of course, have been proceeding without regard to any NSA proposal. And, such conversions will continue regardless of this NSA.

In essence, the newspaper industry’s position has been that the Postal Service should not be allowed to do anything through pricing or NSAs that might broaden the reach of mail to meet the needs of advertisers that are not currently in the mail – enforcing their position with the threat of taking their already-migrating TMCs out of the mail. Yet when it comes to serving the needs of retailers for expanded advertising reach in the face of declining circulation, newspapers have eschewed postal solutions,

not even bothering to present proposals to bring new volumes into the mail. Instead, they have opted for non-postal alternatives such as “Sunday Select” private distribution to opt-in households, with a claimed circulation of more than 4 million households weekly. And now, they vociferously oppose anyone else seeking to meet those advertisers’ needs through the mail. The newspaper industry wants the postal system to be a one-way street, with newspapers free to leave (or threaten to leave) the mail at will, but otherwise freezing in place the postal marketplace to their advantage. That outcome would obviously be in their self-interest. However, it is contrary to the interests of a viable postal system, and to the interests of retailers who have a clear need to expand their advertising options and reach.

CONCLUSION

The Valassis NSA offers an important and timely opportunity for the Postal Service to generate new mail volumes and contribution to institutional costs, while meeting the needs of retailers for expanded advertising reach. Conversely, if the Commission, at the urging of the newspaper industry, were to disapprove this NSA proposal, the decision would send a clear signal to the saturation mailer industry that mail distribution is not a viable channel for business expansion. Already, the level of Saturation postal prices is too high to sustain current volumes. Absent innovative growth strategies such as this NSA, Saturation mail volumes are likely to continue to decline.

Such a decision would also signal to mailers that the most promising channel for future growth lies outside the mail stream through private delivery. The consequence will not be what the newspapers expect. Retailers will still have a marketplace need to expand their reach beyond the declining newspaper subscriber base. Mailers will have

no choice but to look to private delivery to meet that need. When that occurs, the privately-delivered programs will not be confined just to the national retail advertisers covered by this NSA, but will be marketed to all circular advertisers – including local and regional companies, non-durable goods retailers, service businesses, and others that are excluded from this NSA. Nor will privately-delivered programs be circumscribed by the other restrictions in this NSA, such as the requirements to maintain existing shared mail programs at current levels and the prohibitions against migrating advertising from the solo mail stream or transferring advertisers from the existing program into the new one.

In sum, if mail is foreclosed as a channel to meet the needs of these advertisers, those needs will drive other non-postal solutions that likely will be detrimental to both the Postal Service and the newspapers. The Valassis NSA – a narrower and timely alternative that is consistent with the objectives and guidelines of the NSA provision – should be approved.

Respectfully submitted,

Steve Mitzel
Senior Vice President / General Manager-
Shared Mail
Valassis Direct Mail, Inc.
One Targeting Centre
Windsor, CT 06095
(860) 285-6257
smmitzel@valassis.com