

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

VALASSIS NSA

Docket No. MC2012-14

Docket No. R2012-8

RESPONSE OF Houston Chronicle TO NOTICE OF INQUIRY NO. 1

We submit this declaration in support of NAA's Response to Notice of Inquiry No. 1

The Houston Chronicle opposes the Valassis measure because it would provide Valassis with an unfair advantage in the marketplace. Valassis, by leveraging their lower postal costs into distribution savings to the advertiser, will impact our company through loss of advertising revenue and ultimately impact local news and information in the communities that we serve. This action will also directly affect our newspapers' value to the subscriber because subscription sales are tied to the advertising content and circular sales information as much as it is to the editorial value; therefore, paid circulation will be severely impacted as well. In order to compete with Valassis, our newspaper group would need to find the means (other than the U.S. Postal Service) to deliver circulars on a total household basis to competitively match the advantages that the postal service is granting Valassis. The U.S. Postal Service could force a situation whereby they would directly compete with newspapers as a distribution vehicle in our marketplace. If passed, this measure will also disrupt relationships with our top advertisers, many of whom utilize our newspapers for print and online advertising in addition to their circular distribution.

Please note the significant impact in the numbers below that represents the percentage of our total revenue.

1. For fiscal year 2010, we estimate that advertising inserts for durable and semi-durable goods from national retailers represented XX% of total advertising revenues (including ROP, classified, and digital advertising), XX% of total print advertising revenue, and XX% of total preprint advertising revenue.

2. For fiscal year 2011, we estimate that advertising inserts for durable and semi-durable goods from national retailers represented XX% of total advertising revenues (including ROP, classified, and digital advertising), XX% of total print advertising revenue, and XX% of total preprint advertising revenue.

3. The proposed postal rate discount and rebate structure would give Valassis an unfair competitive advantage by giving them dramatically lower cost rates for the exact same competency and capability, that will destroy the fundamental economics of the newsgathering and distribution

models that the Chronicle is based. The change directly impacts two fundamental elements of the Houston Chronicle's audience delivery product offerings for local, regional and national advertisers, and indirectly impacts all other contingent revenue development areas by default:

- A. **Sunday Newspaper Product.** The Chronicle reaches XX (Subscription / Single Issue Sale and Sunday Select) households on Sunday and delivers XX of insert packages annually through the products. These products provide an efficient delivery method and the revenue generated from the insert delivery supports a local news and information organization that is vital to the local community.

- B. **Total Market Coverage (TMC)** – The Chronicle produces and distributes products to non-subscribers of our newspapers as part of integrated reach extension programs. These TMC packages are distributed every week primarily through USPS services/mail in homes on Wednesdays. These products include advertising inserts from local, regional and national companies such as grocery stores, department stores, home improvement centers, toys stores, discount stores, drug stores, local companies such as restaurants, automotive services and aftermarket products, and home improvement types of businesses. While many national retailers of durable and semi-durable goods run advertising in the TMC, most of these ad inserts are also distributed in our newspapers' Sunday and daily editions. The Wednesday shared mail/Wednesday subscriber insert program is designed to reach 100% penetration within zip codes; this program was designed and is utilized by Houston area grocery stores, some national some local.

The proposed national rate structure would create an insurmountable pricing disadvantage by creating predatory pricing incentives to strip the existing Sunday and TMC programs. While the target is the national retailers, this is a shared mail program than includes local grocery and retailers. If the national advertising is removed the local market would no longer have a viable package and therefore we would be unable to maintain the TMC product, creating an unintended ripple effect. At a spend of just over \$XX million annually with the Postal Service for our TMC product, making the Chronicle the biggest USPS customer in SE Texas.

The proposed national rate structure will also impact our Sunday home delivery products, the very core of our mission in serving the economic, civic and commercial interests of the region. The loss of Sunday national inserts will create a significant financial burden on the Houston Chronicle and directly impact our ability to support local journalism and provide this valuable marketplace and exchange of ideas to the local community.

4. For fiscal year 2011, we estimate that we distributed XX of TMC advertising inserts displaying durable and semi-durable goods from national retailers via the Postal Service and XX pieces via private delivery carriers or through other delivery methods.

5. For fiscal year 2010, we estimate that we mailed approximately XX packages of TMC product for which we paid the Postal Service approximately \$XX.

6. For fiscal year 2011, we mailed approximately XX packages of TMC product for which we paid the Postal Service approximately \$XX.

7. We estimate that the Postal Service will lose approximately \$XX from our mid-week TMC postage if the Valassis NSA is approved.

"I declare (or certify, verify, or state) under penalty of perjury that the foregoing is true and correct.
Executed on July 3, 2012.

A handwritten signature in black ink that reads "Susan Pape". The signature is written in a cursive style with a long horizontal flourish extending to the right.

Susan Pape
Executive Vice President Finance
Houston Chronicle