

SATURATION MAILERS COALITION REPLY TO
FEBRUARY 12, 2003 COMMENTS OF
THE NEWSPAPER ASSOCIATION OF AMERICA TO
THE PRESIDENT'S COMMISSION ON THE UNITED STATES POSTAL SERVICE

March 12, 2003

The Saturation Mailers Coalition (SMC) would again like to thank the members of the Commission for their service and their commitment to the successful continuation of postal services in the United States. We appreciated the opportunity to submit our views to the Commission on February 12 and were pleased to discuss our contribution to the viability of the Postal Service. In our view, the Postal Service's ability to provide its present services at affordable rates would be jeopardized without the business our members bring week after week.

While our February 12 statement stands on its own, we will take advantage of the opportunity presented by the Commission to respectfully but vehemently disagree with comments offered by the Newspaper Association of America (NAA). Many of the arguments in their statement are specious and irrelevant. They do, however, clearly show the conflict of interest in the NAA's testimony that is almost wholly focused on the rate of saturation mail. The desire of the NAA is to maintain its monopoly over pre-printed insert advertising. It has spent countless hundreds of thousands of dollars on expensive lobbyists over the years to interfere in the rate making process and the reform process to ensure it maintains its monopoly and has used its news and editorial pages to mislead the public about the costs and benefits to the postal service of saturation mail.

Recognizing the limits of time for the Commission, we will not attempt a point-by-point refutation here. However, we strongly affirm that implementation of the NAA's recommendations would not only harm our members but would put the Postal Service itself in financial peril. (Indeed they would force our members, who include small newspapers, shoppers, coupon mailers and advertising package mailers out of business at worst — forcing tens of thousands of families onto unemployment — or out of the mailstream entirely at best.) We believe that the NAA is focused on maintaining its own monopoly on the distribution of pre-printed advertising rather than on the good of the Postal Service, as its history in the rate making process has amply demonstrated. Their goal is price protection, not fairness for first class mailers.

The Importance of Saturation Mail

The Postal Service is a volume-driven business. There is enormous fixed cost and a vast infrastructure. The NAA (and most others who submitted comments to the President's Commission) favor "a national postal system committed to universal service." (NAA comments, p. 23). Saturation mail provides an increasingly important revenue contribution to that system which helps finance universal service for all types of mail. While the Postal Service can improve in many areas, it understands the basics of its business model (that the NAA disingenuously ignores):

- First Class Mail is a mature (and declining) product.
- Saturation mail is a growing product and if the right decisions are made, it can continue to grow.

- The Postal Service infrastructure has high operating leverage; much of its cost base exists whether or not there is additional volume. Therefore additional volume makes a contribution – almost all the revenue gained from an additional piece falls to the bottom line.

The example of the airline industry (a similar high fixed cost/high operating leverage business) is instructive. The business models that focused on revenue are largely in Chapter 11 (with the remainder desperately trying to avoid bankruptcy). The business models that focused on market demand (volume) and affordable market driven rates have continued to be successful even through the worst downturn in aviation history. (Just as a scheduled flight must fly its route no matter how full, a mail carrier must travel her or her route past every home and business every day whether to deliver one piece or twenty.)

The Postmaster General is astute in focusing on the need to maintain high, long-term volumes. This reflects basic business principles in running an operation with high operating leverage and high fixed costs. To continue to provide the universal service the NAA claims to support, the business model will always have large fixed costs however well management is able to improve efficiency. Generating high volume that makes a contribution to those fixed costs is vital to the survival of the Postal Service.

There is no question that our members and their customers would benefit from a strong and viable Postal Service offering reliable service at affordable rates. But we also believe that a strong and viable mailing industry, which brings volume (and therefore revenue) to

the Postal Service, helps pay for the essential service enjoyed by every citizen and business in the country. The regularity and geographic coverage of Saturation mail now provides a reliable and significant contribution to fixed costs.

Saturation Rates Are Not Inappropriately Low – They are Too High

The NAA refers to the “inappropriately low” rates for advertising mail. We believe that advertisers who use saturation mail get good value for their advertising dollar because of the services and products our members provide their customers. However, our postage rates (and the prices we must then charge our customers) are not low compared to the rates charged by the NAA’s members to advertisers in most markets. We are certainly not going to defend the current long, costly, and inefficient ratemaking process. We do object to the notion that this process has resulted in rates that are “inappropriately low” for our members. To the contrary, one of the quirks of the process is the ability of NAA and others who compete against those who use the Postal Service to be involved in the ratemaking procedures. That involvement is not an attempt to protect competition but to protect NAA members *from* competition. In rate case after rate case, and now before this Commission, the NAA hopes to raise our rates so that NAA members can gain a monopoly over preprint distribution.

Saturation mail competes with private carrier delivery, largely the NAA members. The piece rate of Saturation mail is currently much higher than the piece cost of private carrier delivery, particularly for heavier-weight pieces. The Postal Service *should* be looking for ways to *reduce* the cost of saturation so that saturation can compete on a level

playing field with private carriers. The high price levels forced on direct mailers, in part because of NAA lobbying, have stifled direct mail margins and therefore competition. Direct mail has little pricing power over its own customers because they are themselves in extremely competitive markets and have the lower price newspaper alternative readily available.

There is much more in the NAA comments with which we disagree and with which we could take issue at length. However, we are well aware of the large volume of testimony the Commission has received. Please be assured that the Saturation Mailers Coalition and its members are ready to provide the Commission with whatever information it would find helpful. Again we commend you for taking on this important work and wish you success.

Respectfully submitted,

Bernard Bradpiece, Co-Chair
Dick Mandt, Co-Chair
Donna E. Hanbery, Executive Director
Saturation Mailers Coalition
33 South 6th Street, Suite 3725
Minneapolis, MN 55402
(612) 340-9350
hanbery@hnclaw.com