

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

**RATE AND SERVICE CHANGES TO
IMPLEMENT FUNCTIONALLY EQUIVALENT
NEGOTIATED SERVICE AGREEMENT WITH
THE BRADFORD GROUP**

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**DIRECT TESTIMONY
OF
STEVE GUSTAFSON
ON BEHALF OF
THE BRADFORD GROUP**

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Direct Testimony

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1. Autobiographical Sketch

My name is Steve Gustafson. I am Director of Marketing Services at The Bradford Group. I have been with THE BRADFORD GROUP since 1992. I currently have financial and cost negotiation responsibility for all media placement, print production, paper purchasing, list services, mailing services, and postal affairs. In my tenure with THE BRADFORD GROUP I have served in numerous roles and have distinct understanding of the companies use and proliferation of mail with the postal service.

2. Purpose of Testimony

My testimony is submitted in support of the Bradford NSA. The purpose of my testimony is to (i) provide a brief history of the Bradford Group; (ii) explain and illustrate how Bradford and others in the direct mail industry generate business for the United States Postal Service through a multiplier effect through the mail stream, (iii) present Bradford's recent historic mail volumes, and (iv) describe the company's address hygiene practices.

3. History of the Company

Over three decades ago, The Bradford Exchange -- the flagship in what has become a worldwide business enterprise -- was founded by J. Roderick MacArthur. Foreseeing the need for a centralized collector-plate market, Rod MacArthur began modestly enough, importing collector plates from Europe and

1 selling them to distributors, dealers, and direct to individual collectors through
2 his company, which was then called the Bradford Galleries Exchange. By 1973,
3 Mr. MacArthur dropped the word "Galleries" from the company.

4 This foundation as the authority in the collectibles plate market led to the
5 Bradford Group's leadership role through the '70s, '80s, '90s and into today as
6 an innovative and dynamic direct marketer of an ever-growing array of collectible
7 forms.

8 The Bradford Group has become the recognized leader in new product
9 development and sales of collectibles ranging from plates and dolls, music
10 boxes, jewelry, figurines and ornaments, to architectural villages, electric trains,
11 diecast cars and more.

12 **4. The Multiplier Effect**

13 While more and more communications and delivery move out of the mail
14 stream and into electronic and competitive alternatives, Bradford and its
15 customers continue to value the direct at-home communication, promotion and
16 delivery of our variety of products. Bradford has millions of clients and the vast
17 majority of correspondence between Bradford and its customers takes place in
18 writing through the United States Postal Service. Our customers typically prefer
19 to order and pay for our products through the mail rather than by online or over
20 the phone.

21 To reach our potential and current customers, Bradford directly generates
22 significant volumes of solicitations, Business Reply Mail and First-Class Mail.
23 We use purchased external response mailing lists, external media placements,

1 as well as our own internal lists of former and existing customers. Each
2 solicitation letter and media placement, whether or not it produces an addition to
3 our customer base, contributes to the mailstream. When we successfully market
4 a product, there is a significant multiplier effect inherent in Bradford's business
5 model. One Bradford solicitation generates approximately sixty-seven mail
6 pieces for each customer that is successfully marketed to. This number includes
7 significant numbers of parcels, a competitive market in which the United States
8 Postal Service is Bradford's carrier of choice. A significant majority of parcels
9 that Bradford sends weigh under one pound, and Bradford sends nearly one
10 hundred percent of these parcels through the Postal Service.

11 Consider the following mailstream a typical customer generates over the
12 course of one year:

- 13 a. The customer receives a Bradford Standard Mail solicitation
14 or sees a Bradford solicitation in a media channel. The vast
15 majority of offers are for a series or subscription plan.
- 16 b. The customer positively responds to the offer and places an
17 order by Business Reply Mail (letters or cards) or via regular
18 First-Class Mail.
- 19 c. In response to the order Bradford sends either (1) a parcel
20 by USPS or (2) a first-class solicitation requesting payment
21 with the reply coming via First-Class Mail.
- 22 d. In many cases, solicitation requesting payment asks for an
23 installment payment. In these circumstances, an installment

1 payment will possibly trigger sending a parcel by USPS, or if
2 no payment is promptly received, subsequent efforts (up to
3 5) will be made via First-Class Mail to obtain payment. Even
4 if the customer doesn't pay, he or she may be marketed to at
5 a later date via a Standard Mail letter or flat.

6 e. Continued First-Class solicitations would typically follow
7 (installment payments) as well as continuity product
8 shipments through the Postal Service.

9 f. A current customer could receive up to 40 Standard Mail
10 letter or flat solicitations per year offering other products and
11 offerings. As a result, additional product orders are placed
12 generating additional parcels sent via USPS and First-Class
13 Mail communication.

14 g. If a customer refuses a product or wishes to return a
15 product, the return is typically made through Bulk Parcel
16 Return Service, paid by Bradford. Each parcel shipment
17 has an enclosure suggesting the customer use this option
18 for returns.

19 h. Each subsequent product shipment as part of series or
20 subscription plan is typically made through the Postal
21 Service as a parcel; additionally, each subsequent order
22 would trigger additional First-Class Mail correspondence for

- 1 product payment or installment payment, with responses
2 coming back via First-Class Mail.
- 3 i. Bradford notifies customers by postcard if the fulfillment of
4 the product ordered will be delayed or is on backorder. If
5 delay in shipment will be longer than 30 days and is covered
6 by the mail order rule, Bradford provides a Business Reply
7 Mail return postcard for the customer to mail to authorize the
8 delay giving the customer the option to keep the order open
9 or request a full refund of the money collected
- 10 j. Customers send First-Class Mail correspondence to
11 Bradford concerning any number of reasons relating to their
12 account, questions and occasionally complaints.
- 13 k. Bradford sometimes send customers correspondence via
14 First-Class Mail requests for additional information on their
15 order or account.
- 16 l. Some customers fall behind on payments or cease paying
17 all together. This prompts First-Class Mail seeking
18 collection of past due accounts. Payment are made through
19 First-Class letters.

20 Bradford plans to maintain its current level of use of the United
21 States Postal Service as described above, including sending invoices and
22 fulfillment through the Postal Service.

1 Just as an increase in Standard Mail solicitations as a result of a rate
2 incentive will increase the amount of Bradford multiplier mail, the decline in mail
3 solicitations that my colleague Wendy Ring explains would occur in the absence
4 of a discount, would also result in a corresponding decline in incidental mail.

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6 **5. Mail Volume Expansion through Targeted List Industry**

7 Since the early 1980's, Bradford has expanded into numerous additional
8 collectible markets and has acquired a premier collectible figure mail order
9 marketer. Each entity in the Bradford Group provides a carefully screened list of
10 customers, which is highly desirable to other marketers and fund-raisers. Each
11 list rented by another marketer leads to an immediate mailing by such marketer
12 or fund-raiser – and many further mailings to those who positively respond to the
13 offer. Thus, the multiplier effect extends well beyond Bradford's mail volumes.

14 A reduction in postage means Bradford can test and expand our use of
15 mailing lists, including external response lists, in promotions that would not
16 otherwise meet Bradford's criteria at current costs. The more lists we test and
17 expand upon, the more we can grow our business units and launch new
18 business ventures. Our successes and growth result in more desirable and
19 responsive lists, which lead to further list rentals, and thus more mail generated
20 by outside marketers.

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2 **6. Historic Volumes**

3 Bradford's historic volumes are based on data drawn from its own postal
 4 reporting systems, adjusted to correspond with the United States Postal
 5 Service's fiscal years and verified against Postal Service's permit data. As you
 6 can see, there was a **marked decline of more than 20 million pieces** in
 7 Standard Mail solicitation letter volume, corresponding with the postal rate
 8 increases in FY 2006. The growth in flats in FY2006 as compared with FY 2005
 9 was primarily a result of vastly improved cost structures (printing and paper
 10 costs) for one of our major catalog lines. The cost reduction and efficiencies
 11 gained for that one catalog enabled the company to mail about 8 million more of
 12 that catalog in FY2006.

13 Table 1 THE BRADFORD GROUP's Historic Solicitation Volumes

14 (Past Four Postal Service Fiscal Years)

	FY 2003	FY 2004	FY 2005	FY 2006
Standard Letters	155,157,000	177,621,000	189,047,000	169,496,000
Standard Flats	44,228,000	50,685,000	52,561,000	56,940,000
Total	199,385,000	228,306,000	241,608,000	226,436,000

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1 **7. Address Hygiene**

2 We pay strong attention to address quality. Unlike some of the NSAs that
3 preceded Bradford's NSA, which required changes in address hygiene practices
4 as a condition for receiving incentives on solicitation mail, Bradford already
5 practices thorough address hygiene processes. Like the Bookspan NSA, there
6 was no opportunity for the Postal Service to impose cost-savings related
7 obligations as a condition of this NSA.

8 Internally, we employ Trillium software, which our client records pass
9 through to ensure address standardization, validation and de-duplication. Our
10 external vendor Experian applies state of the art list processing tools to achieve
11 the maximum possible deliverability results. We perform address hygiene on
12 our "active" customer file (clients who have purchase activity over the last twelve
13 months) on a monthly basis. We perform address hygiene on the balance of our
14 client files every 3 months. Bradford uses the following address hygiene tools to
15 correct and update each and every list we use:

- 16 a. Address Coding Manager – system that corrects Zip codes
17 by completing Zip + 4, appends carrier route codes and
18 CASS certifies names.
- 19 b. Advanced Address Correction – address correction system
20 that processes non-Zip + 4 coded records and applies
21 against multiple external databases in order to code more
22 records with Zip + 4.

- 1 c. Apartment Append – auxiliary address correction system
2 that processes addresses without valid apartment numbers
3 against external databases in order to correct or append
4 apartment information.
- 5 d. NCOA Link – A USPS licensed product that applies the
6 USPS National Change of Address database to update the
7 list with new addresses.
- 8 e. LACS Link (Locatable Address Conversion System) – A
9 USPS licensed product that converts a formal rural style
10 address to a street style address, correcting delivery points
11 that are altered when local governments rename or
12 renumber streets, typically as part of the conversion to the
13 911 emergency system style addresses.

14 In addition, any solicitation mailing using external rental lists have
15 complete merge/purge and list processing activity done approximately 14 to 21
16 days prior to the mailing campaign. Bradford uses ancillary endorsements on all
17 outgoing parcels to ensure product is returned if not deliverable.

18 Bradford gives a high level of attention to address hygiene and intends to
19 continue performing the aforementioned processes at a minimum, as it saves us
20 money.

21 **9. Conclusion**

22 Through the nominal discounts proposed in the Bradford NSA

- 1 a. Bradford would be given an incentive to grow its core
- 2 business through the use of Standard Mail Letters and Flats.
- 3 b. The United States Postal Service would receive the benefit
- 4 of avoiding virtually certain declines (and possibly
- 5 encouraging growth) in Standard Mail Letters and Flats and
- 6 the full benefit for Bradford's marketing successes in terms
- 7 of the significant multiplier effect through growth of First-
- 8 Class Mail, Standard Mail Letters, Standard Mail Flats,
- 9 Standard Mail Parcels and Business Reply Mail.
- 10 c. The United States Postal Service would receive benefits
- 11 from the growth of mail volumes related to Bradford's list
- 12 rental sales and the growth of the list rental market.