

BEFORE THE
POSTAL RATE COMMISSION
WASHINGTON, DC 20268-0001

Postal Rate and Fee Changes,
2006

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)

Docket No. R2006-1

DIRECT TESTIMONY OF RITA D. COHEN
ON BEHALF OF
MAGAZINE PUBLISHERS OF AMERICA, INC.,
AND
ALLIANCE OF NONPROFIT MAILERS

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I. INTRODUCTION AND SUMMARY

A. Qualifications And Background

My name is Rita Dershowitz Cohen. I am Senior Vice President for Legislative and Regulatory Policy at the Magazine Publishers of America (“MPA”), the national trade association for the consumer magazine industry. I have been employed by MPA since 1995, previously serving as Director of Economic and Legislative Analysis and Vice President for Economic and Legislative Analysis. Before working at MPA, I was employed at ICF consulting from 1986-1995, the U.S. Postal Service from 1975-1985, and the Postal Rate Commission from 1973-1975. I have a Bachelor of Arts in Statistics and a Master of Arts in Business and Applied Economics from the University of Pennsylvania.

At MPA, I have responsibility for strategic planning and policy development regarding a broad range of governmental issues that affect the consumer magazine industry, including postal rates and reform, consumer protection and privacy, advertising restrictions and commercial free speech,

1 Federal and state taxation, and environment. I am MPA's Association Executive
2 for the joint Postal Service/mailing industry Mailers Technical Advisory
3 Committee (MTAC) and participate in several joint advisory workgroups.

4 I have testified before the Postal Rate Commission on costing and rates
5 issues relating to the Periodicals class in numerous rate and classification
6 proceedings over the past 33 years, presenting testimony on behalf of the Office
7 of the Consumer Advocate at the PRC, the Postal Service, MPA, and a coalition
8 of periodicals class trade associations and publishers. Dockets in which I
9 submitted testimony include R74-1, R77-1, R87-1, R90-1, MC91-1, R94-1,
10 MC95-1, R97-1, and R-2000-1.

11 **B. Sponsoring Parties**

12 I submit this testimony on behalf of MPA and the Alliance of Nonprofit
13 Mailers ("ANM").

14 MPA's membership includes approximately 250 domestic publishing
15 companies, both for-profit and nonprofit, as well as more than 100 associate
16 members and more than 80 international companies. MPA members publish
17 about 1400 domestic magazines. These range from large-circulation nationally
18 distributed general interest magazines such as Better Homes and Gardens,
19 Readers Digest, TV Guide, and Time to small-circulation, local and niche
20 publications such as Harvard Business Review, Texas Monthly, The New
21 Republic and Fine Woodworking. Almost 90 percent of MPA member
22 publications are delivered to their readers via the U.S. Postal Service.

23 ANM is a nonprofit corporation, chartered in the District of Columbia,
24 representing the interests of nonprofit organizations in postal rate matters.

1 ANM's members include many of the Nation's best-known charitable, religious,
2 educational, scientific and other nonprofit organizations, as well as smaller
3 community organizations and their umbrella groups. Many of these members
4 publish magazines. These titles include large-circulation national general-
5 interest publications (e.g., AARP, Consumer Reports, National Geographic, and
6 National Wildlife); scientific and medical publications for professionals and lay
7 consumers (e.g., Arthritis Today, Chemical & Engineering News, Diabetes
8 Forecast, New England Journal of Medicine, Science); and a myriad of national,
9 regional and local magazines and newspapers dealing with a broad variety of
10 educational, cultural, philanthropic, religious, and other subjects. Most of these
11 publications rely heavily on Nonprofit Periodicals Mail to reach their subscribers.

12 **C. Summary Of Testimony**

13 This docket presents a welcome and overdue opportunity for the
14 Commission to adopt a rate structure for Periodicals Mail that encourages more
15 efficient mailing practices by publishers. Unfortunately, the rate structure
16 proposed by the Postal Service and its periodical rate design witness, Rachel
17 Tang (USPS-T-35), falls short of the mark.

18 Witness Tang's proposed rate structure does introduce several new
19 elements—a container rate and destination entry rates for editorial pounds—that
20 are designed to encourage more palletization and dropshipping. But the
21 proposed container charge ignores the cost differences between distinct kinds of
22 containers. The destination entry discounts are based on underestimates of the
23 avoided cost savings. And the beneficial incentives from the destination entry
24 discounts and container charge are largely offset by the elimination of per-piece
25 pallet and experimental co-pallet discounts.

1 To strike a better balance, the Commission must harness the potential of
2 co-mailing and co-palletization. The right price signals will encourage mailers,
3 including publishers of smaller-circulation titles, to use these cost-effective
4 means of facilitating dropshipping and presorting, thereby reducing the combined
5 costs of Periodicals Mail for the USPS and its customers.

6 In lieu of the periodical rate design proposed by USPS witness Tang, the
7 Commission should recommend the alternative rates designed by MPA/ANM
8 witness Sander Glick (MPA/ANM-T-2), and set forth in Table 1, below. Mr.
9 Glick's rate design incorporates most elements of the Postal Service's proposed
10 Periodical rate design, but modifies it in several important respects. In particular:
11 (1) Witnesses Tang's proposed container rate is replaced with a deeper pallet
12 discount; (2) a new discount is proposed for 5-digit pallets; (3) dropship discounts
13 are deeper; (4) the incentive to achieve carrier route presortation is increased; (5)
14 the rate increase proposed by the Postal Service for ride-along pieces is reduced
15 to the average level of increase for the subclass; and (6) a variety of
16 computational errors in the Postal Service's submission have been corrected.

Table 1.

Regular Rate	MPA-ANM Proposed Rate (\$)
Advertising Pounds	
Destinating Delivery Unit	0.184
Destinating SCF	0.230
Destinating ADC	0.254
Zones 1&2	0.294
Zone 3	0.315
Zone 4	0.372
Zone 5	0.458
Zone 6	0.549
Zone 7	0.658
Zone 8	0.751
Editorial Pounds	
Destinating Delivery Unit	0.148
Destinating SCF	0.185
Destinating ADC	0.204
Editorial Pound Rate (All other Zones)	0.236
Science of Agriculture	
Advertising Pounds	
Destinating DDU	0.138
Destinating SCF	0.172
Destinating ADC	0.190
Zones 1 & 2	0.220
Nonadvertising	
Destinating DDU	0.111
Destinating SCF	0.139
Destinating ADC	0.153
Zones 1 & 2	0.177
Presort Rate Pieces	
BASIC NON-AUTOMATION	0.446
BASIC AUTOMATION LETTER	0.342
BASIC AUTOMATION FLAT	0.412
3-DIGIT NON-AUTOMATION	0.388
3-DIGIT AUTOMATION LETTER	0.302
3-DIGIT AUTOMATION FLAT	0.356
5-DIGIT NON-AUTOMATION	0.307
5-DIGIT AUTOMATION LETTER	0.238
5-DIGIT AUTOMATION FLAT	0.284
CARRIER ROUTE BASIC	0.210
CARRIER ROUTE HIGH DENSITY	0.186
CARRIER ROUTE SATURATION	0.155
PERCENTAGE EDITORIAL DISCOUNT	(0.086)
WKSHARING DISCNTDELIVERY OFFICE ENTRY	(0.019)
WKSHARING DISCNT SCF ENTRY	(0.012)
WKSHARING DISCNT ADC ENTRY	(0.007)
WKSHARING DISCNT 5-DIGIT PALLET	(0.015)
WKSHARING DISCNT PALLET	(0.027)
RIDE-ALONG PIECE	0.146
CONTAINER RATE	N/A

1 Mr. Glick's rate design would produce virtually the same overall rate
2 increase and cost coverage for Outside County periodicals as would Ms. Tang's
3 rate design. His proposal, however, would create stronger incentives for
4 publishers to engage in dropshipping, palletizing, and presorting, yet avoid very
5 large rate increases for small publications.

6 **II. THE COMMISSION SHOULD ADOPT A PERIODICALS RATE**
7 **STRUCTURE IN THIS CASE THAT CREATES STRONGER**
8 **INCENTIVES FOR EFFICIENT MAILER BEHAVIOR.**

9 **A. Periodical Publishers Need Price Signals That Encourage**
10 **Efficient Mailing Practices.**

11 Perhaps more than any other class of mailers, periodicals mailers need
12 rates that provide adequate price signals to encourage cost control through
13 efficient mail preparation and entry. Publishers have watched with dismay over
14 the past 20 years as costs attributed to Periodicals Mail have grown faster than
15 costs attributed to other mail classes. For an average MPA member, postage as
16 a percent of total expenses has grown almost 20 percent just in the last five
17 years. For some publishers that use multiple printers, the Postal Service has
18 become the largest single vendor.

19 Periodical publishers have expended considerable effort, in conjunction
20 with the Postal Service, and with strong encouragement from the Commission, to
21 examine the source of the disproportionate growth in costs, and to develop
22 strategies to reverse or at least slow the trend. As part of this effort, I
23 participated in a joint task force on cost control with the Postal Service between
24 1998 and 1999. We undertook an intensive review of periodicals operations to
25 identify mailing characteristics and operating procedures that led to cost

1 increases and to suggest operational changes for both the Postal Service and
2 industry to improve efficiency and thereby lower costs.

3 The good news is that the Postal Service has adopted many of the
4 changes we recommended at the conclusion of the joint study, and senior postal
5 management, both at headquarters and in the field, has continued to give major
6 attention to the further improvement of periodicals operations since then. As
7 described in the testimony of USPS witness McCrery (USPS-T-42), for example,
8 the Postal Service has undertaken a number of capital investments designed to
9 increase productivity in flats processing operations, including the new APPS
10 machine and automatic induction systems for the AFSM 100 flat sorters.

11 These initiatives have achieved considerable cost savings in recent years,
12 and appear likely to generate substantial additional savings in the next few years.
13 The disproportionate growth in the costs attributed to Periodicals Mail, however,
14 has continued. In the present case, the USPS is proposing to increase
15 Periodicals rates by 11.9 percent for the class as a whole and 11.7 percent for
16 the Outside County subclass—increases more than three percentage points
17 higher than the average increase proposed for all mail. It has become clear that
18 bringing periodicals costs to a level that publishers can sustain over the long run
19 will require a greater degree of worksharing and bypass by publishers
20 themselves.

21 Experience in recent years confirms that publishers respond to price
22 signals that encourage mailers to bypass the postal network or purchase
23 complementary services that reduce the costs of continuing to use the postal
24 network. Presort discounts, for example, have led to the commingling of multiple
25 titles to achieve deeper presort discounts through greater address density. The

1 introduction of barcode discounts has generated tremendous growth in the use of
2 barcodes. And dropship discounts have induced publishers to enter their
3 periodicals into the postal system further downstream.

4 To encourage mailers to make choices that minimize the combined costs
5 of the Postal Service and its customers, however, postal rate differentials must
6 reflect the costs the Postal Service avoids when mailers bypass components of
7 its services. When rates fail to reflect these avoided costs, publishers receive
8 signals that encourage the purchase of components of service from the Postal
9 Service even when an alternative provider could provide the same service at a
10 lower combined cost to society.

11 Compliance with this pricing standard, also known as the efficient
12 component pricing rule (“ECPR”), is also crucial for the third-party vendors that
13 offer, or could offer, competitive substitutes for USPS sorting, transportation, and
14 other components of mail service. These vendors, including printers, shippers,
15 and consolidators, use the Periodical Mail rate structure to make decisions
16 whether to invest in worksharing capacity for existing clients, and whether to
17 open new worksharing lines of business. A periodicals rate structure that fails to
18 reflect Postal Service costs can discourage printers and consolidators from
19 making the investments that could provide service to publishers at lower cost
20 than the Postal Service incurs.

21 The Commission has repeatedly emphasized the importance of these
22 principles of efficient pricing. In Docket No. MC95-1, for example, the
23 Commission stated:

24 From the inception of worksharing discounts, the Commission has
25 been concerned with both equity and economic efficiency. It set the
26 first such discount at clearly capturable avoided costs. This

1 provided a rate incentive to mailers which would allow cost-based
2 decisions on whether to engage in the worksharing activity. In
3 effect, the Commission was setting discounts in conformity with
4 what later became known as efficient component pricing. The
5 discount approach led to the lowest cost producer providing the
6 service. This, in turn, minimized the cost of the workshare activity
7 to society as a whole.

8 MC95-1 Op. & Rec. Decis. ¶ 3074.

9 An inefficient periodicals rate structure also forces some periodicals
10 mailers to subsidize others. Inefficient price signals allow publishers to avoid
11 bearing the full cost of their mail preparation and mailing decisions, because the
12 additional postage required to purchase inefficiently costly services from the
13 Postal Service does not cover the additional cost to society of producing those
14 services. The resulting shortfall is covered by someone else. The cumulative
15 effect of the individual mailer decisions induced by misleading price signals has
16 been a disproportionate and harmful growth in Periodicals Mail costs for a long
17 period of time.

18 **B. Concerns Over Rate Shock For Small Publications Have**
19 **Delayed The Adoption Of A More Cost-Based Rate Structure.**

20 The Commission has recognized that the encouragement of efficient
21 mailer behavior is an important goal of Periodicals rate design. In Docket No.
22 C2004-1, for example, the Commission stated:

23 Cost-based rates and encouraging efficiency in postal operations
24 have been two frequent hallmarks of Commission rate
25 recommendations. The Commission has recommended – and the
26 Postal Service has adopted – rates that move all classes and
27 subclasses of mail toward more efficient preparation through
28 discounts for presorting, dropshipping, palletizing, and other cost-
29 efficient measures. The Commission continues to support an
30 economically efficient approach that encourages the optimal use of
31 society’s resources to process and deliver mail to its ultimate
32 consumers.

1 Docket No. C2004-1, *Complaint of Time Warner Inc. et al. Concerning*
2 *Periodicals Rates*, Order No. 1446 (Oct. 21, 2005) at 45.

3 These economic concerns, the Commission noted, also have a legal
4 dimension. The sixth ratemaking factor of the Postal Reorganization Act directs
5 the Commission to give weight to “the degree of preparation of mail for delivery
6 into the postal system performed by the mailer and its effect upon reducing costs
7 to the Postal Service.” *Id.* (quoting 39 U.S.C. § 3622(b)(6)).

8 In Docket No. C2004-1, the Commission found that the complainants had
9 “presented a well-documented case that there are significant inefficiencies in the
10 Periodicals rate structure, and that some structural and administrative
11 improvements are appropriate and desirable.” Order No. 1446 at 4. “[P]rogress
12 toward a more cost-based structure is both possible and necessary to increase
13 efficiencies in the Periodicals rates.” *Id.* at 6.

14 The Commission also found, however, that changes in rate design as far-
15 reaching as those proposed by the complainants “would have substantial
16 adverse impact on thousands of small publications.” *Id.* at 4 & 6. Many smaller-
17 circulation publishers, the Commission suggested, lacked the minimum address
18 density needed to qualify for discounts for dropshipping or palletizing. *Id.*,
19 ¶¶ 5008, 5011. This, the Commission found, was a relevant concern under the
20 Act.¹ “[E]ncouraging enhanced efficiency – while a significant concern in

¹ The fourth and fifth ratemaking factors of the Act, codified at 39 U.S.C. § 3622(b)(4) and (5), direct the Commission to consider: “the effect of rate increases upon the general public, business mail users, and enterprises in the private sector of the economy engaged in the delivery of mail matter other than letters,” and “the available alternative means of sending and receiving letters and other mail matter at reasonable costs.” For periodicals, Section 3622(b)(8), commonly known as the “ECSI” factor, directs the Commission to consider “the

1 devising a rate structure – is only one of many considerations that enter into this
2 task. The nature and extent of the potential impact on rates and service are also
3 important factors.” *Id.* at 4.

4 For this reason, the Commission did not issue a recommended decision or
5 otherwise order any changes in existing Periodicals rates. Instead, the
6 Commission contented itself with suggestions for improving the Periodicals rate
7 design in future rate cases, *id.*, ¶¶ 5001-5012, and a general admonition to
8 “update these [cost] analyses, evaluate the impact of potential rate changes on
9 various categories of Periodicals mail, and suggest incremental changes that will
10 foster efficient mailer practices without undue disruption” or an “unreasonabl[e]
11 impact” on “any segment of [Periodical] class” mail. *Id.* at 5, 6, 41 and 45. The
12 Commission left the choice of a specific “path for improving the efficiency of
13 Periodicals” to the judgment of the Postal Service in the first instance. *Id.* at 6.

14 **C. The Recent Advent Of Co-mailing And Co-palletizing Has**
15 **Increased The Potential Gains From Cost-Based Rates For**
16 **Periodicals, While Reducing The Potential Impact Of Those**
17 **Rates On Small-Circulation Mailers.**

18 The past few years have witnessed growth in the number of private firms
19 offering co-mailing, co-palletization and dropshipping services to publishers, and
20 the number of publishers using these services. This development has
21 dramatically changed the optimal tradeoff between economic efficiency and the
22 goal of protecting small mailers from rate shock.

23 Co-mailing involves the merger of multiple titles for entry together in a
24 single mailstream. Co-mailing allows the participating titles, by achieving greater

educational, cultural, scientific, and informational value to the recipient of mail matter.”

1 address density, to qualify for deeper presort discounts and more efficient
2 containerization (fewer sacks, more pallets).

3 Co-palletization involves the combination of single-publication bundles
4 from multiple publications on the same pallets. Co-palletization allows the
5 participating titles, by achieving larger combined bundle counts, to qualify for
6 pallet and dropship discounts that would be unavailable to the titles if mailed
7 individually.

8 The number of printers and publishers engaged in or actively pursuing co-
9 mailing and co-palletization services is growing. The printing industry, “facing
10 more demands to help their customers mitigate postal-cost pressures,” is
11 “stepping forward with more co-mailing, co-palletization and other programs.”²
12 These services are now available from printers of all sizes, including Publishers
13 Press, R.R. Donnelley, Quebecor World, American Press, Banta, and Fry
14 Communications. *Id.* Several other printers that do not yet offer co-mailing and
15 co-palletization—e.g., Cummings Printing of Hooksett, New Hampshire and
16 Democrat Printing of Little Rock, Arkansas—are evaluating the feasibility of
17 making the investments needed to offer these services. *Id.* Two other large-
18 scale providers of these services are Quad Graphics and Fairrington
19 Transportation, a logistics company that consolidates the publications of several
20 printers for co-palletizing at the company’s consolidation facility in Bolingbrook,
21 Illinois.

² Dale Buss, *Mailing Options for Small and Medium-sized Publishers: While Modest, the Postal Rate Hike Will Still Take a Bite Out of Budgets. Here’s How to Cope*, FOLIO, Jan. 2006, at 24.

1 The minimum circulation size for co-mailing to become cost effective is
2 declining. One printer that serves the small publisher market is Ovid Bell Press
3 (“OBP”), a family-owned printer in Fulton, Missouri. OBP, which specializes in
4 short-run publications, already offers co-mailing to publications with only a few
5 thousand copies per issue. In addition, the company recently teamed up with
6 Fairrington Transportation to offer “destination drop shipments” by combining
7 OBP co-mailing with Fairrington co-palletization.

8 MPA’s smaller-circulation members are getting on the co-mailing and co-
9 palletization bandwagon in increasing numbers. While preparing this testimony, I
10 asked some members of MPA’s Independent Magazine Group (IMAG) about co-
11 mailing and co-palletization. Some encouraging responses I received:

- 12 • From Ogden Publications, publisher of *Mother Earth News*, *Farm*
13 *Collector*, *Gas Engine*, *Herb Companion*, *Natural Home and Garden*,
14 and *Utne Reader*, “We print with Quebecor and Banta primarily. All
15 our titles are co-mailed.”
- 16 • From Interweave Press, publishers of *Beadwork*, *Fiberarts*,
17 *Handwoven*, *Interweave Knits*, *Piecework*, and *Spin-off*, and printing at
18 Quad Graphics, “all of our titles are co-mailed/co-palletized.”
- 19 • From *Hallmark magazine*, which recently printed its first issue at the
20 RR Donnelley plant in Mattoon, Illinois, “Our first issue doesn’t mail
21 until late next week. We are co-mailing.”
- 22 • From Yankee publishing, publisher of *Yankee Magazine – The*
23 *Magazine of New England Living*, “not comailing, but we will be once
24 we move to new size in Jan 2007 issue.”

- 1 • From *Latina magazine*, “we are co-mailed and co-palletized with
2 several other titles.”

- 3 • From Taunton Press, publishers of *Fine Cooking, Fine Gardening, Fine*
4 *Homebuilding, Fine Woodworking, and Threads*, “All of the main run
5 mailed copies are processed in Quad’s pool cycle – which entails both
6 co-mailing and zone skipping.”

- 7 • From Morris Communications, “We print *Western Horseman* and
8 *Alaska magazine* at Quebecor... Both of these magazines participate
9 in co-mailing.”

10 Even weekly magazines are finding ways to co-mail. Although the
11 compressed production and distribution schedules of weekly magazines may not
12 leave enough time for them to participate in an “off-line” co-mailing (which
13 requires the combination of titles produced at different locations, or in different
14 production runs), “in-line” co-mailing (which involves the binding of multiple titles
15 simultaneously in a single production line) provides sufficient lead time for many
16 weekly publications. And that’s exactly how CMP Media’s *InformationWeek* is
17 being co-mailed with *U.S. News & World Report*. As reported on Quad-Graphics
18 website, “*U.S. News* and *InformationWeek* have overcome these hurdles and
19 bind their titles together with Quad’s innovative Multi-Bind technology and
20 expertise.... The real trick to making this work was in the coordination that needs
21 to happen in front of the manufacturing process.” It helps that the two magazines
22 share trim sizes and closing dates, but if a publisher has some flexibility, the
23 savings can be significant.

24 The recent development of the co-mailing and co-palletization industries
25 has simultaneously increased the potential benefits and reduced the risk of

1 financial injury from greater recognition in the Periodicals rate structure of the
2 cost savings permitted by these processes.

3 The potential benefits arise from the failure of the current rate structure to
4 reflect more than a fraction of the cost savings to the Postal Service when
5 publishers co-mail, co-palletize and dropship. Existing destination entry
6 discounts, for example, reflect considerably less than 100 percent of the
7 nontransportation costs avoided by destination entry. See Glick Direct
8 (MPA/ANM-T-2). And the flat editorial rate recognizes *none* of the distance-
9 related costs of processing and transporting the editorial portion of periodicals.

10 The failure to recognize the full benefits of co-mailing, co-palletizing and
11 dropshipping in the Periodical rate structure has efficiency consequences,
12 because these services cost money to provide. Dropshipping generally requires
13 a publisher to incur the cost of private transportation. Co-mailing and co-
14 palletization also impose costs on publishers. To co-mail in-line, publishers have
15 to share trim sizes and schedules. To co-mail off-line or co-palletize, publishers
16 may incur a time delay. Consolidation of multiple small publications from multiple
17 printers generates additional transportation costs.

18 Publishers evaluate these logistical hurdles and possible additional
19 expense against the potential savings in postage. There is no one model of how
20 printers and publishers share the benefits and costs of co-mailing and co-
21 palletization. But a postal rate structure that fails to recognize the full costs
22 saved by the Postal Service from co-mailing, co-palletizing and dropshipping
23 deters mailers from engaging in these activities in circumstances when fuller
24 recognition of the cost savings would encourage mailers to engage in behavior

1 with lower combined costs. Inadequate rate incentives also keep some potential
2 worksharing providers out of the worksharing marketplace in the first place.

3 As Banta President Kimberly Williams told Folio, “the savings there
4 haven’t been as significant as we’d like. The discounts that the postal system
5 offered probably aren’t reflective of the savings that the postal system gets.”
6 Buss, *supra* note 2, at 24. Jerry Butler, production manager at Democrat
7 Printing, told Folio, “There’s a slight discount available through that kind of
8 consolidation, but it hasn’t been enough at this point to offset the cost of trucking
9 to these consolidation facilities.” *Id.*

10 By contrast, the right rate structure can tip the balance for printers,
11 consolidators and publishers for whom co-mailing and co-palletization would
12 otherwise not be cost-effective. With a rate structure that provides the right
13 incentives, co-mailing and co-palletization could soon be the norm, and
14 publishers of all sizes will be the beneficiaries.

15 **III. THE POSTAL SERVICE’S PROPOSED RATE DESIGN FOR OUTSIDE**
16 **COUNTY PERIODICALS CLASS MAIL OFFERS INADEQUATE**
17 **INCENTIVES FOR EFFICIENT MAILING PRACTICES.**

18 **A. Description Of The Postal Service’s Proposed Rate Design**

19 According to Postal Service witness Tang, the Postal Service’s proposed
20 rate structure for Periodicals Mail seeks to increase efficiency and reflect
21 worksharing cost savings better than does the existing rate structure. To
22 accomplish these goals, Ms. Tang has proposed three major changes to the
23 existing Periodicals rate design: (1) establishment of a separate charge for
24 containers; (2) establishment of destination entry discounts for editorial pounds;

1 and (3) elimination of existing pallet discounts. Tang Direct (USPS-T-35) at 3-13.
2 I discuss each change in turn.

3 **Proposed container rate.** Acknowledging interest in “alleviating pressure
4 on Periodicals processing costs caused by inefficient mail preparation”, the
5 Postal Service is proposing a flat rate of 85 cents to be applied to each sack or
6 pallet containing Periodicals Mail. Tang Direct (USPS-T-35), pp. 4-6. Ms. Tang
7 justifies the container rate on the grounds that it

8 would send an appropriate price signal to encourage better mail
9 preparation, benefiting the entire Periodicals community. More
10 efficient mail preparation, together with more worksharing, will
11 contain Periodicals processing costs and keep rapid rate increases
12 at bay.

13 *Id.* at 5.

14 **Destination Entry Discounts for Editorial Pounds.** As the Commission
15 noted in C2004-1, “The Commission continues to search for a balance between
16 recognizing the importance of editorial material in the rate structure on the one
17 hand and encouraging efficiency on the other hand.” Order No. 1446 at 42.
18 After carefully evaluating the complainants’ proposal to eliminate the flat editorial
19 pound charge, the Commission concluded, “The Commission finds that the flat
20 editorial pound charge in Periodicals effectively fosters the public policies of the
21 Act.” Order at 7. As witness Tang states, however, “Just as it is important to
22 encourage the dissemination of editorial content throughout the country, it is also
23 important to allow such content to share in the efficiency associated with deposit
24 of the mail closer to the point of delivery.” USPS-T-35, p. 8. Toward this end,
25 Witness Tang has proposed new destination entry rates for editorial pounds.
26 USPS-T-35, p. 7.

1 ***Elimination of existing pallet discounts.*** At the same time as she
2 introduces the two new rate elements, Witness Tang eliminates the pallet
3 discounts contained in the current rate structure. Despite eliminating these
4 discounts, she expects her rate proposal to provide adequate incentives to
5 improve efficiency:

6 I propose replacing the per-piece pallet discounts and the
7 experimental co-palletization discounts with a combination of the
8 introduction of editorial pound dropship rates, the increased per-
9 piece dropship discounts, and the container rate... An assessment
10 of the impact makes me expect that mailers would have
11 comparable if not better incentives under these proposals.

12 Tang Direct (USPS-T-35), p. 11.

13 **B. Criticisms of Periodicals Rate Design Proposed By The Postal**
14 **Service.**

15 Witness Tang's proposed rates unfortunately do not adequately reflect the
16 Postal Service's cost savings from worksharing nor significantly increase the
17 incentives to co-mail, co-palletize, and dropship. The major reasons for this
18 outcome are:

- 19 • The increased incentives to palletize and dropship contained in the
20 proposed new destination entry rates for editorial pounds and
21 container rate are largely offset by the elimination of per-piece pallet
22 and experimental co-pallet discounts.
- 23 • The proposed destination entry discounts are based on understated
24 cost avoidance estimates. In particular, the Postal Service has ignored
25 a large share of nontransportation cost avoidances.

- 1 • Witness Tang proposes to increase the rate difference between 5-Digit
2 Automation and Carrier Route Basic rate, a rate difference critical for
3 encouraging co-mailing, by only 4.5 percent.

4 These shortcomings are discussed in greater detail in the testimony of MPA/ANM
5 witness Sander Glick.

6 ***Proposed container charge.*** The container charge proposed by Witness
7 Tang, while a commendable attempt to take into account an important cost-
8 causing characteristic of periodicals mail, does not adequately reflect cost
9 differences between different types of containers and how they are presorted and
10 entered into the postal system. The current rate structure for periodicals
11 recognizes these types of cost differences for pieces and pounds. Witness Tang,
12 in an apparent desire for simplicity, has proposed a single uniform container
13 charge, regardless of container type, presort level, or entry point.

14 Unfortunately, Witness Tang's implementation of the container charge can
15 lead to counter-productive results. For example, despite the value of 5-digit
16 pallets to the Postal Service,³ Witness Tang's container charge would incent
17 mailers to create less finely presorted pallets to avoid extra container charges.
18 Further, Witness Tang's proposed charge of 85 cents does not nearly reflect the
19 cost difference between pallets and sacks, the main container types. Tang's
20 container charge would send incorrect price signals on the value of palletization
21 to the Postal Service.

³ See 11 Tr. 3038 (response of USPS witness McCrery to TW/USPS-T42-8(a)).

1 **C. The Overall Effect Of The Proposed Rate Design**

2 Although the USPS rate design would modestly increase worksharing
3 incentives, the percentage rate increase faced by many mailers who engage in
4 efficient practices (such as co-mailing and co-palletization) would be similar to or
5 higher than if they had not engaged in these practices at all. Witness Glick
6 analyzed the effect of the Postal Service rates on a group of small and mid-size
7 publishers who are currently engaged in comailing. They range in size from
8 Ogden Publications' Mother Earth News, at about 217,000 pieces per issue, to
9 Ogden's Gas Engine, at 15,000 pieces per issue. Table 2 in Witness Glick's
10 testimony (MPA/ANM-T-2) shows how the seven magazines, which are currently
11 co-mailed, would fare with and without co-mailing under witness Tang's rate
12 design.

13 As shown by witness Glick, only one of the magazines, *Interweave knits*,
14 would face a substantially reduced rate increase when co-mailed and
15 dropshipped compared to mailing alone. The other small and mid-size
16 magazines studied would face increases similar or larger when engaged in
17 worksharing.

18 **IV. THE MPA/ANM RATE PROPOSAL**

19 The testimony of MPA/ANM witness Glick proposes an alternative to the
20 USPS rate design. We believe that his proposal provides stronger incentives for
21 cost-reducing worksharing by publishers of all sizes, including better price signals
22 for smaller-circulation publishers to co-mail, co-palletize, and dropship, yet avoids
23 very large rate increases for small-circulation publications, especially those with
24 circulations of less than 15,000 copies per issue, that choose not to co-mail or
25 co-palletize.

1 **A. How The Periodical Mail Rate Design Proposed By MPA/ANM**
2 **Differs From The USPS Proposal.**

3 As Mr. Glick explains in his separate testimony for MPA and ANM, our
4 proposed rate design accepts many aspects of the Postal Service’s proposal for
5 Periodicals Mail, including (1) the overall coverage ratio proposed for Outside
6 County Periodicals Mail; (2) destination entry rates for editorial pounds; and (3) a
7 significant increase in the discount for editorial content. Our proposed rate
8 structure generates virtually the same coverage ratio (106.3 percent vs. 106.4
9 percent) and total revenue (\$2.392 billion vs. \$2.394 billion) as the USPS
10 proposal.

11 Mr. Glick has modified the Postal Service proposal in several significant
12 respects, however, in an effort to create stronger incentives for efficient mailer
13 behavior:

- 14 • Incentives to dropship are increased, based on more accurate
15 estimates of costs avoided by dropshipping.
- 16 • Automation discounts are reduced to expand the differential between
17 automation rates and the Carrier Route Basic rate.
- 18 • Witness Tang’s proposed container rate is replaced with an increased
19 incentive to palletize.
- 20 • A new discount is proposed for 5-digit pallets.

21 Mr. Glick has also tempered the disproportionate rate increase proposed
22 by the USPS for ride-along pieces by reducing it to the level of the subclass
23 average increase and has corrected a variety of computational errors in the
24 Postal Service’s submission.

1 Finally, Mr. Glick has increased worksharing incentives in ways that limit
2 their financial impact on the smallest publications:

- 3 • He reduced the 3-Digit presort discount (which flows through to 5-Digit
4 and Carrier Route rates) proposed by the Postal Service, substantially
5 lowering the Basic Presort rate, which applies to many pieces mailed
6 by very small non-local publications.
- 7 • By replacing the Postal Service's proposed container rate with a
8 deepened pallet discount, he avoids the large rate increases the
9 container rate would yield for publications that are entered in smaller-
10 than-average sacks or alternative containers.
- 11 • By reducing the automation discounts instead of increasing the Carrier
12 Route discount relative to nonautomation rates, Glick reduces the rate
13 increase that mailers of nonautomation flats will face.
- 14 • To limit the rate increase in the unzoned editorial pound rate resulting
15 from our larger destination entry discounts, Glick shifts a portion of the
16 editorial benefit from the piece rates to the pound rates. This change
17 reduces the editorial pound rate.

18 **B. The rate design developed by Witness Glick and described in**
19 **detail in MPA/ANM-T-2 significantly increases incentives for**
20 **publishers to commingle and dropship publications.**

21 As noted above, Witness Tang's rate proposal, taken as a whole, does not
22 go far enough towards economically efficient and cost-based rates. In particular,
23 her proposal fails to adequately pass through to mailers the savings that accrue
24 to the Postal Service from publishers worksharing activities, including when
25 printers, publishers, and consolidators join forces to co-mail, co-palletize, and

1 dropship. The MPA/ANM proposed rate design will pass through a greater
2 portion of these savings and thus create a stronger incentive for wider
3 participation in worksharing activities.

4 Using the same group of small- and mid-size circulation magazines that
5 Witness Glick's analyzed in his Table 2, in Table 3 of MPA/ANM-T-2, Mr. Glick
6 compares the increase in the postage incentive to commingle these
7 publications—all of which co-mail today, under Tang's rates and the MPA/ANM
8 rate design. As shown in Mr. Glick's Table 3, the Postal Service proposal would
9 increase the incentive to perform worksharing activities only modestly, in line with
10 the average subclass increase in rates. The MPA/ANM rate structure would
11 provide a much more substantial increase in the incentive to commingle these
12 publications.

13 The net effect of these increased incentives to co-mail, co-palletize, and
14 dropship will be a flourishing of the opportunities available to smaller-circulation
15 publishers to participate in these worksharing activities and a reduction in
16 attributable costs for the periodicals class. The increased incentives will also
17 lead to more efficient mailing practices by larger-circulation publishers, who will
18 respond to more efficient price signals, for example, by increasing entry points for
19 dropshipping and creating more 5-digit pallets.

20 I emphasize that the decision by MPA and ANM not to support witness
21 Tang's proposed container rate in this case by no means signifies a belief that
22 containers are unimportant as a cost-causing element of Periodicals Mail.
23 Container handling is a significant component of periodicals processing and
24 needs to be appropriately reflected in cost-based rates. We urge the Postal
25 Service to propose in the next rate case a more sophisticated and economically

1 efficient set of container charges, in a manner that properly reflects the cost
2 differences between container types, and to consider the effect of presort and
3 entry point on those costs. In the interim, however, we believe that an enhanced
4 pallet discount will provide more efficient price signals to publishers, and threaten
5 small publishers with less financial harm, than would the container charge
6 proposed by the Postal Service in this case.

7 **C. The MPA/ANM rate design maintains the level of recognition**
8 **provided by the Postal Service to editorial content**

9 MPA and ANM propose to maintain the aggregate editorial discount
10 proposed by the USPS, but to shift some of the discount from the piece side to
11 the pound side. This mitigates the increase in the unzoned editorial pound rate
12 that would otherwise result from full passthrough of dropship cost savings.

13 **D. The MPA/ANM Proposed Rate Design Mitigates Impact for**
14 **Small-Circulation Publishers**

15 As noted above, our proposal is designed to avoid imposing very large
16 rate increases on the smallest publications. See page 22, *supra*. As a result, the
17 largest increases under our proposal are dramatically less than a fully “cost-
18 based” rate design would produce. Table 4 in Mr. Glick’s testimony (MPA/ANM-
19 T-2) shows that our proposal would produce, for a sample of 101 small
20 publications drawn from the C2004-1 database, an average rate increase
21 approximately five percent above the subclass average. None of these
22 publications would receive increases of more than about ten percent above the
23 average—even without taking advantage of co-mailing or co-palletization. These
24 increases are quite modest compared to the magnitude of rate increases that the
25 Commission was concerned about in C2004-1 and the increases that the Postal

1 Service is proposing in this Docket for other classes of mail. See, e.g., USPS-
2 LR-L-36, WP-STDREG-27, and USPS-T-32 (Taufique Direct) at 5.

3 Further, by eliminating witness Tang's container charge, the MPA/ANM
4 rate design eliminates the risk that some publications could face anomalous rate
5 increases. The MPA/ANM rate design truncates the high end increases that
6 could result if publishers have smaller-than-average sacks or use alternative
7 containers.