

**STATEMENT OF MARK W. WHITE
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**SUBCOMMITTEE
ON FEDERAL WORKFORCE, POSTAL SERVICE
AND THE DISTRICT OF COLUMBIA
COMMITTEE ON OVERSIGHT AND GOVERNMENT REFORM
U.S. HOUSE OF REPRESENTATIVES**

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Good afternoon, Mr. Chairman and members of the Subcommittee. My name is Mark W. White, and I am Vice President of Manufacturing for U.S. News & World Report, L.P., publisher of *U.S. News & World Report*. In that role, I am ultimately responsible for the production and distribution of our weekly newsmagazine, which is commonly referred to as *U.S. News*. We are a privately held company that for the most part competes with much larger publicly traded corporations. Last year, we mailed more than 95 million magazines, making the United States Postal Service our largest vendor. More information about our company and about me is available in the attached biography.

Thank you for providing me this opportunity to testify on behalf of U.S. News and to clear up misconceptions about Periodicals postal rates. I would like to make eight points to help clear up these misconceptions:

- 1) *Not all small-circulation publications had disproportionately large increases in Periodicals rates this year, nor did all large-circulation publications have small increases.* In fact, all relatively light publications were hit with a large increase because the new rates rebalanced the piece/pound revenue split. Despite mailing more than 1.9 million copies at a time, co-binding with another publication, and dropshipping extensively, our postage increase amounted to more than 15 percent – well above the

average increase for Periodicals. (We have shaved more than a percentage point off the increase by changing the way we mail to take advantage of incentives in the new rate structure.) By contrast, some small-circulation publications apparently had rate decreases.

- 2) *There is nothing inherently unfair about some mailers getting larger rate increases than others in the same class.* Moving toward greater recognition of the Postal Service's costs in postal rates requires that some rate increases be larger than others. For U.S. News, the problem with the most recent rate case is not that our rates rose more than did those of many other mailers. The problem is that the rates did not go far enough in reflecting cost differences. That means U.S. News continues to pay more postage than warranted by the Postal Service's costs of handling our magazines so that other Periodicals publishers can pay less than the Postal Service spends to handle their mail.
- 3) *The current Periodicals rates are certainly not the result of a secret plot by Time Warner Inc.* The PRC did not even approve Time Warner's proposal. Time Warner has been openly advocating cost-based Periodicals rates for years, making its research on the Postal Service's costs and a corresponding rate structure available to all. The PRC made no secret in 2005 of its desire to implement cost-based rates in general and of its acceptance of most of Time Warner's logic in particular. The PRC conducted the rate case out in the open over the course of many months, with a variety of participants representing all aspects of the publishing industry. Time Warner's proposal – a somewhat watered-down version of what it had been advocating for years – was no secret. In the end, no one else, including the Postal Service itself, presented a rate structure that was so directly linked to the Postal Service's costs. To have cost-based Periodicals rates, the PRC therefore had no choice but to use Time Warner's proposal as a starting point. It

significantly altered that proposal, however, watering it down even further to lessen the impact on small publications.

- 4) *The old Periodicals rate structure was neither reasonable nor fair.* In reality, the old rate structure got us into this mess by enabling Periodicals to be mailed in ways that were expensive for the Postal Service. The structure did not charge mailers sufficiently for doing things that caused the handling of Periodicals to be labor intensive for the Postal Service, such as mailing publications in sacks. That contributed to rapid increases in the Postal Service's costs for handling Periodicals, which in turn led to large rate hikes for all publications. And because the Postal Service must break even financially on the Periodicals class, efficient mailers were in effect subsidizing inefficient mailers.
- 5) *The Postal Service presented a proposal in the last rate case that was neither reasonable nor fair.* The original Postal Service proposal was well intentioned but based on flawed analyses and assumptions. It would have discouraged some forms of work sharing, which would have caused the Periodicals class to become even more inefficient for the Postal Service and therefore would have led to large rate increases in the future. It also would have done little to correct the relative subsidization of inefficient mailers by efficient mailers. Fortunately, the PRC recognized these flaws, as did the Postal Service's own Board of Governors.
- 6) *Those of us who advocate cost-based Periodicals rates are not completely satisfied with the outcome of the most recent postal rate case.* The new rate structure was a move in the right direction but by no means fixes all that is wrong with Periodicals postal rates. By passing through only a portion of the Postal Service's costs related to bundles and containers, the new rates still tend to overcharge mailers like U.S. News that have

efficient bundles and containers. We are still, in effect, subsidizing companies – some of them major corporations – that mail their publications in ways that are less efficient for the Postal Service.

- 7) *Contrary to popular opinion, weekly magazines and other time-sensitive publications can engage in various activities to enhance their worksharing discounts.* We have been pool shipping most mailed copies of our weekly magazine to achieve dropshipping discounts for more than 10 years. Virtually all of our mailed copies are shipped with other products – including other weekly magazines – to postal facilities. And virtually all of our mailed magazines are co-bound with another weekly magazine, which means the two publications are collated on the same binding lines and together have more efficient bundles and containers than could be achieved if they were bound separately. Some publishers worry that such efforts will delay delivery, but we have found that they improve delivery by enabling us to create more finely sorted bundles and pallets that can be dropshipped deeper into the postal system.
- 8) *True cost-based rates do not automatically hurt small-circulation publishers or help large-circulation ones.* Many small publications mail efficiently and therefore would benefit from true cost-based rates. Local newspapers and regional magazines tend to have a relatively small number of mailed copies but often mail quite efficiently. Many small, nationally distributed publications mail efficiently by participating in offline co-mailing – which, by the way, is not practical for *U.S. News* because of our magazine’s multiple editions – and poolshipping. Meanwhile, some magazines that mail hundreds of thousands of copies per issue mail inefficiently because they have managed their multiple versions poorly.

Before the current rate structure was implemented this year, Periodicals rates did not send the right signals to mailers. The disconnect between what publishers paid and the Postal Service's costs caused inefficient mailing behavior, which led to rapid rate increases for all publishers. The new rate structure is the beginning of a cure – though admittedly one with bitter medicine that treats some symptoms while largely ignoring others. This partial cure is already having the intended effect: causing publishers to mail more efficiently, which is minimizing costs for the entire Periodicals class. And the marketplace is still in the process of responding to the incentives in the new rates. Such moves toward greater efficiency are our best hope for reining in future increases in Periodicals rates.