

**STATEMENT OF JOSEPH SCHICK  
DIRECTOR, POSTAL AFFAIRS  
QUAD/GRAPHICS, INC.**

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

**OCTOBER 3, 2007**

Mr. Chairman and members of the Subcommittee, thank you for providing me with this opportunity to testify on behalf of Quad/Graphics. My name is Joseph Schick and I am the Director of Postal Affairs for Quad/Graphics, Inc. I have been employed by Quad for 26 years, the last 17 in my current position. I have served as Chairman of the Postmaster General's Mailers' Technical Advisory Committee (MTAC) and continue to participate in MTAC-related working groups. Quad/Graphics has participated in recent rate case proceedings, and I have been a witness at the Postal Regulatory Commission on several occasions.

Quad/Graphics is the largest privately held printer of magazines, catalogs, retail inserts, direct mail and other commercial products in the Western Hemisphere and third largest commercial printer – public or private – in the United States. Annual sales total \$2 billion. Among our more than 1,000 clients are magazine publishers Time, Inc., Conde Nast Publications, American Express Publishing and National Geographic Society; catalogers Victoria's Secret Direct, Williams-Sonoma, Potpourri Group and Lands' End; and retailers Macy's, Target and ShopKo. Our manufacturing mix is 51% catalogs / direct mail; 37% magazines; 11% retail inserts; and 1% books.

We provide full production services from design and photography through printing, data services, finishing and distribution, using some of the most modern equipment and service approaches in the industry. Our R&D division, QuadTech, has been designing and manufacturing computerized controls for press and finishing equipment for more than 25 years and has products installed in more than 80 countries.

Quad/Graphics is headquartered in Sussex, Wisconsin. We have 12 domestic printing plants, located in Milwaukee, West Allis, Pewaukee, Sussex, Lomira and Hartford, Wisconsin; Saratoga Springs, New York; Martinsburg, West Virginia; Fredericksburg, Virginia; The Rock, Georgia; Oklahoma City, Oklahoma; and Reno, Nevada. In addition, we have 21 imaging service centers, which are located near our clients or on-site at their facilities. We have partnerships with printers in three international locations: Poland, Brazil and Argentina. Worldwide, Quad/Graphics' employment totals 12,000 people.

While we don't pay postage for the books that we print, postal rates do have a major impact on the printing industry. Every time the USPS increases rates, our clients react in a way that is detrimental to printers. They reduce circulation and in the worse-case scenario, they may discontinue a publication. They cut back on the number of pages and reduce their frequency. They move their business to the web. The result is a reduction in the total print volume.

We suffer as do our clients who have to deal directly with the postage increases. We're sympathetic to all mailers, big and small. Our clients run the gamut, from niche publications with print orders of 60,000 copies of which only 10,000 are distributed through the mail, to some of the largest general interest publications with circulation in the millions. Regardless of the quantities mailed, each publication is challenged to find ways to reduce the impact of a rate increase. And if our clients are challenged, that means we are challenged to provide them with the opportunity to reduce those costs. Because of that, in the last 10-15 years providing postal and distribution services to publishers and catalogers has become one of the most important and competitive aspects of the printing industry.

As a large mailer of periodicals, catalogs, and direct mail, the long-term viability of the United States Postal Service is critical to our success as well as the success of our clients. In the production, distribution and delivery of a publication, there are 3 general cost components for our clients; paper, printing and postal. Only one of those components is directly controllable by the printer and that is obviously the printing costs. Over the last 25 years, through technological advances and process changes resulting in productivity gains of more than 4% annually, the printing industry has been able to actually reduce the price for printing (adjusted for inflation).

Paper prices have fluctuated during that same time, rising and falling based on supply and demand. At the present time we are in an upward cycle for paper prices. To ensure that we are providing our clients with the lowest possible cost and highest quality product, we have dedicated staff continually working with the paper manufacturers. We are also coordinating with transportation companies, rail and over-the-road, to ensure the most cost-effective and timely delivery of paper from the mills to our plants. Through industry initiatives we have developed standards for managing inventories and waste. So despite the fact that we aren't in control of paper prices, industry efforts have resulted in the management of paper prices.

Unfortunately, postal rates have continued to rise during the same time and continue to put pressure on our clients and the viability of hard-copy distribution through the mail. As we do with paper companies, the printing industry works together with the Postal Service to try and maintain the "lowest combined costs". That phrase relates to the entire process cost for our (USPS' and printers') mutual clients, from mailpiece design to mailbox delivery. It makes no sense for the Postal Service to reduce their costs by shifting them back to the printer, because at the end of the day the client will still pay a higher price. Our goal in working with the Postal Service is to help to reduce their cost by providing them with more efficiently prepared mail while not increasing our cost of

production. Without these efforts, postal rates would have increased at a much higher rate.

Over the years, Quad and our colleagues in the printing industry have worked with the Postal Service and others to develop drop shipping, barcoding for automation, Mail.Dat for distribution planning, PostalOne® for postage payment, and numerous other products and services.

The most basic of all that we do is preparing mail in the finest of presort levels with carrier route being the finest sortation. There was a time when only "large" circulation or local/city regional publications could realize carrier route. Thankfully that changed with the advent of comailing. (Comailing is the process of combining/presorting two or more titles, magazines and/or catalogs, into a single mail-stream. This process lowers the per-piece postage rates due to the improved level of presort for each title. It also creates deeper penetration into the postal system, facilitates more consistent and timely delivery, and allows magazines and catalogs to arrive in better condition with less handling by the United States Postal Service.)

Quad/Graphics pioneered comailing in 1986 when we were a much smaller printer, a \$260 million company employing 2,197 employees. We knew it was the right thing to do at the time to help our clients reduce their postal costs, and we knew that we needed to provide a unique service that would help us grow our business as well. Using a QuadTech built "Multi-Mailer," we merged together the mailing lists of several different pre-bound magazines to create one large mailstream. Today, we offer four different comail processes, inline and offline, with options for virtually every one of our clients regardless of circulation or trim size.

Some of the publications and publishers who participate in our comailing process are Aspire Publications, *Outdoor Life*, *American Girl*, *Audubon*, National Trust for Historic Preservation, *American Iron*, *Road Biker*, Rodale, *Working Mother*, *National Geographic Traveler* and *National Geographic Kids*.

To illustrate the growth of comailing, today we have more than 110 publications and more than 100 catalogs that currently participate in our comail processes. The circulation ranges from 1,500 copies to 5,000,000 copies (with nearly half being less than 100,000 copies). The extents to which our clients participate vary from title to title. For some, we comail their entire mailing list. While other publications may only comail specific versions or back issue and/or supplemental copies.

We also offer the same comail processes to our catalog customers. As a result of the recent rate case, we have seen a dramatic increase in the number of catalogs who are participating. In 2006, our total comail volume between periodicals and catalogs was about 1 billion copies. With about 890 million copies comailed to date in 2007, we have almost reached that volume through August of this year. The following represents the four comail processes that we offer and their total volumes for the last three years.

	<u>2004</u>	<u>2005</u>	<u>2006</u>
<b>Multi-MAIL</b>	217,000,000	244,600,000	257,000,000
<b>Multi-WRAP</b>	38,300,000	66,000,000	104,000,000
<b>Multi-BIND</b>	26,900,000	259,200,000	602,600,000
<b>Multi-BLEND</b>	0	0	15,200,000

- **Multi-MAIL** is our offline process that merges the mailstreams of several different pre-bound magazine or catalog titles into one large mailstream.
- **Multi-WRAP** combines different pre-bound, polybagged magazine or catalog titles offline and presorts them together into a single mailstream. Inserts and enclosures can be polybagged with each title.
- **Multi-BIND** is our inline binding process that combines different magazine or catalog titles and presorts them together into a single mailstream. Each book maintains its unique, individual attributes.
- **Multi-BLEND** incorporates pre-bound magazines or catalogs with other titles being produced inline. The Multi-Blend process involves an automated portable pocket feeder that rolls up next to the saddle stitcher. Finished books — perfect bound or stitched — are fed after the trimmer and before ink jetting.

It should be noted that a particular type of comailing may not work in every situation or for every publication. There can be challenges related to the size and shape of the publication. Timing of the comail process could create problems for time-sensitive publications. Publications that are individually poly wrapped with multiple inserts could find it difficult to “fit in” a comail process.

Fit is the key word. There may be trade-offs for publishers who want to comail. Sometimes that might involve changing trim sizes and/or production schedules. The publisher has to determine if the savings potential is worth making changes. Our goal has always been to try and create comail processes that will minimize the amount of change required by our clients. In doing so, we have opened up comail opportunities for a larger audience. As comailing has evolved we have been able to overcome many of the aforementioned obstacles. In fact, one of our comail processes involves poly wrapped publications with inserts. That is now one of the fastest growing comail segments. Another one of our processes involves two weekly publications who have been

successfully comailing for almost one year without jeopardizing the timely delivery of their publications.

The ways in which postal costs can be reduced is not limited to comailing. In addition to comailing, we also offer our clients drop shipping. Drop shipping is a service whereby we transport magazines and catalogs as close to their final destination as possible to take advantage of USPS discounts. We have been drop shipping since 1991 when work share discounts were first created for Standard Mail. Prior to that, we had been pool shipping periodical publications to zone skip and deliver closer to their final destination.

100% of our clients participate in our drop ship program. Efficiencies in transportation management and delivery planning allow our clients to reduce their postage costs and better manage their business while ensuring that their catalogs and magazines are handed off to the USPS in time to meet their in-home delivery dates. Drop shipping has become one of the most successful and valuable workshare initiatives for mailers and the Postal Service and we expect that the introduction of editorial pound dropship discounts in the new rate structure will ultimately allow us to expand our dropshipping efforts for high-editorial publications.

There is no debating the fact that we have just experienced the most challenging rate increase in recent history. Many mailers experienced higher increases than had been originally proposed. Periodicals questioned the rationale of the complexity of the new rate structure. As a printer, we were faced with having to explain to our clients what happened and what we were going to do to help them survive. While this was a challenge, it was not unlike what has happened after every rate case that I have been involved with over the last 20+ years. A main reason for that is the rate-making process under the old law. Everything about it created a situation where we all had to react to something that was usually unexpected. In this case, that was taken to the nth degree.

Happily, with the signing of the PAEA we should not have to deal with this unmanageable process in the future. Under the PAEA, rates will increase on a regular, predictable schedule and by smaller amounts than under the old system (e.g., an average CPI-based rate increase for Periodicals, as opposed to the recently-implemented 12 percent increase for Periodicals). And unlike under the old system, the postage rates that the Postal Service files at the PRC will be those that are implemented unless they don't comply with the cap.

We responded to our clients by providing them with as much information as possible on why the Postal Service and Postal Regulatory Commission did what they did. We then proceeded to recommend how they could reduce their postal costs through regional day-long postal seminars. At the same time we were explaining how to reduce postal costs, we were also providing ideas on how they could add value to their catalogs and magazines in order to drive a higher response rate. Then we gave our clients time to digest the information, assess their budgets, and determine if they would adjust their business and mailing strategy for the balance of the year. We then listened to what they intended to do and what they wanted us to do. It became very apparent that more and

more clients wanted to utilize comail as the means to lower costs. The new rate structure in Standard Mail and Periodicals creates even more incentives for comailing. As mentioned earlier, our volumes have substantially increased from 2006. Because of that, we have invested in more comail technology and equipment to meet the capacity needs of our print clients.

It has become apparent to those of us who are immersed in postal affairs that the Postal Service must continue to provide incentives for mailers to prepare the most efficient mail as possible (highly presorted – carrier route; palletized; drop shipped as close to final destination as possible). Since the enactment of postal reform legislation in 2006 requiring the USPS to operate under CPI-based pricing, they need all the help they can get in managing their operational costs. And we need the USPS to continue to provide the incentives to help us recoup our investments in technology, equipment and buildings associated with providing work share discounts to our clients.

I fully expect that going forward we will continue to work with the Postal Service as business partners to do whatever it takes to maintain the concept of “lowest combined costs”. Because of PAEA there should be more opportunities than ever before to accomplish that goal. The viability of the printing industry and the USPS is at stake.

Thank you for the opportunity to express our views on this important issue.