

# Publishing Executive

## The Mailing Conundrum

Steven W. Frye

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If you publish and mail a magazine, you are already well aware of the impact of the latest postal hikes. The United States Postal Service's (USPS) 2007 price hike significantly affected both Standard and Periodical rates. Initially, the USPS proposed a change that would increase Periodical rates by an estimated 11.4 percent.

The USPS does offer discounts to publishers based on how well the publishers integrate into the USPS's automated systems with presorting, palletization and other factors. However, publishers do not perform these services ... printers do.

On its Web site, [www.USPS.com](http://www.USPS.com), the USPS clearly states its intention to pass responsibility of automation onto the mailers (our printers). It says, "On July 15, we implemented new Periodicals prices to enhance efficiency, offer more choices and better ensure that all types of Periodicals mail cover its costs. Periodicals mailers have new incentives to use efficient containers and bundles, and co-palletization becomes a permanent offering to encourage more publishers to combine mailings. We also added new prices for the non-advertising portion of a mailing to give mailers of high-editorial-content publications access to lower destination entry rates."

Let's break that statement down into pieces.

"On July 15, we implemented new Periodicals prices to enhance efficiency ..." The efficiency comes from automation that requires mailers to perform list management services and capture high presort levels prior to the USPS taking possession.

"... offer more choices ..." In May, the initial proposal projected that Periodical-class mail would just pass on rate increases; however, in July, the Postal Rate Commission (PRC) introduced a variable rate plan with 55 different prices based on the type of container used, number of entry points and, of course, the level of presort. Many believe this structure only benefits large-run publishers and actually penalizes short runs.

"... and better ensure that all types of Periodicals mail cover its costs." This explains the rate hike.

“Periodicals mailers have new incentives to use efficient containers and bundles, and co-palletization becomes a permanent offering to encourage more publishers to combine mailings.” It’s the printers who are able to capture discounts for us by combining different titles together into the same mail stream. The only “incentive” publishers have is to work with a printer who offers these services. The USPS is trying to eliminate sack mail, which is the most time-consuming and costly mail category, by encouraging mailers to supply palletized bundles in delivery sequence—by offering the discounts.

In light of all of these factors, it would be helpful if all printers offered co-mailing services, but most don’t.

If you mail magazines nationally from any printer that does not offer co-mailing, the USPS, in essence, has hit you with rates that may be significantly higher than its estimated 11.4 percent. A study by McGraw-Hill (which was cited in a number of news sources earlier this year) estimated that small-run publishers may see postal costs increase by as much as 20 percent to 30 percent.

That’s why, this month, a group of publishers, publication printers, mailers and related associations representing small-run publishers and mailers are scheduled to appear before Congress to complain about the inequity of the new structure.

“We also added new prices for the non-advertising portion of a mailing to give mailers of high-editorial-content publications access to lower destination entry rates.” The flip side of this statement is that the USPS is increasing costs to publishers who sell more ads.

### **A More Costly, Cumbersome Process for the Small Mailer**

“From our perspective,” states Dan Weber, vice president of marketing at Publishers Press, which specializes in short- to mid-run publication printing, “the post office made the calculation and reporting of periodical mail to be at least three times more cumbersome than it was before, making everyone from the list services, postal software creators, printers and especially the USPS mail-verification personnel pull their hair out.”

The USPS, he continues, “prepared us that a container charge was coming; however, they didn’t tell us that it would vary dependent on where the pallet was going to be entered. Plus, they sprung a ‘bundle’ charge [on us] and also varied it depending on what type of pallet it was in. This was huge, not so much as an unforeseen price increase, just the complexity of how it was applied, and in our opinion, micro-managing the postal charges and all changes favoring the Time/Hearst/[Gruner+Jahr] large-run publications. ... We in the lower end (short-run market) have all cried, ‘Not fair,’ but to no avail. From here, if no major structure changes will be made, we are expecting to receive an annual CPI [Consumer Price Index] increase, regardless of any efficiency gain by the USPS. [I] wish printers and publishers could do this.”

### **Printers or Mailers?**

I've been saying for several years now that when we hire a printer, we're really not hiring a printer as much as we are hiring a distributor. In the late '70s and early '80s, postage costs for a subscription-based magazine averaged about 15 percent of the combined manufacturing and distribution costs. By the '90s, it crept up to about 25 percent to 35 percent, usually about equal to the paper cost. Now, postage is the largest expense a publisher has ... and it is not negotiable.

Remember, with the new rate structure, you are paying the highest possible postal cost if your printer enters all your mail into its local post office and does not offer drop-shipping, palletization or co-mailing. The only way to lower postage costs is to capture discounts, and that requires volume. Only the largest circulated magazines enjoy the quantities needed to hit these saturation levels. For most magazines that have a national circulation of less than 150,000 copies, it is impossible to create many bundles on their own.

Our printers must be efficient mailers if they expect to get and/or keep our business. As publishers, we hire and trust our printers to perform at the optimum level of efficiency with their integration into the postal system.

RR Donnelley, Quebecor World, Quad/Graphics, Brown Printing Company and Fry Communications—all large multiplant operations—have created co-mailing operations. Donnelley and Quebecor both built dedicated distribution facilities where titles from all of their plants are pooled together. Quebecor has a distribution facility in Bolingbrook, Ill., dedicated to its short-run plants and customers, and another in Franklin, Ky., for its long runs.

Publishers Press started pooling titles from its two Kentucky plants in 1997 and established the first USPS-approved co-palletization program for short- to medium-run magazines. It also created a building dedicated to, first, co-palletization and then, in 2006, co-mailing.

“The latest rate case certainly showed a greater value given to achieving carrier-route presort, so there are more incentives than ever to co-mail,” points out Mark Schneider, a distribution expert at Quad/Graphics.

Without co-mailing, nationally mailed, small-circulation publications pay the highest postal costs.

### **What If Your Printer Doesn't Co-Mail?**

So, what can you do if your printer does not offer or plan to offer co-mailing services? One option, if your printer is centrally located, is to request that your magazines be delivered to Quebecor World Logistics's (QWL) or RR Donnelley's Illinois facilities and merged with their volume.

QWL has been accepting other customers' mail since June 2007. “The co-mail program at Quebecor World Logistics is running well in the acceptance of

publications and catalogs from external printers,” says Joel Weber, vice president of sales, QWL. “Due to the extreme flexibility of the program—offering multiple pools per week, fast presort services and two-and-a-half-day pool cycles—it is easy for an external printer to bring product into the co-mail platform and improve delivery time while saving money.”

Donnelley Logistics used to only distribute Donnelley mail, but recently it began to accept outside volume. One recent partner is Schumann Printing Company, a single-plant publication printer located in Fall River, Wis. Now, Schumann can offer full co-mailing services to its customers without setting up a dedicated operation of its own. It also immediately tapped Donnelley’s postal expertise.

Mechanicsburg, Pa.-based Fry Communications also accepts outside volume.

However, the transition of so much additional volume into these megamailing operations is a bit concerning. Donnelley has had its hands full with its Banta and Perry Judd’s acquisitions and its subsequent additional mail volume. In August, its Illinois distribution facility experienced a problem that shut it down for a significant period of time (publisher reports suggest it was shut down for a period of one to two weeks). You can imagine the impact the shutdown would have on the affected publications.

When contacted for a response as to what happened and what safeguards have since been put in place, Walt Zdunek II, Donnelley Logistics, said that Donnelley officially had no comment. However, another representative said that the crash resulted from integrating titles from Banta into Donnelley’s co-mail operations. He said that the worst any title experienced was a three-day delay in mailing. However, several customers, who wished to remain anonymous, reported much longer delays as well as significant frustration over Donnelley’s “secrecy” about what led to the shutdown, suggesting Donnelley should explain and accept responsibility for whatever led to it “falling flat on its face.”

Former Perry Judd’s customers also have been grumbling about the less-than-ideal service they’ve been getting since Donnelley took over. These may be just growing pains from the flood of additional volume; we’ll just have to wait and see, as Donnelley did not comment on what new safeguards are being put in place, if any. One publisher, however, said that Donnelley has added a co-mail line to the Illinois facility and has started a new facility in York, Pa., that began operations in September with one line; an additional line is expected to be running by year-end.

If printer consolidation continues, and the “big guys” continue to corner the market on co-mail services, will the industry essentially be at the mercy of whatever quality of service it can get? We’ll see. And will the “little guys” continue to pay the highest rates if they are not at one of these mega-mailers? It appears, yes, unless the new outcry gets some attention and momentum.

Another option, if your printer does not offer co-mailing, is to encourage your printer to set up a cooperative venture with other regional printers with whom it can pool its volume. I particularly think the northeastern and southeastern printers, as well as the three Denver publication printers (National Hirschfeld, American Web Inc. and Publication Printers Corp.), should also create regional cooperatives.

For nationally mailed magazine publishers, postal distribution has become a critical factor in printer selection. Analyze postal services closely, as each printer uses different methods of combining, terminology and billing methods.

Some printers have discovered that mailing services can be a new profit center, many times billing for services that may outweigh the actual co-mail advantage. It is not uncommon to see up to four pages of mailing charges on printers' price lists for list management, co-mailing fees, and online and offline addressing and messaging services. It is your responsibility to learn exactly what your printer is doing for you, what the advantages are and what the real costs are.

Some printers seem to be making up processes and prices as they go, often just responding to competitors' rates. It's reminiscent of the time when electronic prepress was first introduced. Eventually prepress evolved into just a couple charges and at a pretty standard industry rate.

Therefore, don't be afraid to challenge your printer on explaining exactly what every billable service is and make sure it proves that it is, indeed, saving you money.

### **Co-Mailing Standard-Class**

Many magazines mail as Standard-Class (S-C), the same as catalogs, which is more expensive than Periodical-Class.

Since the S-C rate changes went into effect in May, some mailers have seen increases in their small-run customers' postal costs, from 20 percent to 40 percent. Cost comparisons between the old and new rates are difficult because the pre-sort categories changed and the rate structure is complicated.

However, the USPS now has made it possible for Standard to be co-mailed with Periodical mail. This means that catalogs, the largest segment of S-C mailers, can co-mail with magazines.

Even though it's now possible to co-mail S-C, most printers do not offer S-C co-mailing services because the software has not been developed yet to actually merge the two. As you can imagine, however, co-mailers have been scrambling to design the needed software so they can offer this service.

According to Glenn Sollenberger, director of postal affairs/distribution, Fry Communications, "We're working with three different Standard co-mail

organizations to ... get our catalog folks in a co-mail pool. We're investigating using such a service until we would have enough volume to install another co-mailer."

### **Co-Mailing Technology and Capacity**

If there is such a high volume of publishers who'd benefit from co-mailing, why don't all printers install co-mailing equipment? The technology and equipment are expensive, and the return, by description, has to be low because the purpose of co-mailing is to lower the USPS's costs. There isn't much margin in that equation. Also, the biggest benefactors are small-run mailers, just the market that, again, doesn't have the volume to readily justify the investment. The large mailers are all expanding their co-mail operations.

According to Schneider, Quad/Graphics has expanded from just offering inline co-mail (which it refers to as Multi-Bind) to also offering a robust offline co-mail program (Multi-Mail) and a Multi-Blend program. Multi-Blend is its process of blending a perfect-bound book into a saddle-stitch binding and mailing line after the trimmer. Quad/Graphics also can co-mail on polywrap machines, which it calls Multi-Wrap. "We have an enormously successful Multi-Wrap," claims Schneider, "allowing us to co-mail nearly 100 percent of a publication's versions, and eliminating the need to run both inline and offline versions."

Joel Weber says QWL has six additional co-mail machines on order, and plans are underway to open an additional co-mailing facility on the East Coast with two 30-pocket machines to complement its co-mail services in Chicago.

### **The Future of the Short-Run Printer**

It appears only the largest publication printers are making the investment in co-mailing, which means the majority of printers that do not offer co-mailing are in danger of losing their mailed volume to these mega-mailers.

What can small-run printers do? Dan Weber suggests they concentrate on the regional, commercial and newspaper-distributed markets and other customers who do not require national mailing. "If they print nationally distributed publications, target runs under 200,000 copies, and rely on the USPS for distribution, they have to either possess co-mail equipment or have a partner fairly close by who can offer it," he says.

"I think we will see future growth of a co-mail cottage industry ... third parties and printers offering their co-mail services—very similar to what happened after the 1991 destination-entry program for catalogs," adds Schneider. "That drop-ship discount created a revolution in distribution services, and all sorts of third-party logistics companies came about to help small-catalog printing companies."

Dan Weber points out that printers' profit margins have taken it on the chin since 2001; therefore, printers who don't have the volume to co-mail may be forced to subsidize, "which may be the beginning of the end for them," he says. "Personally,

I see consolidation of larger, less-spread-out printing/ mailing plants versus what has been typical of the past.”

Until those things happen, this is clear:

1. The USPS has changed the rate structure, which, in essence, penalizes all short-run mailers.
2. Co-mailing and automation are the only options to capture discounts and lower costs.
3. Most printers do not offer co-mailing services.
4. Most printers are not planning on investing in co-mailing equipment.
5. Only the largest publication printers offer co-mail and are only growing more dominant.

None of these five points are positive for the short- to mid-run markets. With postage increasing 11 percent, 20 percent or more for publishers, the focus on minimizing postage is more critical than ever, and we are at the mercy of our printers to do the best possible job on our behalf.

Speaking of discounts, the USPS is making an effort to cut in half the estimated \$2 billion it spends each year in handling undeliverable mail by withholding discounts from publishers who do not maintain list accuracy. This is another cost increase that is not being included in the estimated effects of the new rate structure, and it makes list maintenance even more important than ever.

No matter how you look at it, the USPS did a great disservice to our industry. It has incorrectly assumed we could immediately and efficiently co-mingle publications. Unless the new lobbying effort actually takes root, we will need to continue to find ways to more efficiently mail our magazines ... or not. With postage being our biggest expense, the USPS is making it more attractive every day for publishers to produce electronic, rather than printed, magazines. PE

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Steven W. Frye is owner of Frye Publication Consulting in Hailey, Idaho. He is an expert in magazine- and catalog- production processes, and has negotiated printing, paper and distribution contracts for dozens of publishers. He can be reached at [Steve@SteveFrye.com](mailto:Steve@SteveFrye.com).

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