

Shopping for Co-Mail: What a Short-Run Publisher Needs to Know Now!

Calling all short- and medium-run publishers! The next postal rate case will be filed in April 2005, and rates are expected to increase in early 2006. You will be hit the hardest while the longer-run publishers continue to receive volume discounts from the Postal Service.

With postage accounting for approximately 30 percent of your total production costs, what cost containment measures do you plan on taking in the near future? What if you could reduce your postal bill by a budgetary annual savings today...before the new rates even take effect? Co-mailing is certainly a term buzzing around the industry lately as "the answer to rising rates" and it's important that you, as the buyer, are aware of what makes a co-mail program successful. For instance, a company's ability to invest in co-mail equipment does not guarantee its ability to actually provide you the service and savings you need. So, buyer beware!

Following is a series of questions that you should be asking your co-mail vendor and the answers that should help you to make your purchasing decision.

What type of turnaround can I expect?

What this question is *really* asking is "how much flexibility can you offer me in terms of scheduling?" Why is this important? Because your co-mail vendor may only have one co-mail machine that doesn't offer the capacity for your volume and thus, your schedule becomes vulnerable to your vendor's lack of capacity. Or even worse, your vendor may not have enough volume to run the production cycles or the frequency that your publication(s) requires. What you need to look for is a *guaranteed turnaround time*. Keep in mind that you shouldn't have to

wait more than a few days to be included in a co-mail pool. You may want to also ask how many machines your vendor has and/or how many co-mail production cycles your vendor plans to run per week. This will give you a better understanding of the level of flexibility you can expect.

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Congress Includes Postal Funding in Appropriations Bill

Congress passed a \$388 billion FY05 Omnibus Appropriation bill that includes postal funding on Saturday night, which is temporarily being held after members of Congress expressed concern over a line item regarding access to income tax returns. Bush is expected to sign the measure once the provision is deleted.

The USPS received the following appropriations in the spending bill:

- ☒ \$507 million for Homeland Security costs, emergency preparedness and bioterror detection equipment
- ☒ \$29 million for annual Revenue Forgone payment
- ☒ \$61.7 million for free mail for the blind and overseas voting

These numbers are different from what PMG Jack Potter asked for at the Appropriations Subcommittee hearing on February 26th. His requests were as follows:

- ☒ \$780 million for Homeland Security (a difference of \$273 million)
- ☒ \$29 million for Revenue Forgone
- ☒ \$75.9 million for free mail for the blind/overseas voting (a difference of \$14.2 million)

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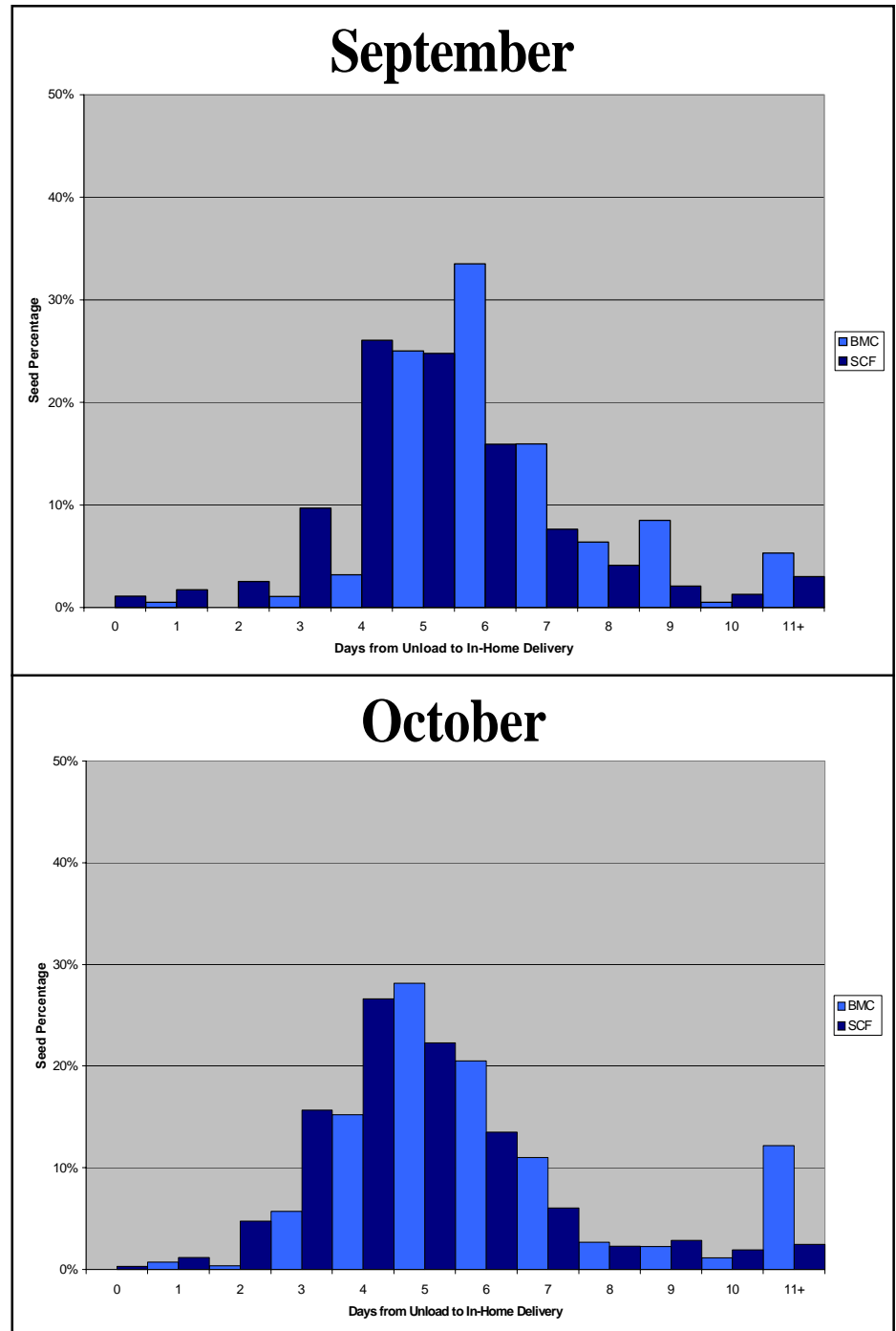
USPS Processing and Delivery: Trends for the Fall Mailing Season

These performance charts are based on the variance between individual seed responses and the corresponding unload dates into the U.S. Postal Service. The charts illustrate USPS processing and delivery trends by postal entry facility type. For example, October's results indicate a more uniform tail and bell curve than September. The peak and tail for October shows a slight delay in the mail as compared to the rest of the year. This should be expected with the influx of volume moving into the postal network during the busy fall mailing season. The results for October are, however, better than the industry has seen in past years at this time. Be sure to check in future issues of *Logistic Solutions* for this monthly report. ■

New USPS Pricing & Classification Service Center Formed

On November 27th, Pricing and Classification will consolidate the three regional rates and classification service centers (RCSC) and the nonprofit service center (NSC) into a single national center called the "Pricing and Classification Service Center" (PCSC). After a short transition period, all work currently performed in Chicago, Memphis and San Francisco will take place at the new PCSC, in New York City.

The new PCSC will begin to provide major mailers pre-production rulings on proposed mailings, using new procedures that have been pilot tested. Over time, this voluntary program is expected to evolve as customer feedback is compiled. The rulings will provide certainty for mailers at acceptance points, nationwide acceptance will be streamlined and consistency-driven, and costly disagreements will be minimized. ■



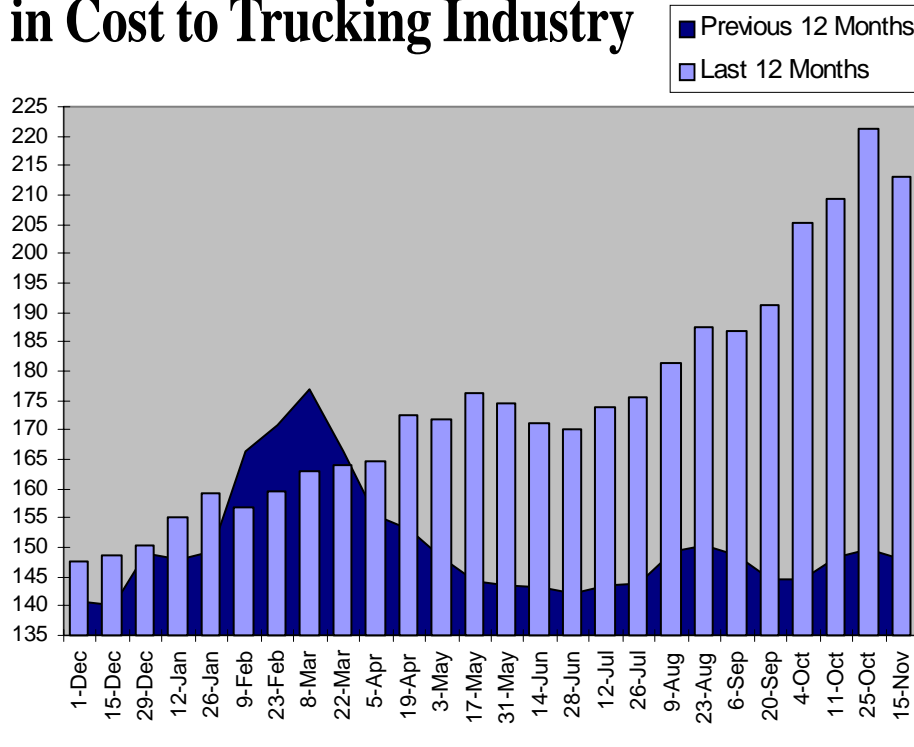
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Cost of Diesel This Year Adds \$6.5 Billion in Cost to Trucking Industry



As shippers scramble to come up with innovative ways to cut soaring transportation costs, rising prices for crude oil send them looking for new methods. The American Trucking Association estimated that the run-up in diesel prices this year will add \$6.5 billion in cost to a trucking industry that consumes about 34 billion gallons of fuel in a year. A one-cent increase will add about \$340 million in industry costs over the course of a year. Diesel fuel costs are approximately 70 percent higher than they were for the same period in 2003. Despite a recent drop of 4.3 cents per gallon, carriers continue to see profits diminish due to the increased fuel costs. Fuel typically is the second-largest expense for trucking companies, after labor, making up about 20 to 25 percent of overall expenses.

Take a look the following statistics comparing diesel prices to years past:

- Since March 1994 (577 weeks), 25 out of the 30 weeks that diesel averaged over \$1.70/gallon were in 2004.
- In 2004, diesel hasn't been lower than \$1.503 per gallon whereas in 2002, diesel never went over \$1.491/gallon.
- In 2001 only 10 of the 52 weeks were higher than \$1.50/gallon but never higher than \$1.539/gallon in 2001.
- In 1999 diesel was never higher than \$1.304/gallon and was only above \$1.299/gallon for 1 week. ■

Shopping for Co-Mail Cont.

Can you guarantee a certain level of savings that will be generated from co-mail?

Pricing structures will vary from vendor to vendor. What you need to demand from your co-mail vendor is consistency in pricing. In order to budget accordingly for production costs, it is ideal to have some sort of predetermined postage cost to allocate to that 30 percent or so of your total budgeted costs. A guaranteed percentage of postage savings enables the most flexibility in your budgeting.

How many years experience do you have in the co-mail arena?

More and more companies are announcing their investment in co-mail technology, becoming first-time entrants into this market. Again, buyer beware! You want to make sure that your vendor has experience in co-mailing because when you're combining multiple titles with multiple customers, you don't want to risk getting someone else's address on your book, or vice versa, due to inexperienced workers. Check to see that your vendor has been in the industry for some time, and more importantly, has thought to invest in the appropriate quality control technology to ensure zero defects in the process. Furthermore, you'll want to make sure your vendor has a great deal of experience with the presort software necessary for documenting co-mail activity and reporting to the USPS (see section on in-house presort capability). Co-mailing has certainly been around for a long time, but it's new to the short- and medium-run publication market. You want to make sure that your vendor customizes the co-mail process to meet *your*

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specific needs as publisher in this market.

Do have an in-house presort vendor?

You'll want to ensure that the co-mail process is as streamlined as possible because again, you're merging your titles with various others, which can be risky. Therefore, check to see if your vendor offers presort services in-house. This eliminates any sort of finger-pointing that might occur when dealing with multiple vendors. Keep in mind that you, and all your vendors, will be operating on a tighter schedule once you switch to co-mail. So, the less ambiguity and/or decentralization, the better! For example, it could be quite a challenge to coordinate scheduling if you're working with a separate printer, co-mail vendor, presort vendor, logistics vendor (or a third party through another vendor) and then, of course, the USPS. Connectivity is extremely important to co-mailing and, your best bet is to find a vendor that can offer all of these services, without compromising ANY of your requirements.

Do you have an in-house logistics entity?

Make sure you know exactly what the co-mail process entails. One of the main benefits of co-mailing is that it increases your potential for drop shipping. Key word here is POTENTIAL. Your vendor may have the capability to co-mail your books, but do they have any type of logistics network set up that can get you the drop ship discounts for which you are now eligible? Many of the new co-mail vendors in the market do not have this type of network established to complement their co-mail service offering. Therefore, you'll

end up paying freight costs, through an outside logistics vendor, which will offset any type of postage savings you might have received. You want to find a vendor that is experienced not only in co-mailing, but in drop shipping as well. Remember, long-run publishers are achieving significant savings today through drop shipping alone. Once you add co-mail to the mix, it should only increase your postage savings. Logistics costs should not work against your co-mail operation.

How many postal facilities can I expect to get my mail into once I begin co-mailing?

When purchasing co-mail, you should be considerably knowledgeable about the drop shipping process and the savings that can be achieved through this process. Consult the USPS Domestic Mail Manual to find out exactly how the Periodical rates are structured and how the postal network operates. Or better yet, ask your co-mail vendor! If your vendor does have some type of logistics network set up, they should be able to tell you how many Sectional Center Facilities (SCFs) they service within the postal network. For instance, Quebecor World Logistics services 320 SCFs at least 3 times per week, or daily if volume warrants. There is a total of 475 SCFs in the entire

postal network so, find out how many your vendor reaches.

How will this impact my in-home deliverability?

Again, this depends a great deal on whether or not your vendor has a logistics network that focuses on in-home deliverability. Once you start co-mailing, you'll have to switch your focus on "mail dates" to be on the "in-home dates," if you haven't already. What you should expect to see is in-home delivery that is the same or better. Right now, you should be seeing a delivery pattern that is considerably spread out, depending on the origins/destinations involved. For instance, if you're printing facility is in the Midwest, you won't see your books arrive in-home on the West Coast until much later than the rest of books. With co-mailing, you should expect your in-home window to be condensed. With a tighter window, you can expect your customers on the West Coast to receive their books closer to the time your Midwestern customers receive their books.

For any additional questions you might have regarding co-mail purchasing, feel free to contact Joel Weber, Vice President of Sales, at 630-438-2281. ■

Congress Includes Postal Funding Cont.

Mailers have been aggressively lobbying for progress in terms of interim postal reform because without money appropriated by Congress, revenue would need to be generated via a dramatic rate increase. The rate case will still be filed in April 2005, and the rates will be implemented in early 2006. Whether the rates will be in double-digits now that some level of reform has been passed is yet to be determined. ■