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Testimony on behalf of NewPage Corporation  
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I appreciate the opportunity to appear before the subcommittee today. My name is Mark Suwyn. I am Executive Chairman of NewPage Corporation, the nation's largest producer of coated paper – a type of paper primarily used in print advertising. We have nine paper manufacturing operations in the United States and one in Canada. NewPage is also a major paper supplier to magazine publishers, an industry that is a vital source of news and information and important to our country socially and economically. In fact, more than 80 percent of our paper is used for magazines, catalogs and advertising. As you can imagine, the viability of the United States Postal Service (USPS) is very important to the future of our company.

In 2008, almost 190 million Americans – and four out of five adults – read and enjoyed magazines. There are more than 7,000 consumer periodicals in this country, with titles spanning virtually every industry, interest, and opinion – and publishers met readers' needs by producing nearly 325 million subscription copies in 2008. Despite this, for many of the same reasons the Postal Service is struggling, so is the magazine industry.

In the first half of 2009, publisher advertising revenue is down 21 percent from last year and ad pages are down 28 percent. Already this year 279 magazines have closed, and an additional 43 titles shut down their print editions and continued online only. Like the Postal Service, changes in media consumption patterns and a focus on digital advertising has put the industry under great strain, and the 135,000 Americans who work in periodicals publishing are at risk of losing their jobs. With nearly 90 percent of periodicals delivered by the Postal Service, magazine publishers can afford neither a systemic failure of the postal system nor significant increases in postage rates, which represent fully a third of magazine production costs.

These are challenging times for the entire U.S. economy and paper based industries have been severely affected. NewPage has been dealing with the sharp economic downturn by reducing capacity to match demand, dramatically reducing costs and focusing on new products and services to expand the scope of what we can produce at our mills. Our view is the USPS is faced with doing much of the same.

The Postal Service represents an enormous part of the paper based communication channel. The industries that rely on the Postal Service for distribution employ roughly 8.3 million workers and represent 9 percent of the U.S. economy. Industries including printing, printing equipment manufacture, ink companies, mail service providers, advertisers, ad agencies and many others are part of this supply chain. There is a tendency to look at postal issues only from the standpoint of the Postal Service. It is important to remember, however, that the Postal Service is part of this large economic network. If we do not repair this part of the chain, we risk these more than 8 million jobs – not just the employees at the Postal Service.

In most ways, the Postal Service is no different from any other large business. Like NewPage, it must try to anticipate the rapidly changing market and economic conditions and make adjustments accordingly. There are a number of trends, unrelated to the economic downturn,



that are having a significant impact on mail. The volume in first class mail has been declining in recent years as more people communicate electronically and more and more people adjust to bill paying on line. Financial services companies particularly encourage customers to move toward electronic transactions as a cost saving measure. Email, Facebook, MySpace and Twitter have essentially replaced personal correspondence by letter. Likewise, the trend in periodicals has been toward reduced size as advertisers find alternative promotional channels and readers go on-line for content. While the number of magazine titles has increased, circulation and the number of pages per issue has declined. Still, over 90 percent of periodicals are delivered by the USPS. Similar trends are seen in catalogs.

The bright spot for the mailing industry had been advertising mail. Until the current economic problems began, advertising mail was increasing. Although its rate of growth was not as significant as internet and email advertising, its total dollar volume was six times greater than internet ads.

Unfortunately, the economic collapse has taken its toll on all forms of advertising but nowhere is this being felt as dramatically as print ads. Newspapers, magazines, catalogs and advertising mail have declined resulting in the drops in total mail volume at the levels mentioned earlier. There are some who say these trends are being accelerated by the recession while others believe this volume will return when the economy bounces back. The reality is that no one knows for sure. However, some of the trends we observed prior to the economic collapse will not reverse.

I think it is important to put this in context. There are numerous studies that show clearly that print advertising through the mail has the lowest cost per response rate compared to any other advertising media. However, with substantial rate increases over the past eight years, postage now accounts for up to 50 percent of the total cost of print advertising delivered through the mail. Therefore we need significant increases in efficiency and lowering of costs to ensure that this effective communications medium continues to be competitive and offers opportunities for the 8 million employees who support this channel of information. While cost is critical, it cannot be the whole answer. We believe a number of revenue enhancements and capital reinvestments could also contribute to a brighter future.

From our perspective, Congress needs to take a broader view of the economic challenges in this sector of the economy, not just the Postal Service. The Postal Service is a big part of the economy and a huge portion of the government. But, it does not exist alone. It exists to provide service for a product that is increasingly optional. While there are products that have to be delivered by mail and there are areas of the country that are not served by any delivery service other than the USPS, the vast majority of USPS customers choose to use or not use the system. If that choice continues to move to other options – electronic or otherwise – there will be significant loss to the economy.

We would suggest three areas for consideration involving costs, revenue enhancement and capital reinvestment.



## **The Postal Service must reduce costs**

Businesses throughout the country, and the world, must reduce expenses to survive. The Postal Service has to do likewise. With roughly 80 percent of the expense of the Postal Service in people, this means the overall cost of labor has to be reduced for the Postal Service to remain viable. Our own experience suggests that the most successful way to reduce costs is to engage all your employees in the quest for reduced costs. While a number of costs can be lowered without reducing the number of employees, hard decisions will need to be made about how many people are necessary to compete in the new communication environment as well as how these people will need to be compensated. Our company, along with virtually every company in our sector, is making those hard decisions every day.

Reducing service from six days to five or fewer days per week must be part of the discussion. As an isolated action, a reduction of service will only serve to diminish the value of the Postal Service but taken as part of a broader restructuring program, changes in delivery can be beneficial.

## **The Postal Service must seek to enhance revenue**

Growth incentives, similar to the successful incentive for third quarter of 2009, to encourage highest volume mailers should continue to be evaluated and utilized. New services, such as a regional "saturation mail" service for coupons and inserts to replace and/or provide cost competitive alternatives to the increasingly eroding newspaper delivery channel, need to be part of the mix. And collaborative efforts, such as a recovery recycling service similar to the one NewPage and the USPS intend to pilot in the Chicago area, may lead to new market and revenue opportunities.

- The history of the Postal Service suggests that rising costs can only be covered by increasing prices. In the new communication market, increased prices will only lead to decreased "sales." Companies wanting to communicate or advertise have options and in many cases lower cost options. In order for the Postal Service to retain and perhaps grow volume, it will need to take bolder steps such as the one underway right now in its Summer Sale. The logic of the Summer Sale is sound. The Postal Service has built an infrastructure to process 300 billion pieces of mail while volume this year is expected to be 175 billion. In other words, they have excess capacity. Any new revenue they bring in through lowering the cost to mail products will be a net gain.
- The Postal Service must look at creative and revenue generating ways to expand the delivery of the products customers want including additional advertising material such as inserts and coupons. Such actions will also need to address concerns that customers might have about options for avoiding unwanted mail while providing service to those who do want the products.
- We also think the Postal Service is a perfect partner for the industry in working with recycling programs. Our company is currently engaged in a dialog with the Postal Service about such a program. Again this is a positive use of the infrastructure the Postal Service has in place.

## **The Postal Service and its strategic partners must promote the value of mail**

- Our company and others have been working in partnership with the Postal Service to promote the use and value of mail. This past week, our company participated with other strategic partners in the industry as well as the Postal Service in a presentation to a major national ad agency on the value of mail. This is the second presentation of its type in a series that we are doing. There are countless studies by the Postal Service and private analysts attesting to the value of mail. Some of the facts worth mentioning are that 22 percent of all advertising spending is direct mail. Direct mail has the strongest return on investment of any channel at 34 percent for direct mail, followed by email at 24 percent and search engine marketing at 8 percent. Direct mail is also the major driver of response to websites. A website supported by a catalog has a “revenue lift” of 163 percent compared to a website not supported by a catalog.
- To do our part in this effort, we launched a campaign in May called “Free Paper to Reach More” to support the efforts of the Postal Service by giving away 500 tons of paper to help catalogers reach more prospects. Catalogers and their buying partners – brokers, merchants, printers and catalog consultants – could all participate. Five lucky winners of 100 tons of paper (equal to 500,000 additional mailings) can now reach new prospects, attract more customers and generate catalog sales with more paper. We delivered this message through print advertising and direct mail, and received great insight into cataloger’s current business challenges. At the top of their concerns were reducing costs while optimizing circulation of their catalogs.

Clearly the USPS needs to adjust its operating platform in response to the recent and dramatic loss of volume to remain viable. Some of the modifications being considered will be painful but are necessary. The USPS also has to engage its customers and suppliers to find new services to offer. We believe there are opportunities that can best be filled by a nationwide delivery service. We believe that the USPS and its Board of Governors are in the best position to make these changes and should be empowered to make them.

These are times of unprecedented challenges and opportunities. This committee and its members have taken bold steps in recent years to put the Postal Service on a path to success. I know you share our belief that more is needed.