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**U.S. House Committee on Oversight and Government Reform  
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**Joel Quadracci, Chairman, President & CEO  
Quad/Graphics, Inc.**

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Good morning Mr. Chairman, Ranking Member Cummings and Members of the Committee. I want to thank you, Mr. Chairman and Ranking Member Cummings, for your leadership, and the rest of the Committee for your focus and efforts on the urgent matter of restoring the U.S. Postal Service (USPS) to financial stability. This is a vitally important issue for communications and commerce in our country. A financially hobbled postal system cannot provide the service the public needs and deserves. The Postal Service must right-size its network and substantially reduce its costs, but it also needs help from Congress. We, as an industry, are truly grateful for the thoughtful proposals that have been prepared for consideration by Congress. I believe the Chairman's discussion draft, in particular, will facilitate the cost reductions and right-sizing that are necessary to ensure the Postal Service's long-term financial viability.

It is clear that you and the members of this committee, in particular, clearly understand the importance of a financially sustainable Postal Service. So, with respect, I urge you and your colleagues to act as quickly as possible to find the common ground that is evident and ensure that these necessary reforms are enacted into law. In order to thrive the mailing industry must have a cost-effective and efficient postal service. At times even just the uncertainty surrounding the Postal Service will lead to additional customers leaving the mail-stream in favor of other more predictable marketing media.

As we know all too well, the Postal Service is losing money at a rate of nearly \$25 million a day with a total planned loss in 2013 of \$7.6 billion. This is clearly unsustainable. This financial instability and the constant threat of insolvency is obviously troubling for the Postal Service, but it is even more troubling for the American economy overall. Although the Postal Service is financially challenged it is still a \$65 billion business that supports a private sector economy worth more than \$1 trillion, employing some 8 million private sector workers and accounting for 9% of our nation's Gross Domestic Product (GDP).

The Postal Service is the backbone of the private sector mailing industry and it plays an integral role in the modern economy ranging across every type of mailer and the printing, paper and technology industries that supply the industry. These businesses support services in a marketplace that includes cost-effective advertising, magazines, catalogs, e-commerce, prescription drug fulfillment, and what is still a huge amount of statements, bills and greeting cards as well as an expanding package delivery segment. These are products that consumers in all 50 states value, and, in some cases, rely on, and they depend on the Postal Service to deliver them right to their door.

While it is clear that the printing and mailing industries are a vital part of our economy, there is no doubt that our industries are changing and change can be challenging. Since 2009, the mailing



industry lost 4.5% of its jobs. The biggest problem facing the printing industry is the same problem the Postal Service faces: excess capacity. This is a problem that we, at Quad/Graphics, are addressing head on. We continue to work hard to acquire marketshare by attracting and retaining clients and pursuing strategic acquisitions, both large and small. Over the past three years we have completed two major acquisitions (World Color Press Inc. and Vertis Holdings Inc.). Through these acquisitions we acquired more volume. At the same time, we also acquired more underutilized capacity. Therefore, we were required to make the tough but necessary choices to close facilities and consolidate work into other locations where we believe we can produce the work most efficiently and competitively. This has resulted in the closure of 21 facilities accounting for more than 7 million square feet of printing capacity. These decisions are necessary in a mature industry and challenging marketplace.

The Postal Service must make similarly difficult decisions. It must take an honest look at its business model and make sure that the size of its business matches the reality of the marketplace. Right now, the Postal Service has too much capacity and must continue to be “right-sized.” Mr. Chairman, your bill’s focus on continued cost reductions will help ensure that excess capacity is eliminated.

Our company, Quad/Graphics, is one of the largest mailers in the United States, accounting for nearly 12 billion pieces of mail each year. We print magazines, catalogs, retail inserts and direct mail for many well-known publishers and marketers. For example, Quad/Graphics has contractual relationships with leading magazine publishers, including Conde Nast, Hearst Magazines, Meredith Corporation, The National Geographic Society, Rodale Inc., The Reader’s Digest Association Ltd., Source Interlink Media, LLC, Time Inc., Sports Illustrated, and Wenner Media LLC. Quad/Graphics prints catalogs for industry-leading marketers such as Cabela’s Incorporated, J. Crew Group, Inc., L.L. Bean, Limited Brands Inc. (Victoria Secret), and Redcats USA, and direct mail products for companies such as Charter Communications, American Family Insurance, American Eagle Outfitters, Publishers Clearing House, Inc. and Weight Watchers International, Inc. The success of Quad/Graphics and our 20,000 American workers -- which include 6,700 in Wisconsin, 700 in Oklahoma, 1,200 in Georgia, 300 in Tennessee and more than 1,500 in Pennsylvania and many more people throughout 28 other states, is directly tied to the existence of an efficient and cost-effective Postal Service. Those 20,000 workers are counting on this committee and this Congress to take the necessary steps to help them succeed.

Point being, you are not alone on this journey. We are part of the Direct Marketing Association, PostCom, American Catalog Mailers Association, Alliance of Nonprofit Mailers, MPA – The Association of Magazine Media, and the Coalition for a 21<sup>st</sup> Century Postal Service all of which stand beside us, ready to continue their work with you to ensure the future of the Postal Service as well as the 8 million American families that depend on the Postal Service for their livelihood.

The continued sluggish economy and the decline in mail volumes pose a threat to the Postal Service’s sustainability. These challenges can be overcome with bold reforms, cost-cutting and streamlining – the same types of tough measures that thousands of American businesses like ours have made during difficult times. In addition to measures the Postal Service must take, Congress can



help by alleviating the unreasonable financial burdens that have been placed on the Postal Service. Without Congressional action, not only will the financial situation of the Postal Service continue to be dire, but the uncertainty for our clients and the entire mailing industry will stifle volume as customers make decisions about how to spend their advertising budgets, among other concerns. The uncertainty surrounding the USPS is referred to by many as a “crisis of confidence.” Many clients may choose to move away from print only because they do not have confidence that the Postal Service will continue to be a viable option. This uncertainty can be resolved by Congress taking decisive action to show that the Postal Service will remain a strong and practical option for our marketers and publishers to distribute and advertise their products.

Given the Postal Service’s current financial condition and the continuing decline in mail volume, we support proposals to move to 5-day mail/6-day package delivery as part of a comprehensive reform approach focused on cutting costs and excess capacity. The mailing industry will make the necessary changes to adjust if five-day mail delivery is implemented as part of a comprehensive plan to ensure the Postal Service’s financial viability, and with an adequate period of time (at least six months) to prepare for the change. Moving to a 5-day delivery schedule is a cost-cutting measure that Quad/Graphics and other mailers can manage as we help our clients through the transition while continuing to add value.

While we are confident that we can adjust to a 5-day delivery schedule, I cannot say the same about dramatic increases in postage rates (higher than the current CPI cap). Our clients have budgets and they will meet those budgets one way or another – either by cutting back on volume to cover the costs of the increased postage or, worse yet, leaving the mailstream completely, thereby exacerbating the Postal Service’s financial problems and costing private sector jobs throughout the mailing and related industries. Substantial postage rate increases would do damage to both the Postal Service and the mailing industry. No such provisions should be included in postal reform legislation.

#### **RECOMMENDATIONS FOR CORE ELEMENTS OF LEGISLATION TO STABILIZE THE USPS**

As an industry, we believe there are core components that should be part of any Postal Service reform legislation and request that Congress, at a minimum, act on the following.

Provide the USPS with the authority to streamline its network. With the precipitous plunge in mail volumes, the network of postal facilities has become far too large for the business the system has or is likely to have in the foreseeable future. Therefore, the postal system must downsize. The USPS is in the process of doing precisely that, having closed numerous facilities with little operational disruption because of continual communication with mailers. Mailers are very pleased with the way this process has been managed. The USPS also heard Congress loud and clear, and instituted a well-received program to keep rural and small post offices open. We urge Congress to exercise its customary, thorough and cautious oversight of the USPS as it downsizes, but not to unduly inhibit or restrict the Postal Service’s ability to do so, and do so quickly.

- Mail volume has declined 25% since its peak year in 2006. The associated revenue drop has outpaced the USPS’ actions to cut costs.



- Prior to implementing Network Rationalization, the USPS had the infrastructure and capacity to handle and process more than 300 billion pieces of mail. Unfortunately mail volume continues to decline and is expected to be only 153 billion pieces in 2013 (of which Quad/Graphics accounts for approximately 12 billion pieces of mail).
- The USPS must reconfigure its system (facilities and workforce) to the business it has and projects to have over the coming years.
  - The decline is unlikely to be substantially reversed, but further losses may be slowed.
  - The USPS is implementing plans to consolidate and close processing facilities and reduce post office costs without widespread closings. Implementation of these plans ought to be allowed to proceed in accordance with the USPS' best professional judgment, without Congressional intervention.
- The USPS must be provided with and use its authority to continue the effort to “right-size” its system to current and anticipated future mail volumes.

Shift to an affordable payment plan for retiree health benefits. Prefunding retiree health benefits is admirable but virtually without precedent in the private or public sector, especially on the massive scale of \$5+ billion per year. The current payment schedule is simply unaffordable and already we have seen the USPS default on two payments. Thus, the business community, including Quad/Graphics, supports proposals to modify the prefunding schedule for retiree healthcare.

- Ensuring retiree health is not an unfunded liability is financially sound. However, the current \$5+ billion per year payment schedule, which the USPS has defaulted on twice, is unaffordable.
- Adopting a more affordable amortization schedule, as proposed in the Chairman's and Ranking Member's discussion draft, guarantees full pre-funding at much lower annual payments.

Allow the USPS access to potential pension system overpayments. There appears to be bi-partisan support for ensuring that the USPS adequately funds its retirement obligations and the business community supports that as well. However, if there is a surplus, the USPS ought to have access to the excess funds to be used for debt reduction, necessary capital investments, and efforts to restructure and right-size itself.

Provide the USPS with needed flexibility to manage healthcare costs. While not explicitly addressed in current discussion drafts, healthcare costs are a significant issue for every business and making sure that employees get the necessary services at an affordable price is paramount to business success.

- Quad/Graphics has a unique, in-house, healthcare model, called QuadMed, which focuses on preventive primary care, based on a wellness model that rewards employees for choosing a healthy lifestyle. It generates significant savings for the company *and* the employee while improving the quality of care. Due to this unique model, Quad/Graphics has seen a significant reduction in healthcare costs.
- It seems beneficial that USPS be able to go out in the marketplace and negotiate for better service at a lower cost, which is something it has explored and recommends to Congress. Those beneficial options do exist and can save the USPS money.



Retain the Consumer Price Index (CPI) cap on postage rate increases. Congress, in its wisdom, capped postage rate increases to the CPI as part of the 2006 Postal Accountability and Enhancement Act (PAEA). Doing so has provided an enormous incentive for the USPS to move quickly and prudently to improve the cost-efficiency of its services without substantially reducing the quality of its mail services. Without such an incentive, the fiscal position of the USPS would be much worse than it currently is.

- An increase in postage has a direct and profoundly negative impact on postal volumes, resulting in a “death spiral” where additional price increases are necessary to cover the costs, driving additional volume out of the mailstream.
- In general, since 2001, postage prices have increased by 50% while other costs relating to being in the mailstream have risen at a much slower rate or have even decreased. For example:
  - The cost of paper has increased 9%
  - The costs related to printing have decreased 33%

Switch to a 5-day delivery schedule. Given the Postal Service’s current financial condition and the continuing decline in mail volume, we support the Chairman’s proposal to move to 5-day mail/6-day package delivery as part of a comprehensive reform to cut costs and excess capacity. It is important that the USPS provide adequate notice (at least six months) and continue the transparent process of working with mailers to ensure a smooth transition.

- Moving to a 5-day delivery schedule is a cost-cutting measure with which Quad/Graphics and other mailers can assist our clients through the transition all while continuing to add value.
- The move to 5-day delivery along with the proposed conversion to curbside and, where feasible, clusterbox box delivery, will result in major savings to the USPS annually and, taken as a whole package, will be part of the necessary cost reductions that are necessary to ensure the USPS is sustainable for the long-term.

Ensure that arbitrators take into consideration the fiscal position and the marketplace challenges facing the USPS. Regardless of the outcome of management-labor disputes, it is the mail users who are ultimately impacted by the outcome as a result of price and service changes driven by the resolution.

- Explicitly requiring the arbitrator to consider the markets served by the USPS and the fiscal challenges the USPS faces ensures that mailers’ interests will be represented at the bargaining table.

Reform workers’ compensation rules. The rules governing eligibility for workers’ compensation need to be reformed to ensure that workers whose age would otherwise qualify them for retirement-related benefits have their future compensation and benefits provided in accord with those retirement programs in lieu of continued coverage under workers’ compensation.

The issues laid out above are the items that, at a minimum, ought to be included in any postal reform legislation. There are also a few items that have been discussed over the last few years that would be extremely harmful to the Postal Service as well as, have direct consequences on Quad/Graphics, the mailing industry, and the USPS itself if enacted. In particular, proposals to



substantially increase postage rates – such as those included in the Ranking Member’s discussion draft – must not be included in reform legislation.

I would like to take some time to put a finer point on the impacts of postage rates on our business and the business of many mailers across the country. There are three main components to printing a magazine, catalog, retail insert or direct mail piece: 1) the cost of the physical printing of the item; 2) the paper on which the product is printed; and 3) postage. I cannot stress enough how damaging postal rate increases are to our industry. There is a direct negative correlation between rate increases and volume. Our clients demand predictability and affordability and if prices suddenly increase more than expected, they react by reducing their volumes to cover the extra postage or move away from print altogether. Of course, this hurts the revenue of the printer, but it also reduces the volume going to the Postal Service, further exacerbating its financial challenges. 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 reduce the price for printing (adjusted for inflation). The Postal Service should address its problems by achieving the same cost control success.

Paper prices have fluctuated during that same period based on supply and demand. To ensure that we are providing our clients with the lowest possible cost and highest quality product, Quad/Graphics has dedicated staff who continually work with paper manufacturers to coordinate with transportation companies (be they rail or over-the-road-trucking) to ensure the most cost-effective and timely delivery of paper from the mills to our plants. We’ve also developed and initiated standards for managing inventories and waste, all in an effort to be the low-cost provider and deliver quality products for our clients. Despite the fact that we are not in control of paper prices, these efforts have resulted in the management of paper prices and costs overall for our clients for our printed products.

During that same time period, the price of postage has continued to increase and, as a result, the single largest expense of printing is now the postage associated with delivering the final product. In order to help control these costs, Quad/Graphics, along with other printers and mail service providers, offer co-mail services that combine and then ship numerous, individual clients’ mailpieces together, relieving the Postal Service of significant sorting, handling and transportation costs. A large volume of the product we co-mail is sorted to the individual letter carriers and sequenced exactly in the order in which they walk their route. This reduces Postal Service costs and qualifies our company and our clients for postage discounts. These “work share” discounts were put in place in cooperation with the Postal Service at a tremendous capital expenditure for the printing industry. The equipment necessary to provide these co-mail services is expensive. However, the private sector is able to provide this service efficiently, saving the Postal Service the added expense of installing this technology in its own processing facilities. This not only reduces the Postal Service’s costs, but helps to control our clients’ postage bills, facilitates consistent and predictable delivery and provides our clients with a significant return on their marketing dollar. Except for the ability of Quad/Graphics and other mail service providers to help clients manage their postal costs through work sharing, mail volumes would have been reduced to an even greater extent over the last decade.



Postage rate increases that are above the rate of inflation simply cannot be part of this solution (whether they are from straight rate increases or reductions in work-share discounts). The rate caps enacted as part of the PAEA have worked well to control postage rates and provide our clients with that much needed certainty. These caps must be retained and action taken by Congress must lead to a cost-effective Postal Service. As confidence grows that the USPS is a long-term viable option, marketers will have the wherewithal to make volume and pricing commitments into the future to the benefit of both the USPS and the industry as a whole.

Quad/Graphics remains bullish on print. We live in a multichannel world where our clients have choices. If the Postal Service can manage its costs and maintain an affordable pricing structure, its business can remain sustainable and ours, in turn, along with it. We are encouraged with the direction we have seen the USPS take over the last two years. We've seen a difference in the way the USPS manages the "customer experience" with new products and services being developed. Innovation is what drives our business today. For example, we invest in new technologies and ways to keep print relevant in our multichannel world. We believe print is the foundation of successful multichannel strategies for both marketers and publishers. Our own innovations with mobile technology apps related to QR codes, image recognition, and near-field communications keep Quad/Graphics on the cutting-edge of our industry and give our clients a competitive advantage. We need similarly innovative thinking from the USPS.

As an example, the Postal Service recently initiated a new strategy for growth through incentive promotions tied to value-added products and services and partnering with its customers and mail service providers. The principle is simple: value-added = greater response = growth. As we know from our experience with our clients, the risk really isn't that great when it comes to using mail to drive response. Therefore, we consider this a good example of the Postal Service using its pricing flexibility under PAEA to drive the growth of mail, and we fully support those efforts.

I thank the Chairman, the Ranking Member and the Committee for allowing us the opportunity to discuss our company and the importance of the Postal Service to the 8 million families our industry supports. I look forward to working with you to enact reforms that will put the USPS on a path to sustainability. I applaud you for making the Postal Service a priority, and I would be happy to answer any questions that you may have.