

THE COMMITTEE ON OVERSIGHT AND GOVERNMENT REFORM SUBCOMMITTEE ON
FEDERAL WORKFORCE, U.S. POSTAL SERVICE AND LABOR POLICY

“Where Have All the Letters Gone? – the Mailing Industry and Its Future”

May 12, 2011

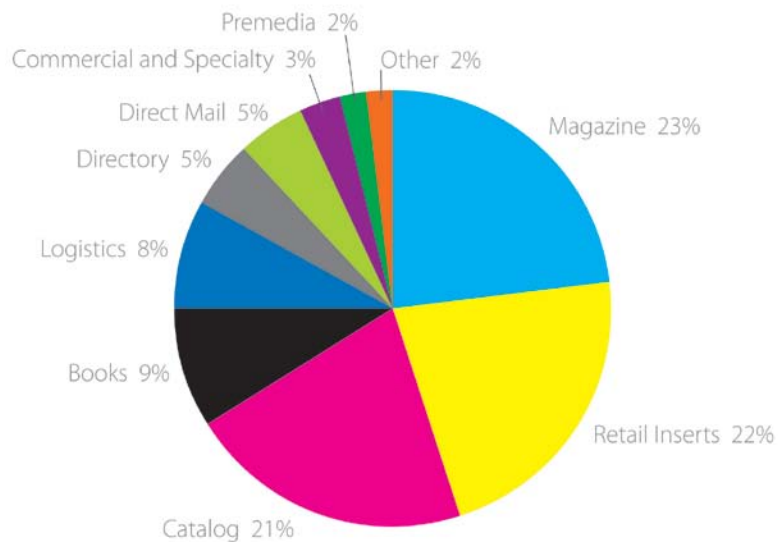
Introduction

Mr. Chairman and members of the Subcommittee, thank you for providing me with this opportunity to testify on behalf of Quad/Graphics and how technological innovation is transforming my company and the printing industry. My name is Dave Riebe and I am President of Logistics Services for Quad/Graphics, the largest printer and mailer of magazines and catalogs in the United States. I have been employed with Quad/Graphics for 27 years, all of which in the Postal and Mailing areas. In my current position, I am responsible for the mailing, shipping and distribution of all printed products Quad/Graphics produces on behalf of its customers. Quad/Graphics is a member of PostCom (Association for Postal Commerce) and I am a Director on the Board for IDEAlliance (an industry organization that identifies best practices for efficient end-to-end digital media workflows – from content creation through distribution).

About Quad/Graphics

Quad/Graphics is a leading global provider of print and related services that are designed to provide complete solutions to a broad base of customers. The company’s print products primarily include catalogs; consumer magazines; special interest publications; direct mail and other commercial specialty printed products; retail inserts; books; and directories. Our print-related services include binding; mailing, distribution and logistics; and data optimization and analytics services. Founded in Wisconsin in 1971, Quad/Graphics has approximately 25,000 employees in the United States, Canada, Latin America and Europe, serving a diverse base of more than 7,400 customers from 142 facilities located in 21 countries. The vast majority of the company’s facilities are located in the contiguous United States. On an annual basis, we partner with the U.S. Postal Service to process 16 billion pieces of mail that account for \$4 billion in postage costs.

Quad/Graphics' Product Mix



The Effects of the Recession on Quad/Graphics

Demand for printed products has generally correlated with real gross domestic product growth, as economic activity and advertising spending are key drivers of demand for printing and related services. More recently, the global economic recession has caused advertisers to dramatically reduce spending. Throughout 2008 and 2009, magazine publishers faced declining advertising pages and subscription revenue; catalog marketers reduced page counts, circulation and the frequency of print campaigns; retailers curbed investments in store inventory and reduced advertising; and marketers reduced their direct mail campaigns, particularly in the banking, insurance, credit card, real estate and nonprofit industries. Decreasing print volumes caused by the impacts of the economic recession, increases in postage expenses (which significantly outpaced inflation over the last 10 years) and the increase in the use of alternative marketing technologies led many printing businesses to fail and the industry to undergo consolidation and experience overcapacity.

In 2010, the recession and excess capacity in the commercial print industry created a unique opportunity for Quad/Graphics to acquire Worldcolor, who at the time was the second largest commercial printer in North America (Quad/Graphics now occupies that position). While we expect the acquisition to strengthen Quad/Graphics' long-term viability, it has not made the company immune to the continued impact of the recession. In the best interest of our clients and shareholders, we have had to enact job

reductions; announce plant closures; shut down the former Worldcolor headquarters in Montreal; and complete other restructuring actions.

Competition in the highly fragmented printing industry remains intense as the industry is still in the process of consolidating and suffering from overcapacity. While print volumes are beginning to stabilize, the impacts of overcapacity and intense competition have led to continued downward pricing pressures.

Quad/Graphics and the Mailing Industry

Quad/Graphics' founder, the late Harry V. Quadracci, always believed it was better to lead than to follow. We have taken that approach in doing business with the Postal Service. Being one of the largest mailers in the country, Quad/Graphics has a large stake in the Postal Service's viability. We are intimately involved in working with the Postal Service in the development of new postal products and services, technology/automation, network changes, and regulation and pricing shifts. We have piloted many programs with the USPS over the years, and as a result we have a close working relationship at the headquarters, area and local levels, including USPS employees who work alongside Quad/Graphics employees onsite in our facilities. Quad/Graphics is a member of many of the postal- and mail-focused industry associations in Washington, D.C.

Managing USPS Price Increases

While Quad/Graphics doesn't pay postage for the products that we print, postal rates do have a major effect on our business and the printing industry as a whole. Each time the USPS increases rates, our clients react in a way that is detrimental to printers. Changes to regulations can have the same impact. Print buyers cut back on the number of printed pages and the frequency in which they print, and they move their business – to varying degrees – to the web. They might also reduce circulation, and in the worst-case scenario they may discontinue a publication or eliminate already planned mailings. The result is a reduction in total print volume.

It should be noted that mail volumes, particularly Standard Mail (catalogs and direct mail), began to decline in early 2007 as a result of the last postal price increase under the old postal law. Double-digit postage increases caused an immediate reaction by those mailers, as they reduced the number of mailings for the remainder of that year and cut back on the total volume of mailed copies. The recession started to add to the volume decline later that same year.

Each client of ours is challenged to find ways to reduce the impact of a rate increase. And if our clients

are challenged, that means Quad/Graphics is challenged to provide them with opportunities to reduce postage costs. Providing postal and distribution services to customers during the last decade and a half has become one of the most important and competitive aspects of the printing industry.

As a large mailer of printed products, Quad/Graphics' success is tied to the long-term success of the USPS. In the production, distribution and delivery of a publication, there are three general cost components for our clients: paper, printing and postage. Only one of those components (printing) is directly controlled by the printer. During the last 25 years, through technological advances and process changes resulting in productivity gains of more than 4 percent annually, the printing industry has been able to reduce the price for printing (when adjusted for inflation).

Meanwhile, paper prices have fluctuated during that same time, rising and falling based on supply and demand. We are currently in an upward cycle for paper prices. To ensure that Quad/Graphics provides clients with the lowest possible paper costs and highest quality products, we have dedicated staff continually working with the paper manufacturers. We pursue the most cost-effective and timely delivery of paper from the mills to our plants, and through industry initiatives, we have developed standards for managing inventories and waste. So while we don't control paper prices, industry efforts have resulted in the management of paper prices.

With the exception of the last few years since the passage of PAEA (Postal Accountability and Enhancement Act of 2006), which requires the USPS to increase prices by no more than the Consumer Price Index, postal rates have continued to rise during the same time and continue to put pressure on our clients and the practicality of hard-copy distribution through the mail. As we do with paper companies, Quad/Graphics and the printing industry work together with the Postal Service to try to maintain the lowest possible combined costs for our mutual customers, from mailpiece design to mailbox delivery. It makes no sense for the Postal Service to reduce its costs by shifting them to the printer, because at the end of the day the printer's clients will still pay a higher price. Quad/Graphics' goal in working with the Postal Service is to help it reduce its costs by providing more efficiently prepared mail while maintaining (or even lowering) our cost of production. Without these efforts, postal rates would have increased at a much higher rate.

Rightsizing the USPS

Quad/Graphics is encouraged by the cost reduction realized by the USPS during the last 10 years, but it has not been enough to offset the loss of mail volume. While the Postal Service has done much to lower

its costs through automation, transportation management and headcount reduction (through attrition), more still needs to be done. The Postal Service currently maintains a network that was built to support 300 billion pieces of mail annually. The total mail volume in 2011 will be closer to 170 billion. Its network needs to be rightsized. While it works to close and consolidate processing facilities and post offices, the USPS is met with resistance from the local communities and the U.S. Congressional representatives in those districts. The USPS must be allowed to manage its business and make the decisions needed to rightsize its processing and distribution network and payroll. We fully support the Postal Service in that process as long as it adheres to four general principles:

- Address the business needs of the USPS and its customers (mailers);
- Provide a business impact statement;
- Generate a cost/benefit analysis with respect to customers; and
- Add support for co-locating retail outlets.

Legislative Changes

While the Postal Service has worked to manage and reduce its costs, it is still faced with a very tenuous financial situation. Congress has an opportunity to help the USPS resolve its financial shortfall by returning to the USPS the more than \$50 billion that has been overfunded in the Civil Service Retirement System (CSRS). That money rightfully belongs to the rate payers since nearly all revenues of the Postal Service come from user fees in the form of postage, of which 90 percent comes from businesses. Additionally, legislative changes are needed to modify or eliminate the \$5.5 billion annual payment to retiree healthcare mandated by PAEA. We recommend that the CSRS overpayment should be transferred from the Pension Fund to the Retiree Health Benefits Fund to fully prefund those obligations. Such prefunding could be amortized or paid in a lump sum. Should any funds remain, they should go first to postal debt reduction, and then to retained earnings. Quad/Graphics encourages Congress to act on this matter.

Incentive Pricing for Mail Volume Growth

The USPS has realized that it cannot cut its way to prosperity. It's imperative that it also focuses on growing mail volume and revenue. Just as Quad/Graphics is bullish on print, the USPS must show that it is bullish on mail by giving incentives to companies that use the Postal Service. For years, we have told the USPS that it needs to be more "business-like." Since 2006, we have asked the USPS to be more creative in its pricing strategy and to use the pricing flexibility afforded by PAEA. In the last three years,

the USPS has responded with “sales” based on volume growth year over year, which yielded some success. In 2011, we are seeing a different approach to incentives that are based on value-added products and services and partnerships with customers and mail service providers (e.g., recently announced discounted rates for mailings that include a Quick Response Code). It is the same shared risk approach that Quad/Graphics and other companies use. The principle is simple: value-added = greater response = growth. As we know from our experiences with our customers, the risk really isn’t that great when it comes to using mail to drive response from consumers. Therefore, we consider this a good example of the Postal Service using its pricing flexibility to drive the growth of mail, and Quad/Graphics fully supports these efforts.

Quad/Graphics’ Strategy to Keep Print Relevant

Quad/Graphics believes that print remains the core element of effective multichannel marketing campaigns that utilize print, e-mail, mobile technology and personalized websites to engage consumers and drive higher response rates and returns for advertisers on their marketing dollars. According to a 2011 study by InfoTrends, marketers report an average response improvement of 34 percent for multichannel campaigns over single channel print-only campaigns. In addition, more than half of marketers are utilizing three or more forms of media (including print) in their marketing campaigns, according to a 2010 InfoTrends study.

Quad/Graphics intends to continue to redefine print communications as the foundation of multichannel marketing campaigns by:

- Consulting with customers on strategies for coordinating personalized, targeted print communications with other media channels including electronic media;
- Leveraging its integrated data analytics, finishing technology and logistics operations, which allow customers to create customized communications within printed products, with the objective of delivering higher responses at a lower cost; and
- Deploying its digital media capabilities, including planning, executing and monitoring e-mail campaigns, the use of personalized URLs, digital editions, and the creation and maintenance of website portals, in support of effective, print-focused marketing campaigns.

Lowering Costs and Driving Top Line Growth for Clients

In pursuit of this goal, we invest in our data analytics system and digital print platform to help our customers have a one-to-one “conversation” with each of its customers. By helping our customers

maximize their data, we enable them to reach the right recipients with the right (and relevant) message at the right time – and not to overspend on postage. Our investments in others areas such as our offset print platform and finishing area – whether to stitch, bind or polybag a unique mailpiece package for each recipient on a large mailing list (e.g., 1 million-plus names) – is further lowering the overall cost per response and generating top-line revenue for our clients.

Managing Consistent, Predictable Delivery

As stated earlier, postage rates are a significant component of many of our customers' cost structures, and they oftentimes influence the number of pieces that marketers and publishers mail. We manage the distribution of most of our customers' products to maximize efficiency and reduce costs. We help our U.S. customers significantly reduce their overall postage costs through strategic capital expenditure investments to build what we believe is one of the most efficient and innovative distribution networks in the commercial printing industry.

Innovation Is Necessary

We are very encouraged by the direction we have seen the USPS take in the last six months. The Postmaster General, Pat Donahoe, has stated his goals for the Postal Service and is already following up his words with actions. We've seen a difference in the way the USPS manages the "customer experience." Staffing reductions, which are difficult for all companies, have already begun and are expected to continue. New products and services are being developed along with the previously mentioned pricing incentive programs. Innovation is what we have been looking for from the USPS; it's what drives our business today. Jobs and the viability of the printing and mailing industries depend on it.

Conclusion

Quad/Graphics believes that print will continue to be relevant and irreplaceable and that delivering an offer through the mail is and will be the most effective way to market and sell products – our customers have the data to prove this point. We live in a multichannel world that is being transformed with technological innovation. In today's multichannel world, print remains the perfect device. It not only plays well with new media, it drives us to shop, search, view and experience. It engages, connects, inspires and moves us to act. And, in the process, it makes our lives shine a little brighter.

Consumers have choices and make decisions based primarily on price. If the Postal Service can manage its costs and maintain an acceptable pricing structure, its business can be maintained and growth will be realized in certain classes of mail. Quad/Graphics will continue to do everything it can to help the USPS

be successful. We encourage Congress to do the same. We thank the Chairman and the Subcommittee for allowing us the opportunity to share with you information about Quad/Graphics and the role we play in the mailing industry. I would be happy to answer any questions you may have.

Dave Riebe

President of Logistics Services for Quad/Graphics

Dave Riebe serves as Quad/Graphics' President of Logistics Services, a role in which he is responsible for the overall direction of the company's mailing and distribution activities. That includes overseeing shipping; newsstand; Quad/Transportation Services (QTS), the company's in-house freight management division; Duplainville Transport, Quad/Graphics' tractor-trailer fleet; paper warehousing; inventory control; and recycling.

Mr. Riebe joined Quad/Graphics as a Mail Service Representative in 1984 and was promoted into management three years later. He was named Vice President of Distribution in 1999 after serving as Corporate Director of Distribution.

Throughout his career at Quad/Graphics, Mr. Riebe has been instrumental in advancing the company's mailing operations from manually intensive procedures to a highly automated process. Among his accomplishments is guiding the company in the implementation of Mail.dat, which is the medium clients use to transmit mailing information to Quad/Graphics.

Mr. Riebe serves on the Board of Directors of IDEAlliance, an industry organization that develops, educates and validates best practices in publishing and information technology. He has served as the industry Co-Chairperson for PostalOne! (a program that eliminates paperwork for the U.S. Postal Service), as well as Co-Chairperson of the Postal Customer Council of Milwaukee. Mr. Riebe has been a featured presenter at several National Postal Forums.

Committee on Oversight and Government Reform
Witness Disclosure Requirement – “Truth in Testimony”
Required by House Rule XI, Clause 2(g)(5)

Name: David Riebe

1. Please list any federal grants or contracts (including subgrants or subcontracts) you have received since October 1, 2008. Include the source and amount of each grant or contract.

NA

2. Please list any entity you are testifying on behalf of and briefly describe your relationship with these entities.

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I certify that the above information is true and correct.

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