



October 18, 2013

Shoshana M. Grove
Secretary
Postal Regulatory Commission
901 New York Avenue, NW, Suite 200
Washington, DC 20268-0001

Re: Docket No. MT2011-2

In accordance with Commission Order No. 721, issued April 28, 2011 in Docket No. MT2011-2, the Postal Service presents the following data collection report on the market test for Gift Cards, for Quarters 3 and 4 of FY 2013. The Postal Service also wishes to inform the Commission of several upcoming changes to the market test. First, starting November 1, 2013, closed loop gift cards (redeemable at the companies listed below) will be offered at the top 1,000 Premier Post Offices™. Instead of a gift card activation fee, the Postal Service will earn a percentage commission on the face value of each gift card sold.

Gift Card Company	Face Value Range
Amazon	\$25 - \$500
Barnes & Noble	\$25 - \$500
Darden (1)	\$25
Macy's	\$25 - \$200
Subway	\$15 - \$500
Xbox	\$25

(1) The Darden gift card is accepted at five restaurants: Bahama Breeze, Longhorn Steakhouse, Olive Garden, Red Lobster, and Seasons 52.

Second, from Friday, November 29, 2013 through Thursday, December 12, 2013, American Express and the Postal Service will be offering a promotion in which customers can purchase the open loop gift cards without paying an activation fee. The Postal Service will be reimbursed for the activation fee, from a market test promotion fund established by American Express.

Third, the Postal Service may begin selling open loop gift cards at values above \$100, up to \$500. The activation fee of \$5.95 used for \$100 cards would apply.

Finally, the Postal Service is removing American Express gift cards from 1,769 Post Offices with zero or low sales amounts, and will start selling American Express gift cards at 1,569 Post

Offices that better align with the demographics of the American Express gift card customer. This will reduce the total number of gift card locations to 5,000.

From April 1, 2013 through September 30, 2013, 86,281 American Express gift cards were sold, for total revenues of \$286,763.09. After completing revenue sharing payments, net revenue was \$206,469.43. Only open loop cards were sold at the 5,191 retail locations. In the offices that sell both gift cards and greeting cards, 11.1 percent of the gift cards were sold with greeting cards. The Postal Service believes that a high percentage of the gift cards sold along with greeting cards were mailed. Moreover, 73.6 percent of the transactions involving gift cards in all locations included the sale of other postal products or services, which also might indicate that the gift cards were mailed. For more information on the proportion of gift cards that are mailed or likely to be mailed, please see the earlier data collection report filed on April 27, 2012.

The Postal Service is undertaking several measures in an effort to draw conclusions concerning the transaction costs associated with selling gift cards. Various proxies are being researched and investigated; so far none of them has proven to be closely related to the activities of selling gift cards. The Postal Service also has attempted to study window transaction activities for selling gift cards, but only 22 transactions were observed since the launch of the product. Even during the holiday season, it was difficult to find and measure gift card window transactions, because they were spread among many retail locations.

The market test has helped to illuminate the gift cards sales process. But the test has been inconclusive with regard to determining whether the product is covering its costs. With that said, however, the transaction times for the small number of transactions observed suggest that the product revenue is covering its costs. The gift card transaction time is less than the longest transaction time possible from the 2005 window transaction study (for Registered Mail). Since it is highly unlikely that a gift card transaction is as complicated as a Registered Mail transaction, it is safe to assume that the program is not losing money.

Sincerely,

David H. Rubin
Attorney