

UNITED STATES OF AMERICA  
POSTAL REGULATORY COMMISSION  
WASHINGTON, DC 20268-0001

Before Commissioners:

Ruth Y. Goldway, Chairman;  
Mark Acton, Vice Chairman;  
Dan G. Blair;  
Tony L. Hammond; and  
Nanci E. Langley

Market Test of Experimental Product  
Alternate Postage Payment Method  
for Greeting Cards

Docket No. MT2011-1

ORDER APPROVING MARKET TEST OF ALTERNATE POSTAGE  
PAYMENT METHOD FOR GREETING CARDS

(Issued December 21, 2010)

I. INTRODUCTION

On November 8, 2010, the Postal Service filed a notice, pursuant to 39 U.S.C. 3641(c)(1), announcing its intent to initiate a market test of an experimental market dominant product, Alternate Postage Payment Method for Greeting Cards, enabling individuals to mail greeting cards without affixing postage.<sup>1</sup> The test will begin on or about January 1, 2011. The Commission finds that the market test meets the requirements of 39 U.S.C. 3641.

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<sup>1</sup> Notice of the United States Postal Service of Market Test of Experimental Product—Alternate Postage Payment Method for Greeting Cards, November 8, 2010 (Notice).

The Postal Service proposes a marketing test in which participating businesses will produce and distribute pre-approved envelopes according to specific design requirements which will be packaged for sale with greeting cards. Individuals will be able to mail greeting cards without affixing postage by using the pre-approved envelopes. Notice at 2.

## II. PROPOSAL

The Postal Service is authorized to “conduct market tests of experimental products.” A product may not be tested, however, unless it (a) is significantly different from all products offered by the Postal Service within the 2-year period preceding the start of the test; (b) will not result in undue market disruption, especially for small business concerns; and; (c) is correctly characterized as either market dominant or competitive. 39 U.S.C. 3641(b)(1)-(3). The Postal Service contends that its new postage payment method satisfies these requirements.

The Alternate Postage Payment method provides a means for individuals to mail greeting cards without the need to affix postage. Participating companies will pay the postage through a two-stage process. First, at least 50 percent of the postage will be due in advance based on the total number of mailpieces sold or distributed to either customers or third-party vendors. *Id.* at 6. Second, the balance of the postage due will be collected based on Intelligent Mail barcode (IMb) scans of the cards that are mailed.

The test is limited to machinable greeting cards, but cards that weigh more than one ounce are eligible provided that they are identified by their barcode. *Id.* at 7, n.4. Participating companies will package greeting cards with pre-approved envelopes meeting specific design requirements. The envelopes will feature a combination of the following four elements:

- IMb to record volume and revenue piece information for reporting purposes based on unique Mailer ID;
- Legend to identify the participating company responsible for paying the postage;

- Facing Identification Mark to facilitate mail processing and allow separate identification of qualifying mail for future use; and
- Imprint: in lieu of a stamp, to note that postage is not necessary if the piece is mailed in the United States.

*Id.* at 5.

Each participating business will receive a unique Mailer ID only for this market test. *Id.* at 5. The IMb will be scanned during processing to identify each unique item's movement through the postal system. *Id.* at 2. This count is used to debit the participating company's Centralized Automated Processing System account for the portion of postage that was not based on the sales data. *Id.* at 2. The Postal Service states that market test mail items will be processed and delivered according to single-piece First-Class Mail letter standards. *Id.*

The Postal Service characterizes the Alternate Postage Payment Method as a premium product offering. The price of a qualifying mailpiece (greeting card and envelope) weighing one ounce or less will be \$0.48 for sales reported or scans completed during the first year of the experiment. The price for a qualifying mailpiece weighing between one and two ounces will be \$0.48 plus the second-ounce rate for sales reported or scans completed during the first year of the experiment. The Postal Service indicates it plans to test more than one rate during the second year. *Id.* at 6-7.

The Postal Service asserts that its proposal satisfies the criteria of 39 U.S.C. 3641. The Postal Service contends that the Alternate Postage Payment Method for Greeting Cards is unique since it has never offered a product on which postage is paid in a two-step process by the participating company based on sales of greeting cards and the volumes actually mailed. *Id.* at 8-9; *see also* 39 U.S.C. 3641(b)(1). The Postal Service also contends that the experimental product will not create an unfair or inappropriate competitive advantage for it or any mailer because the test will be limited to less than three percent of the total greeting card market. *Id.* at 9-10, 12; *see also* 39 U.S.C. 3641(b)(2). Finally, the Postal Service characterizes the experimental product as market dominant, noting, among other things, that it is subject to the Private

Express Statutes because it involves First-Class Mail letters. *Id.* at 10-11; *see also* 39 U.S.C. 3641(b)(3).

The Postal Service states that the duration of the market test will not exceed 24 months. *Id.* at 8.

Anticipating that the experimental product will generate annual revenues in excess of \$10 million, the Postal Service requests an exemption from that annual limitation. *Id.* at 12; *see also* 39 U.S.C. 3641(e)(2). The Postal Service indicates that annual revenues from the market test will not exceed \$50 million. *Id.*

The Postal Service contends that the benefits of the market test include: a reduction in the costs of selling stamps to the public, an increase in the greeting cards mailed, and added consumer convenience. *Id.* at 7. In addition, it asserts that the product should contribute to the financial stability of the Postal Service. *Id.* at 12.

The Notice also outlines the Postal Service's data collection plan, including plans to collect cost-related data. *Id.* at 13.

### III. COMMENTS

The Commission noticed the filing and gave interested persons the opportunity to submit comments on whether the Postal Service's filing is consistent with the policies of 39 U.S.C. 3641 in Order No. 584.<sup>2</sup>

Comments were filed by the Public Representative.<sup>3</sup> No comments were submitted by other interested parties. The Public Representative challenges the Postal Service's assertion that the experiment satisfies the requirements of 39 U.S.C. 3641, arguing, among other things, that the new product is not significantly different from existing products and that consumers are not likely to benefit from the experimental product. *Id.* at 1, 4-6. In addition, the Public Representative urges the Commission to

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<sup>2</sup> Notice and Order Concerning Market Test of Experimental Product, November 10, 2010, (Order No. 584).

<sup>3</sup> Public Representative Comments in Response to Order No. 584 Concerning Market Test of Experimental Product, December 8, 2010 (PR Comments).

deny the Postal Service's request to exempt the market test from the \$10 million annual revenue limitation. *Id.* at 1.

The Public Representative requested the Commission to issue an information request to address perceived shortcomings in the Postal Service's filing.<sup>4</sup> The Postal Service filed a reply opposing the motion.<sup>5</sup> In its reply, the Postal Service distinguishes the experimental product from current products, including Premium Stamped Stationery, and Stamped Envelopes and Cards. It notes that the latter products are all sold by the Postal Service at prices established by the Postal Service, whereas the experimental greeting cards are sold by greeting card companies or third-party retailers at prices they establish. *Id.* at 3. The Postal Service also addresses other concerns raised by the Public Representative, *e.g.*, that the limited size of the market test militates against the possibility that non-participating companies will be harmed by the market test. Further, the Postal Service indicates it has no plans to sell these greeting cards at post offices. *Id.*

#### IV. COMMISSION ANALYSIS

Based on a review of the record, including the Postal Service's filing and the Public Representative's comments, the Commission concludes that the proposed market test meets the requirements of 39 U.S.C. 3641. The Postal Service has developed, in conjunction with the greeting card industry, an experimental product designed to increase volumes by making it easier for individuals to mail single-piece First-Class Mail.

*Significantly different product.* Notwithstanding the Public Representative's concerns, the experimental product is easily distinguishable from existing products. Postage is paid in a two-step process, with participating companies paying at least 50

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<sup>4</sup> See Public Representative Motion for Issuance of Information Request, November 24, 2010, (Motion). The motion of the Public Representative is denied.

<sup>5</sup> See Opposition of the United States Postal Service to Public Representative Motion for Issuance of Information Request, December 1, 2010 (Postal Service Opposition).

percent of the postage based on sales and the balance based on actual volumes mailed. No existing product (or offered in the prior two years) has these characteristics. Moreover, as the Postal Service observes, it does not set the price for the greeting cards; nor does it have plans to sell such cards at post offices. Accordingly, the Commission finds the experimental product satisfies 39 U.S.C. 3641(b)(1) since it is “significantly different from all products offered by the Postal Service within the 2-year period preceding the start of the test.”

*Market disruption.* The Postal Service plans a limited market test to assess the demand for (and merits of) greeting cards which can be mailed without the need to affix postage. Even assuming that the new product generates revenues approaching \$50 million, this result would represent less than three percent of the total greeting card market. Notice at 12. At that level, market disruption would appear to be entirely unlikely and speculative.

Moreover, this is a two-year experiment. This issue can be revisited if the Postal Service proposes to make the product a permanent offering. Lastly, while not dispositive, it is at least noteworthy that no greeting card company (or representative of the industry) filed in opposition to the planned experimental product. The record contains no indication that the experimental product will “create an unfair or otherwise inappropriate competitive advantage for the Postal Service or any mailer.” 39 U.S.C. 3641(b)(2).

*Market dominant classification.* There is no dispute that the new experimental product is properly characterized as market dominant. 39 U.S.C. 3641(b)(3). As the Postal Service notes, the qualifying greeting cards, as First-Class letter mail, are subject to the Postal Service monopoly. Notice at 11.

*Dollar amount limitation.* The Postal Service requests an exemption from the \$10 million revenue limitation for experimental market tests. *Id.* at 8, 12. In considering this request, the Commission is required to determine whether the product is likely to: (a) benefit the public and meet an expected demand; (b) contribute to the financial

stability of the Postal Service; and (c) not likely to result in unfair or otherwise inappropriate competition. 39 U.S.C. 3641(e)(2).

The Public Representative contends that the experimental product will not benefit consumers who purchase such cards but do not mail them. In addition, the Public Representative asserts that consumers may pay a premium for qualifying cards and that the Commission should have this information to evaluate the proposal. Public Representative Comments at 4-6.

The request for an exemption is approved. The concerns raised by the Public Representative are misplaced. The market test offers the public a new method for sending greeting cards; they may be mailed without the need to affix postage.

The experimental product offers consumers a choice they currently do not have. Customers who perceive value in the new offering will purchase qualifying greeting cards. The experimental product may benefit consumers by offering them a new method for sending greeting cards. There is no requirement that consumers purchase such cards.

The experimental product promotes the use of greeting cards by making it easier for individuals to mail them. Use of the product should generate more single-piece First-Class Mail volumes. The Postal Service collects revenues on the sale of the cards as well as upon their mailing. Thus, for both reasons, the experimental product is likely to contribute to the financial stability of the Postal Service.

In sum, the exemption from the \$10 million annual limitation is warranted as the proposal satisfies 39 U.S.C. 3641(e)(2).

*Data collection plan.* The Postal Service indicates that it intends to collect data during the market test to (a) evaluate its ability to collect postage based on sales data and IMb scans, and (b) to quantify the proportion of cards actually mailed. It also intends to collect cost data related to the product, including start-up costs and costs to collect postage payments. Notice at 13. It indicates that it can report the cost-related data collection results to the Commission upon request. *Id.*

The Postal Service is directed to file a copy of the data collected within 45 days of the conclusion of each year (12-month period) of the market test. The data are to include, *inter alia*, volumes and revenues of cards sold and cards mailed, and an estimate of the administrative cost incurred as a result of the market test. In addition, the Postal Service shall explain the methodology used to develop the data provided.

V. ORDERING PARAGRAPHS

*It is ordered:*

1. Based on the record before it, the Commission finds that the proposed Alternate Postage Payment Method for Greeting Cards product market test is consistent with 39 U.S.C. § 3641.
2. The Postal Service shall provide results of market test data collection to the Commission as described in the body of this Order.

By the Commission.

Shoshana M. Grove  
Secretary