

BEFORE THE  
POSTAL REGULATORY COMMISSION  
WASHINGTON, D.C. 20268-0001

COMPETITIVE PRODUCT LIST  
ADDING ROUND-TRIP MAILER

Docket No. MC2013-57

COMPETITIVE PRODUCT LIST  
ADDING ROUND-TRIP MAILER (MC2013-57)

Docket No. CP2013-75

**RESPONSE OF THE UNITED STATES POSTAL SERVICE  
TO CHAIRMAN'S INFORMATION REQUEST NO. 1**

(January 17, 2014)

The Postal Service hereby files its response to Chairman's Information Request No. 1, issued on December 18, 2013. The questions are stated verbatim and are followed by the Postal Service's responses.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

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1. Please provide data showing by quarter the revenue, volume, and weight of letter-shaped and flat-shaped round-trip DVD mailers ("round-trip DVD mailers"), by mail category code, for fiscal years (FY) 2003 through 2013.

**RESPONSE:**

Since customers are not required to identify the contents of their First-Class Mail (FCM) pieces, and were only recently given the option of indicating whether their mailings contained round-trip DVDs, the Postal Service does not have a reliable measure of all round-trip DVD volume in the mailstream or the number of customers sending such material. As a result of efforts made during the GameFly complaint case (Docket No. C2009-1), the only two mailers for which the Postal Service has reliable measures of round-trip DVD volume are Netflix, Inc. and GameFly, Inc.<sup>1</sup> The Postal Service is providing updated mailing volumes for these customers through of the first quarter of FY2014. These data are being submitted as part of nonpublic library reference USPS-LR-MC2013-57/NP7.<sup>2</sup> In addition to showing the continuing decline in Netflix DVD volumes, these data are also noteworthy because they show a continuing decline in GameFly volumes despite a roughly 50% price decrease at the beginning of FY2014.<sup>3</sup>

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<sup>1</sup> The Postal Service believes that, together, these two mailers represent an overwhelming majority of round-trip DVD mail, and thus represent a fair approximation of the number of round-trip DVD pieces in the mailstream.

<sup>2</sup> Due to changes in the RPW system in 2007 and other system limitations, the Postal Service is only able to provide reliable round-trip DVD data for Netflix dating back to FY2007, and for GameFly dating back to FY2011.

<sup>3</sup> This price decrease took effect on September 30, 2013, pursuant to Commission in Order No. 1828. See Docket No. C2009-1R, Order No. 1828: Order Prescribing Remedy, at 9 (September 4, 2013).

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2. Please provide a copy of all surveys, studies, and analyses performed by or for the Postal Service from FY 2003 to FY 2013 assessing the actual or possible impact (revenues and volumes) on the Postal Service from past or proposed changes in the rates paid by mailers for round-trip DVD mailers.

**RESPONSE:**

Please see the response to Question 4 of this information request.

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3. Please provide a copy of all surveys, studies, and analyses performed by or for the Postal Service from FY 2003 to FY 2013 assessing DVD customers' usage of alternative delivery media for round-trip DVD mailers – including but not limited to other direct-delivery providers, streaming of DVD content over the Internet, downloading of DVD content from the Internet, and DVDs offered at kiosks or brick-and-mortar retail stores.

**RESPONSE:**

Please see the response to Question 4 of this information request.

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4. Please provide a copy of all surveys, studies, and analyses prepared by or for the Postal Service from FY 2003 to FY 2013 assessing changes in DVD customers' usage of alternative delivery media for round-trip DVD mailers—including but not limited to other direct-delivery providers, streaming of DVD content over the Internet, downloading of DVD content from the Internet, and DVDs offered at kiosks or brick-and-mortar retail stores in response to changes in the postal rates paid for round-trip DVD mailers.

**RESPONSE:**

Apart from the studies and analyses already submitted in this docket,<sup>4</sup> the Postal Service has not conducted any additional surveys, studies, or analyses related to the pricing and usage of round-trip DVD mailers, or to customers' use of alternative delivery media. However, the Postal Service is always monitoring industry trends and assessing what competition its products currently face, or will face in the future.

For example, since the Postal Service's last filing in this docket, there have been significant developments in the digitized entertainment industry that could impact the Commission's decision in this docket. As one example, digital game distributor Valve announced that it was entering the market for consoles with the new "Steam Machines."<sup>5</sup> The "Steam Machine" will run on a proprietary operating system called Steam OS,<sup>6</sup> and will allow consumers to transition seamlessly between playing games on their personal computer and playing via a console. Valve is currently a large player in the PC gaming market, running the Steam distribution platform with over 65 million

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<sup>4</sup> See e.g. United States Postal Service Reply Comments, Attachment A: Declaration of Mark Schoeman (August 22, 2013); USPS-LR-MC2013-57/NP6: IBISWorld Industry Report (August 26, 2013).

<sup>5</sup> Steam, *Steam Machines*, (September 26, 2013), available at <http://store.steampowered.com/livingroom/SteamMachines/>

<sup>6</sup> Steam, *Steam OS*, (September 23, 2013), available at <http://store.steampowered.com/livingroom/SteamOS/>

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users.<sup>7</sup> This announcement blurs the formerly clear line between console gaming and PC gaming. The new console will enable consumers to purchase and download games as many times as desired without the need for any discs (similar to other online marketplaces such as Xbox Live), and choose from a vast library of free game customizations, which are unavailable for games published on discs. The announcement of the Steam box is indicative of the ongoing trend: digital distribution of games will continue to rise, providing another option for customers who access digitized video game entertainment content through physical discs.

The development of the Steam Box is also an important step toward more prevalent streaming of games. In an interview discussing the Steam Box, Valve CEO Gabe Newell suggested that "these Steam Boxes are intended to be a 'very low-cost streaming solution,'"<sup>8</sup> which would stream games from a home PC to the television console. The game-streaming system is already in beta testing,<sup>9</sup> but it represents yet another sign that the streaming of games is a growing competitor to game rentals delivered through mail delivery, and will soon be much more prevalent in the market.

In addition to Steam's future plans, the Sony game-streaming platform Gaikai has been launched. It is expected to be fully rolled out in North America in the third

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<sup>7</sup> Engadget.com, *Steam Now 65 Million Users Strong as Valve makes a push for the living room* (September 27, 2013), available at <http://www.engadget.com/2013/10/30/valve-steam-65-million-users/>

<sup>8</sup> The Verge, *How Valve's Steam Box will reinvent the console as you know it* (February 6, 2013), available at <http://www.theverge.com/2013/2/6/3958162/valve-steam-box-cake>

<sup>9</sup> Game Rant, *Steam OS Streaming detailed, Beta test planned* (November 22, 2013), available at <http://gamerant.com/steam-os-machine-streaming-details/>

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quarter of 2014.<sup>10</sup> Sony has also announced plans to expand Gaikai to its mobile PS Vita system.<sup>11</sup>

Similarly, Microsoft is developing a cloud-based system, Xbox Live Compute,<sup>12</sup> to support its games. This system would do some of the necessary computing for the console, distributing the hardware burden and allowing for better performance. This online service can also be used for distributing games, allowing the Xbox One to play games from the previous console generation.<sup>13</sup> Sony has also proposed using Gaikai for backwards compatibility purposes.<sup>14</sup>

In addition to the developments discussed above, in Netflix's most recent 10-Q report,<sup>15</sup> it reports a 17 percent decline in membership for its domestic DVD segment between the third quarter of FY2012 and the third quarter of FY2013.<sup>16</sup> In the same report, Netflix also reaffirms its core business strategy of growing its "streaming membership business" and "[shifting] spending away from the Domestic DVD segment to invest more in streaming."<sup>17</sup> Such a strategy would seem to be in conflict with the notion asserted by Netflix and GameFly, that digitized entertainment content sent via the mail or the internet are not part of the same market.

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<sup>10</sup> Game Informer, *Report: Sony Gaikai Service Coming Second Half 2014* (December 2, 2013), available at [https://www.gameinformer.com/b/news/archive/2013/12/02/report-sony\\_2700\\_s-gaikai-service-coming-second-half-2014.aspx](https://www.gameinformer.com/b/news/archive/2013/12/02/report-sony_2700_s-gaikai-service-coming-second-half-2014.aspx).

<sup>11</sup> Computer and Videogames, *Gaikai to stream PS3 games to PS4 and Vita*. (September 19, 2013), available at <http://www.computerandvideogames.com/430164/gaikai-to-stream-ps3-games-to-ps4-and-vita/>.

<sup>12</sup> Xbox Wire, *Games on Xbox One- Better with Xbox Live Compute* (October 15, 2013) available at <http://news.xbox.com/2013/10/xbox-one-cloud>.

<sup>13</sup> IGN, *Xbox could offer backwards compatibility through the cloud* (September 5, 2013) available at <http://www.ign.com/articles/2013/09/05/xbox-one-could-offer-backwards-compatibility-through-the-cloud>.

<sup>14</sup> IGN, *Gaikai integration* (December 3, 2013), available at [http://uk.ign.com/wikis/playstation-4/Gaikai\\_Integration](http://uk.ign.com/wikis/playstation-4/Gaikai_Integration).

<sup>15</sup> Netflix, Inc., Form 10-Q (Feb. 1, 2013), available at: <http://www.sec.gov/Archives/edgar/data/1065280/000106528013000036/nflx-09301310qdoc.htm>.

<sup>16</sup> *Id.* at 25.

<sup>17</sup> *Id.* at 19.

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5. The Request at page 3 states that the new Round-Trip Mailer product would replace the existing First-Class Mail round-trip mailer option on the market dominant product list, and that there would exist only one set of equalized rates for round-trip DVD mailers, regardless of shape.
  - a. Please state whether DVD customers eligible for the new Round-Trip Mailer product will also be able to send DVDs round-trip via First-Class Mail.
  - b. If so, does the Postal Service intend to assess the non-machinable surcharge on mailpieces that are not automation compatible?
  - c. If the answer to subpart a. is yes and the answer to subpart b. is no, please confirm that the applicable First-Class Mail rates will constrain the price of the new Round-Trip Mailer product. If not confirmed, please explain.

**RESPONSE:**

- a – c. No, DVD customers eligible for the new Round-Trip Mailer product would not be able to send DVDs round-trip (using Business Reply Mail or Permit Reply Mail services) via First-Class Mail; there would be no market-dominant round-trip mailer product.



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6. In their comments on the Postal Service's Request, Netflix and GameFly contend that they do not view alternative means of delivering video content such as Internet streaming, downloading, and distribution through kiosks to be acceptable substitutes for physical delivery for a significant portion of their offerings. GameFly and Netflix aside, please identify all DVD customers that currently or formerly used round-trip DVD mailers and now use alternative means of delivering DVDs or DVD content (including, but not limited to, other direct delivery providers, streaming of DVD content over the Internet, downloading of DVD content from the Internet, and brick-and-mortar retail stores). For each DVD customer so identified, please provide annual round-trip DVD mail volumes for the period FY 2003 through FY 2013.

**RESPONSE:**

Given the data limitations discussed in response to Question 1 of this information request, the Postal Service is not able to identify all DVD customers that have sent round-trip DVD mailers, but now use alternative delivery media. Nevertheless, given recent news reports, the Postal Service is aware that Blockbuster, L.L.C. has officially ceased its DVD by mail operations and now exclusively delivers such content digitally through its Blockbuster *@Home*<sup>TM</sup> and Blockbuster *OnDemand*<sup>TM</sup> streaming services.<sup>18</sup>

The historic volumes for Blockbuster, LLC could not be disaggregated for the time period requested by the Commission, because such information has been combined with the historic volumes reported for Dish Network, which now owns Blockbuster.

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<sup>18</sup> The Blockbuster press release announcing the cessation of its DVD by Mail service, along with an ABC news article reporting on the announcement, may be accessed online at: <http://www.blockbuster.com/corporate/news> and <http://abcnews.go.com/Technology/blockbuster-shut-remaining-stores-dvd-mail-service/story?id=20805588>