

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

ADDITION OF GIFT CARDS PRICE CATEGORY TO
GREETING CARDS AND STATIONERY PRODUCT

Docket No. MC2014-26

**REQUEST OF THE UNITED STATES POSTAL SERVICE
TO ADD GIFT CARDS AS A NEW PRICE CATEGORY
IN THE GREETING CARDS AND STATIONERY PRODUCT**
(June 9, 2014)

In accordance with 39 U.S.C. § 3642 and 39 C.F.R. § 3020.30 *et seq.*, the United States Postal Service hereby requests the addition of a new Gift Cards price category to the Greeting Cards and Stationery product. The product name also would be changed to Greeting Cards, Gift Cards, and Stationery in the competitive product list, to reflect the new price category. As required by 39 C.F.R. § 3.4(f), the Board of Governors authorized this Request on June 5, 2014; a copy of the Governors' Decision is included at Attachment A. Attachment B contains a Statement of Supporting Justification, which demonstrates that the Request fulfills the criteria set forth in Section 3642 for adding a product to the competitive product list.¹ The proposed Mail Classification Schedule language appears at Attachment C.

The Postal Service is currently selling American Express gift cards at about 5,000 Post Offices throughout the United States, as a market test that must end on

¹ While this request seeks to add a price category, rather than a new product, we are meeting all the criteria in Section 3642, in compliance with the Commission's recent conclusion that "when the Postal Service seeks to make an experimental product permanent it must make an appropriate filing under section 3642." Order No. 1917 at 8 (December 20, 2013).

June 27, 2014.² The Postal Service recognizes that the Commission may not be able to complete its review of this filing by the end of the market test, but it would be harmful to gift card customers and inefficient for the Postal Service to pull these gift cards from Post Offices pending a final order in this proceeding. The Postal Service therefore requests that the Commission issue an interim order before June 27, 2014, allowing the Postal Service to continue selling the open loop cards that are currently available at its Post Offices, until a final order is issued in this proceeding.³

As required by 39 U.S.C. § 3642(d)(1), a notice describing the Request is being published in the Federal Register.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

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² Market tests are limited to 24 months in duration, with a possible extension “not to exceed an additional 12 months.” 39 U.S.C. § 3641(d). For gift cards, this extension ends June 27, 2014. Order No. 1781 at 1 (July 19, 2013).

³ Under such an interim order the Postal Service would not change the limited set of cards sold or the locations at which the cards are sold.

Attachment A

Governors' Decision and Certification

**DECISION OF THE GOVERNORS OF THE UNITED STATES POSTAL SERVICE ON
ESTABLISHMENT OF RATE AND CLASS OF GENERAL APPLICABILITY FOR GIFT CARDS IN
GREETING CARDS AND STATIONERY PRODUCT (GOVERNORS' DECISION No. 14-02)**

June 5, 2014

STATEMENT OF EXPLANATION AND JUSTIFICATION

The Postal Service intends to introduce a new price category in the competitive Greeting Cards and Stationery product for Gift Cards. The goal is to convert Gift Cards from an experimental market test product to a new price category in the Mail Classification Schedule (MCS). Pursuant to our authority under sections 404(b) and 3642 of title 39, United States Code, the Postal Service shall file a request with the Postal Regulatory Commission to add the Gift Cards price category.

The new Gift Cards price category will be used for the Postal Service to sell third-party gift cards in its retail facilities.

We have reviewed management's analysis of this proposal. We have evaluated the new price and classification changes in this context in accordance with 39 U.S.C. §§ 3632-3633 and 39 C.F.R. §§ 3015.5 and 3015.7. We approve the changes, finding that they are appropriate, and are consistent with the regulatory criteria, as indicated by management.

ORDER

We direct management to file with the Postal Regulatory Commission appropriate notice of these classification and rate changes and to request any needed changes to the competitive product list. The changes in price and class set forth herein shall be effective one day after the Commission approves any required changes to the product list under 39 C.F.R. § 3020 Subpart B.

By The Governors:



Mickey Barnett
Chairman

Attachment B

Statement of Supporting Justification

Statement of Supporting Justification

I, Betty Y. Su, Executive Director of Brand Marketing, sponsor this Request that the Postal Regulatory Commission add Gift Cards as a new price category in the Greeting Cards and Stationery product. This statement supports the Postal Service Request by providing the information required by each applicable subsection of 39 C.F.R. § 3020.32, as indicated below. I attest to the accuracy of the information contained herein.

(a) *Demonstrate why the change is in accordance with the policies and the applicable criteria of chapter 36 of title 39 of the United States Code.*

As demonstrated below in subsections (b) through (i), the change complies with the applicable statutory provisions.

(b) *Explain why, as to market dominant products, the change is not inconsistent with each requirement of 39 U.S.C. 3622(d), and that it advances the objectives of 39 U.S.C. 3622(b), taking into account the factors of 39 U.S.C. 3622(c).*

As the Request is for an addition of a competitive price category, this subsection is not applicable.

(c) *Explain why, as to competitive products, the addition, deletion, or transfer will not result in the violation of any of the standards of 39 U.S.C. 3633.*

The Gift Cards service to be provided as part of the Greeting Cards and Stationery product will cover its attributable costs and make a positive contribution to

coverage of institutional costs.¹ The service will increase contribution, ensuring that competitive products will continue to cover at least 5.5 percent of the Postal Service's total institutional costs. Accordingly, no issue of subsidization of competitive products by market dominant products arises (39 U.S.C. § 3633(a)(1)).

(d) Verify that the change does not classify as competitive a product over which the Postal Service exercises sufficient market power that it can, without risk of losing a significant level of business to other firms offering similar products: (1) set the price of such product substantially above costs; (2) raise prices significantly; (3) decrease quality; or (4) decrease output.

The Gift Cards marketplace is a highly competitive market with many retail establishments offering a variety of gift cards. Customers expect to find gift cards for sale at many retail establishments, such as grocery, drug, and convenience stores.

The Postal Service plans to initially sell “open loop” cards, which are not specific to a particular merchant, but are branded by a Retail Electronic Payments Network (e.g., American Express, Discover, MasterCard or Visa) and can be used by the gift card recipient at any merchant that accepts cards administered by that Network. The Postal Service will enter into an agreement with one or more issuing banks, Retail Electronic Payments Networks, or service providers to offer gift cards. The supplier will provide all customer support for cardholders after the cards are purchased, with the Postal Service operating solely as a sales channel.

¹ USPS-LR-MC2014-26/NP1 (Estimated Cost Coverage Calculations).

The Postal Service will generate revenue from sales of open loop cards through an activation fee that customers pay, in addition to the amount of money loaded onto the card, at the time of purchase. The Postal Service will retain a negotiated percentage of the activation fee, with the remainder being transferred to the supplier of the card. The payment of activation fees for open loop cards is standard in the industry, and the fees typically run between \$2.95 and \$7.95.²

The Postal Service also plans to sell closed loop cards (i.e., cards that are specific to a particular merchant) after it obtains a partner to provide those cards. These cards generally are sold at face value to the purchaser, without an activation fee. Instead, following the general practice for retailers of closed loop cards, the Postal Service may enter into a revenue share arrangement with the card suppliers.

The Postal Service must be mindful of keeping any fees low in order to compete with similar offerings provided by other retailers. For closed loop cards, charging more than face value does not appear to be an option. For open loop cards, charging higher fees than other retailers also would likely result in a severe loss of sales. Since the mailing of gift cards is more likely to occur if the gift card is purchased at a Post Office, increased prices would not just risk losing the revenue from the gift card fee, but would potentially risk losing the postage revenue from customers who mail the gift cards. Similarly, given the state of competition, a decrease in quality or output would also likely result in loss of business to the Postal Service's competitors.

² The Postal Service does not intend to use this filing as a step into offering banking services. If any proposals were ever to be offered in response to suggestions (see, e.g., <http://www.uspsoig.gov/sites/default/files/document-library-files/2014/rarc-wp-14-007.pdf>) that the Postal Service should offer banking services, such proposals would be done in a separate filing.

Thus, approving this Request would not result in classifying as competitive any products for which the Postal Service can raise prices substantially above costs, raise prices significantly, decrease quality, or decrease output without risk of losing a significant level of business to other firms.

(e) *Explain whether or not each product that is the subject of the request is covered by the postal monopoly as reserved to the Postal Service under 18 U.S.C. 1696 subject to the exceptions set forth in 39 U.S.C. 601.*

I am advised that the Gift Cards price category is not covered by these provisions. See part (d) above.

(f) *Provide a description of the availability and nature of enterprises in the private sector engaged in the delivery of the product.*

See part (d) above. Gift cards are widely available from well-known and successful private firms, and are sold at a wide variety of grocery, pharmacy, and convenience stores.

(g) *Provide any information available on the views of those who use the product on the appropriateness of the proposed modification.*

The Postal Service believes that many customers would support the addition of gift cards as a Competitive price category. A survey of customers during the market test showed that almost all customers agreed that it was convenient to buy gift cards at the Post Office, and expected to buy gift cards at Post Offices again. About 90 percent of surveyed customers agreed that having cards available makes them feel like the Postal Service is trying to be customer-oriented and innovative. Over 80 percent

agreed that offering gift cards makes the Post Office more like a one-stop location for sending gifts, and that the open loop gift cards sold at Post Offices were a good value. One concern expressed by some potential customers was that selling gift cards could create longer lines at Post Offices.

(h) *Provide a description of the likely impact of the proposed modification on small business concerns.*

The market for gift cards is highly competitive and requires a substantial infrastructure to support a national network. Most gift cards are offered and sold by larger businesses, so the Postal Service would generally be competing with larger retail chains (e.g., pharmacies, grocery stores) in the sale of gift cards. As a general matter, small businesses are still a very small part of the overall gift card market.³ Thus, this product would result in minimal competition with small businesses.

In addition, the introduction of this price category would have a very small impact on the gift card market. In a recent approval of another market test, the Commission noted that inappropriate market disruption was “entirely unlikely and speculative” in a circumstance where the test is expected to generate revenues representing less than three percent of the relevant market. Order No. 617 at 6. Here, the effect would be considerably smaller. The Postal Service initially plans to sell gift cards at the 5,000 locations currently participating in the market test. While the Postal Service expects to increase the numbers of locations somewhat, there are a far greater number of nonpostal retail locations that currently sell Gift Cards.

³ See Cyndia Zwahlen, *Firms Putting Gift Cards On Their Own Wish Lists*, Los Angeles Times, June 7, 2010, available at <http://articles.latimes.com/2010/jun/07/business/la-fi-0607-smallbiz-giftcards-20100607>.

The Postal Service would have no unfair advantage over other retailers of gift cards, including small businesses. Rather, the sale of gift cards would provide consumers with the added convenience of purchasing a mail-related item at a postal location, similar to greeting cards and other mail-related retail products. Simply because gift cards are also sold by other retailers is not a basis for finding that their sale by the Postal Service would have a detrimental impact on nonpostal retail locations that sell gift cards.

On the other hand, some small businesses that wish to purchase gift cards would benefit from having another option for obtaining such items.

(i) Include such information and data, and such statements of reasons and bases, as are necessary and appropriate to fully inform the Commission of the nature, scope, significance, and impact of the proposed modification.

Gift cards have become highly popular gifts in recent years.⁴ There is also a nexus between the use of gift cards for gifting purposes and the use of the mails for sending that gift. This provides an opportunity for the Postal Service to increase customer convenience, while enhancing revenue and encouraging the use of the mail for gifting purposes, by selling gift cards at Postal Service retail locations.

Gift cards qualify as a postal service. “Postal service” is defined as “the delivery of letters, printed matter, and mailable packages, including acceptance, collection,

⁴ The National Retail Federation 2013 Gift Card Spending Survey recently found that “It’s personal, it’s practical, and it comes with a price tag that matches anyone’s budget – it’s a gift card, and this holiday season 8 in 10 (80.6%) shoppers will look to add these small gift items to their baskets.” National Retail Federation, “Gift Card Spending Reaches All-Time High, According to NRF Survey,” [available at https://nrf.com/media/press-releases/gift-card-spending-reaches-all-time-high-according-nrf-survey](https://nrf.com/media/press-releases/gift-card-spending-reaches-all-time-high-according-nrf-survey) Also see https://nrf.com/sites/default/files/Gift_Cards_2013_1.pdf.

sorting, transportation, or other functions ancillary thereto.” Id. at 102(5). The Commission has recognized that this definition encompasses the sale of retail products that bear a close nexus to the mails, including products that allow mailers to connect with others on a personal level (greeting cards), and products that allow mailers to send cash equivalents (money orders). For the same reasons, the sale of gift cards is consistent with the statutory definition.⁵

Gift cards purchased at Post Offices are likely to be mailed, similar to greeting cards and stationery. The Commission found that Greeting Cards and Stationery is a postal service because “the cards and related integrated retail promotions sold at retail facilities or online are designed to foster the use of the mails. The Postal Service represents that most cards are mailed.” Order No. 154 at 34 (December 19, 2008).

Similarly, the Postal Service believes that a majority of gift cards purchased at Post Offices would be mailed, and that selling gift cards at Post Offices will foster the use of the mails. A customer who purchases a physical gift card as a gift needs to transmit the card itself to the recipient. The likelihood that such transmittal will occur using the Postal Service increases when the customer is already at a Post Office.

⁵ The Postal Service recognizes that the Commission has previously described generic stored value cards (including gift cards), as proposed by witness Lance in Docket No. MC2008-1, as being a “nonpostal service.” See Order No. 154 at 47. However, the Commission noted that this determination was based on the state of the record in that proceeding, and that the Commission’s decision “d[id] not foreclose the possibility of the Postal Service offering a card that may, if properly supported, be classified as a postal service.” Id. at 48 n.90. Furthermore, it is relevant to note that no party in that docket opposed the sale by the Postal Service of stored value cards, and the Public Representative endorsed its continuation, noting that “[t]he public benefits from having the convenience of being able to purchase stored value cards for mailing at their local post offices immediately prior to placing them in the mailstream.” See Docket No. MC2008-1, Initial Brief of the Public Representative at 30 (September 10, 2008). As the Commission noted in the Gift Cards market test Order: “the Commission never addressed the merits of the Postal Service’s proposed stored value card because it was not offered by the Postal Service as of January 1, 2006 and thus was ineligible to be grandfathered. *Id.* at 47-48; *see also* 39 U.S.C. 404(d)(2). Consequently, Pitney Bowes’s claim that the Commission previously considered and rejected the stored value card is misplaced.” Order No. 721 at 9-10 (April 28, 2011).

Early in the market test, the Postal Service collected data from a survey of gift card purchasers at Post Offices.⁶ From mid-November, 2011 to mid-January, 2012, gift card purchasers were encouraged to complete a survey inquiring whether the gift card was or was expected to be mailed. Moreover, they were asked about other mail that might be generated from their gift card purchase. The Postal Service found that about 52 percent of the purchased gift cards were, or were expected to be, mailed. Moreover, customers expected that about 46 percent of the gift cards would generate a mailed thank you card. Finally, the gift cards were expected to be used for some online purchases, generating about 23 packages for every 100 gift cards purchased; some of these packages will be sent using the Postal Service. Thus, every 100 gift cards purchased can be expected to generate more than 98 pieces of mail.

A separate survey of a representative sample of the general gift card purchasing population asked about their reaction to the Postal Service's gift card offering, and their mailing practices with respect to gift cards purchases. This survey found that, among customers who purchase gift cards, 67 percent believed it would be more convenient to mail gift cards if they are purchased at the Post Office rather than some other retailer, and 34 percent would be more likely to mail the gift card if it were purchased at a Post Office. Thus, offering gift cards at Post Offices will increase the sending of gift cards by mail.

The sale of gift cards by the Postal Service is designed to support customers' mailing needs, by providing convenient access to a product that is commonly used as a means of sending a gift easily and economically through the mail. Gift cards serve as an alternative to sending cash as a gift, and are oftentimes more convenient (and more

⁶ The market research reports are included in nonpublic folder USPS-NP-LR-1.

desired by recipients) than purchasing and shipping an article of merchandise.⁷ The sale of gift cards by the Postal Service thus fosters the use of the mail for personal purposes, similar to greeting cards, which the Commission has found to be a “postal service.” See Order No. 154 at 34-35.

In fact, it is commonplace to mail a gift card along with a greeting card. Evidence of this fact can be found in the existence of greeting cards that are specifically designed to hold gift cards.⁸ The Postal Service plans to utilize the natural synergies between gift cards and greeting cards in the market test, by co-locating gift cards with greeting cards in many locations.

Furthermore, as an alternative to sending cash through the mail, gift cards sold at Post Offices and other postal retail facilities are very similar to money orders, which have long been regarded as a “postal service” on the basis that they are likely to be mailed when purchased. See Order No. 154 at 31 (citing Associated Third Class Mail Users v. U.S. Postal Service, 405 F. Supp. 1109, 1115 (D.D.C. 1975)), 38. It is logical to believe that gift cards purchased from the Postal Service will also generally be mailed.

Finally, the nexus between gift cards and the mail exists regardless of the specific type of card being sold (i.e., whether the card is open loop or closed loop). Thus, like greeting cards, the presence, or absence, of Postal Service intellectual

⁷ Research by the National Retail Federation research (see footnote 1) has found that two reasons consumers purchase gift cards is because they allow the recipient the flexibility to select their own gift, and because it is more convenient to buy than traditional gifts.

⁸ See, e.g., <http://corporate.hallmark.com/Holiday/Graduation> (noting that its graduation cards include “Gift Card Holders that feature new elements like Pop-Ups and Pocket cards [and] offer superior presentation of a gift card; <http://corporate.hallmark.com/News-From-Hallmark/Greeting-Cards-Make-a-Lasting-Impression-at-Christmas> (noting that Hallmark sells Christmas cards to highlight a gift card: “Make this popular gift stand out with a Christmas card made to present gift cards and money”).

property is not relevant to determining whether a gift card is a “postal service.” Cf. Order No. 391 at 23 (noting that greeting cards need not contain Postal Service intellectual property). As a result, selling gift cards at Post Offices qualifies as a postal service, since sales would be ancillary to the delivery of letters and mailable packages. 39 U.S.C. §102(5).

Attachment C

Mail Classification Schedule (MCS) Language

MAIL CLASSIFICATION SCHEDULE CHANGES

PART B COMPETITIVE PRODUCTS

* * * *

2600 Special Services

* * * *

2610 Greeting Cards, Gift Cards, and Stationery

2610.1 Description

The Greeting Cards, Gift Cards, and Stationery product is offered only through postal retail locations and websites, and includes items designed to be used for, or included in, to-mail personal messages sent by mail.

Greeting cards

Greeting cards include cards with envelopes and may be sold individually or as sets.

Gift cards

Gift cards include cards with stored value that can be used for the purchase of goods and services

Stationery

Stationery includes paper, envelopes, postcards, note cards, and note pads and are sometimes packaged as sets.

2610.2 Prices¹

	(\$)
Greeting Cards	0.99 to 25.00
Stationery	0.10 to 75.99
<u>Gift Cards</u>	
<u>Open Loop</u>	<u>Face Value</u> plus <u>1.99 to 8.99</u>
<u>Closed Loop</u>	<u>Face Value</u>

Notes

1. Minimum price applies to average price paid per item when multiple items are purchased together.