

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
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**RESPONSE OF UNITED STATES POSTAL SERVICE TO
CHAIRMAN'S INFORMATION REQUEST NO. 1**
(June 27, 2014)

The Postal Service hereby files its responses to questions 1-7 of Chairman's Information Request No. 1, issued on June 20, 2014. Responses are due today. Each question is stated verbatim, and is followed by the response. Portions of the responses to questions 2, 4, 5, 6, and 7 are redacted as they contain commercially sensitive information. Unredacted responses to these questions are being concurrently filed with the Commission under seal as USPS-LR-MC2014-26/NP2.

Respectfully submitted,
UNITED STATES POSTAL SERVICE

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1. In Attachment C of the Postal Service's Request, Part B Section 2610.2 of the Mail Classification Schedule lists the prices for gift cards. Open loop gift cards will cost customers the face value of the card plus an activation fee ranging from \$1.99 to \$8.99.
 - a. During the market test, the minimum planned activation fee was \$3.95 for a \$25 gift card and the maximum planned activation fee was \$5.95 for a variable card up to \$100. Please explain the basis for the change in the minimum and maximum activation fee prices (\$1.99 and \$8.99), and what face values of cards will be offered at the specific prices of \$1.99 and \$8.99.
 - b. In the market test, gift cards were sold in fixed amounts of \$25 and \$50, and in variable amounts up to \$100. Is the Postal Service retaining the same pricing structure as was used in the market test? If so, please identify the prices that the Postal Service will charge for the fixed and variable cards. If not, please clearly explain how the proposed gift cards offering will be priced.

RESPONSE:

- a-b. For the proposed Gift Cards price category, the activation fees charged by the Postal Service will result from agreements with its gift card partners. These agreements have not been completed, except for a short-term agreement with American Express to continue selling open loop gift cards at the activation fees used during the market test. To accommodate the uncertainty of the terms of future agreements (and to allow the Postal Service to respond to market conditions), the Postal Service is proposing to set a wide range of possible fees in the Mail Classification Schedule (MCS), similar to the approach used for greeting cards and stationery. The Postal Service currently does not offer greeting cards or stationery at the minimum or maximum fees in the MCS (\$0.99

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and \$25.00 for greeting cards, and \$0.10 and \$75.99 for stationery). Similarly, the Postal Service does not currently plan to charge \$1.99 or \$8.99 for activation fees. Instead, the Postal Service seeks broad price ranges in all three cases to provide the necessary flexibility to accommodate future agreements with its gift card partners.

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2. For the open loop gift cards, revenue is generated through activation fees. Please provide the percentage of the fee captured by the Postal Service and the percentage of the fee captured by American Express.

RESPONSE:

The percentage of the fee captured by the Postal Service varies based on the total fee charged for each type of card. During the market test, the Postal Service portion of the activation fee was about ■ percent for the \$25 cards, ■ percent for the \$50 cards, and ■ percent for the variable cards. The remainder was sent to American Express.

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3. For the closed loop gift cards that do not have an activation fee, please explain the potential revenue sharing agreement that will allow the Postal Service to generate revenue from offering such cards.

RESPONSE:

The Postal Service has not yet reached agreement with potential closed loop vendors on the details of a potential revenue sharing agreement. Generally, the Postal Service expects that it would retain a portion of the face value of closed loop gift cards that are sold, and send the remainder to the partner that provides the closed loop cards.

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4. Please provide gift card volume data for each type of card (*i.e.*, \$25, \$50, variable) sold by the Postal Service for each of the 6-month reporting intervals during the market test.

RESPONSE:

	\$25	\$50	Variable
06-2011 thru 9-2011	Not available	Not available	Not Available
10-2011 thru 3-2012	██████	██████	██████
04-2012 thru 9-2012	██████	██████	██████
10-2012 thru 3-2013	██████	██████	██████
04-2013 thru 9-2013	██████	██████	██████
10-2013 thru 3-2014	██████	██████	██████

The data to break down the volume of gift cards sold during the first reporting period (June 27, 2011 through September 30, 2011) have been archived. These data will be provided once the archived data is retrieved.

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5. In the Gift Cards Data Collection Report - FY 14, Q1-2 (Docket No. MT2011-2), the Postal Service discussed a "two-week promotion from November 29 to December 12, 2013, during which 85,422 gift cards were purchased at no fee to the customer."
 - a. Since no fee was charged, did the Postal Service receive any revenue from the 85,422 gift cards that were sold during the promotion? If yes, please explain.
 - b. Please explain the rationale behind the promotion and whether this is a promotion that may be revisited in the future.

RESPONSE:

- a. Yes. American Express reimbursed the Postal Service for its share of the activation fees for the gift cards sold during the promotion (\$██████████).
- b. The promotion was designed to attract attention to the availability of gift cards at Post Offices. The promotion increased sales volumes substantially, so it may be revisited in the future.

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6. Please refer to Library Reference, USPS-LR-MC2014-26/NP1, Excel file, "NP1 - Gift Card Cost Coverage.xlsx," tabs 'GiftCard Summary,' which shows the estimated cost coverage for the proposed Gift Cards price category.
 - a. Please provide the derivation of the figures in cells C5 and C7. In the response, please provide all source inputs.
 - b. Please provide a description of the cost category identified in cell B7.
 - c. Please explain where accounting and bookkeeping costs for gift cards are included in the cost coverage calculation.

RESPONSE:

a-b. The figure in cell C5 is the revenue per piece, which is composed of \$ [REDACTED] in revenue and [REDACTED] in volume. The revenue figure reflects the Postal Service's share of total activation fee revenue. This figure is calculated using data from the Point of Sales (POS) systems – which feed the Retail Data Mart (RDM) and the Enterprise Data Warehouse (EDW) – along with reimbursed revenue for the two-week promotional period in late 2013. Since EDW provides total activation fee revenue (not just the Postal Service's portion of the revenue) the EDW data was multiplied by [REDACTED] percent (average Postal Service share of activation fee revenue). The volume figure also comes from EDW data. Both the revenue and volume figures reflect the period from October 1, 2013 to May 16, 2014.

The figure in cell C7 is calculated using an RDM report, and a Chargeback report from USPS Accounting Services. The RDM report provides total credit tender and total debit tender. USPS Treasury provided the average transaction

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percentages for the mix of credit and debit cards (Master Card, Visa, Amex, Discover, etc.) used for the purchases. These percentages were applied to the credit and debit tender amounts respectively. The report from USPS Accounting Services provides chargeback amounts for invalid credit transactions. A ratio of chargeback to total revenue was calculated, and divided by volume to derive the chargeback portion of the "Estimated payment related fees plus credit card chargebacks/Piece". The Postal Service is unable to provide more detail regarding these calculations/transaction fees due to nondisclosure agreements with the financial institutions issuing the credit and debit cards.

- c. These accounting and bookkeeping costs are institutional costs that are not broken out for (nor assigned to) gift cards. The Postal Service does not incur any bookkeeping costs after the gift cards are sold, as the gift card vendor monitors the use of the cards after they are purchased.

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7. Please refer to Library Reference, USPS-LR-MC2014-26/NP1, Excel file, "NP1 - Gift Card Cost Coverage.xlsx," tab 'GiftCards Transaction Costs,' which shows the estimated window transaction unit cost for the proposed Gift Cards price category.
 - a. Please reconcile the figures in cells G6 and G11.
 - b. Please confirm that these two figures are intended to report the same estimate. If not confirmed, please explain.

RESPONSE:

- a-b. The amount in cell G6 is [REDACTED] seconds, which matches the [REDACTED] minutes figure from cell F27 in the next tab (Gift Card Transaction Times). The [REDACTED] figure should also be used in cell G11. Correcting cell G11 does not change any of the other results, when rounded to two decimal places.

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8. The Postal Service proposes to include Gift Cards as part of the Greeting Cards and Stationery product.
 - a. Please explain whether Greeting Cards, Gift Cards, and Stationery share “cost or market characteristics for which a rate or rates are, or may reasonably be, applied.” See 39 U.S.C § 102(6).
 - b. The current description of the competitive Greeting Cards and Stationery product in section 2610.1 of the Product List provides the items are “designed to be used to mail personal messages.” This does not fit the Gift Cards service which is designed to transfer money through the mail. To add Gift Cards to Greeting Cards and Stationery, the Postal Service proposes to broaden the description of the product to one “used for *or included in* personal messages sent by mail.” Please discuss the rationale for including Gift Cards as part of the Greeting Cards and Stationery competitive product versus classifying Gift Cards as a stand-alone competitive product.

RESPONSE:

- a. Greeting cards, gift cards, and stationery are all items that do not directly involve the delivery, acceptance, collection, sorting, or transportation of letters, printed matter, or mailable packages, but are ancillary to these activities because all three items are likely to be mailed. Greeting cards and gift cards are frequently purchased in the same transaction, presumably so the gift card and greeting card can be mailed together. The Docket No. MT2011-2 data collection reports provide the percentage of market test gift card transactions in which a greeting card is also purchased; these percentages ranged from 9.6 to 22.5). The three items also share cost characteristics, since they involve the display of items produced outside the Postal Service, and are purchased at retail windows.

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- b. First, the Postal Service considers gift cards to be similar to greeting cards and stationery, for the reasons discussed in the response to part (a). Second, because of the difficulty of obtaining cost data for small products, the Postal Service seeks to avoid establishing stand-alone products that, at least initially, are not expected to generate large volumes of sales.