

TRANSPORTATION AND PRICE LEADERSHIP ROLE OF THE POSTAL SERVICE

Approach and Findings

Question 2 : Pricing Influence on Money Orders and Rental Mailboxes

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Alan Robinson, Direct Communications Group

Richard Waterman, Analytic Business Services

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Study Questions

1. Does the Postal Service offer greater access to parcel and express transportation, money orders, and post office boxes than the private sector?
2. Do Postal Service prices establish a competitive baseline for other delivery services, money orders, and delivery box rentals constraining unfettered pricing?
3. Does the Postal Service offer competitive advantages to small and home-based business that would not exist without the services that they offer?
4. Does the Postal Service provide commercial customers with an economical means of shipping packages that would be more expensive if private sector carriers were used?



Approach

- Define the two markets
 - Money orders
 - Mailbox rental
- Examine
 - Market structure
 - Current prices
 - Pricing strategies of competitors



MONEY ORDERS



Postal Service Faces Two Competitors

***MoneyGram
International***



**WESTERN
UNION** | 



Private Sector Money Orders Offered Through Contract/Franchise Locations

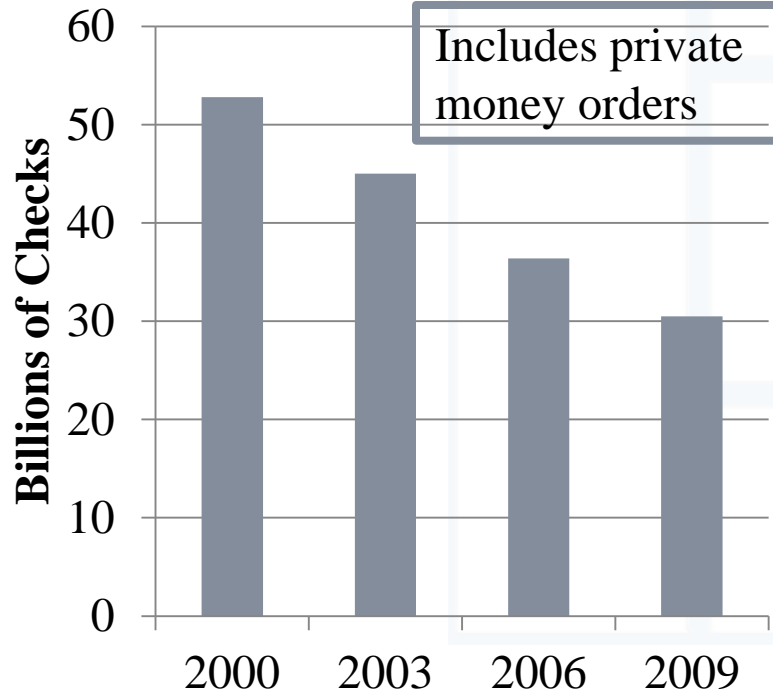


KASH KING
Home of the **50¢** Money Orders

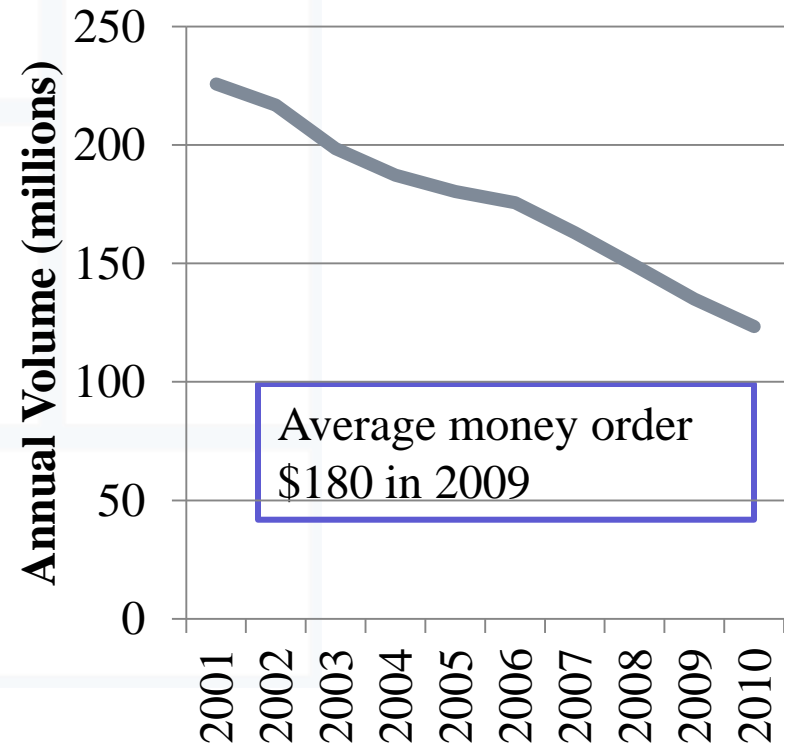


Demand for Checks and Postal Service Money Orders is Declining

Checks Cashed (Federal Reserve payment studies)



Postal Service Money Orders (Source: RPW and Federal Reserve)



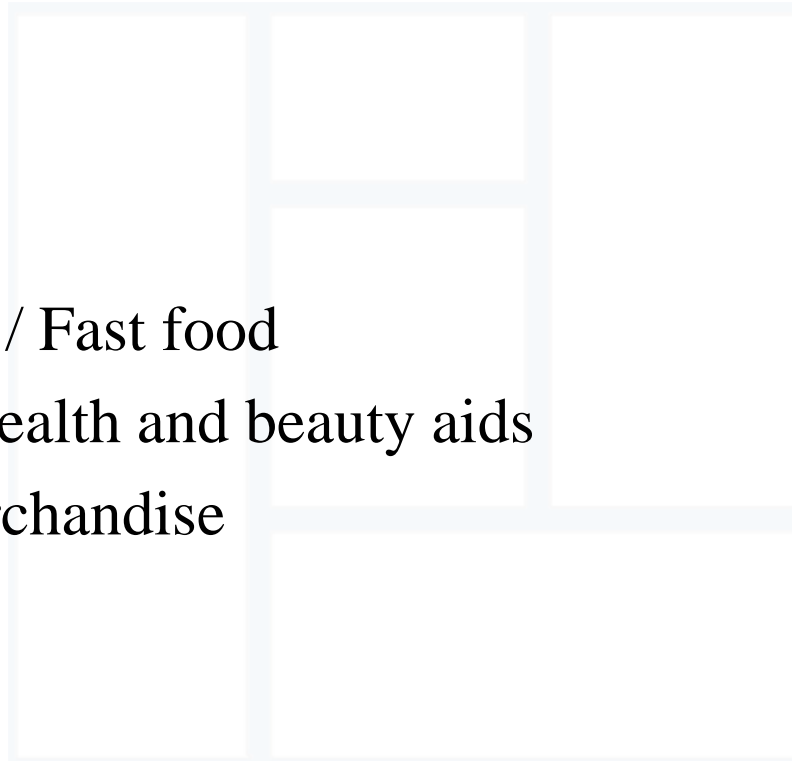
Franchises Offer Complementary Financial / Cash Services

- Check cashing
- Pay-day loans
- Auto title loans
- Lottery tickets / Lotto
- International money transfer
- Gift cards
 - Retailers
 - Restaurants
- Phone cards
 - International calling
- Pre-paid cell phones
 - Purchase of additional time
- Income tax return preparation



Some Franchises Offer Complementary Non-Financial Services

- Gasoline
- Groceries
- Beer/wine
- Sandwiches / Fast food
- Drugs and health and beauty aids
- General merchandise



Characteristics of Franchisees

- Large national retail chains
 - Walmart, K-mart, CVS, Rite-aid, 7-11
- Regional retail chains
 - Grocery Stores – Giant Foods, Sunmart Supermarkets, Weis Market, etc.
 - Convenience Stores – Flash Market, Kwik Stop, Polk Pick It Up
- National financial services franchisors / companies
 - Ace Cash Express
 - Advance America
- Regional/local financial services franchisors/ companies
 - Examples Kash King



Description of Customers: Large MoneyGram Franchisee*

- Race/ethnicity:
 - 50% Caucasian
 - 25% Hispanic
 - 20% African American
 - 5% Other
- Age:
 - over 50% between 25 and 45
- Avg. household income:
 - approx. \$30,000
 - approx. 40% above \$40,000
- Gender
 - about half are male and half female
 - check cashing customers - more younger males
 - short-term consumer loan customers - more older females
- Pay bills with walk-in payments or money orders
- Mostly renters

* Ace Cash Express 2006 Annual Report



Illustrative Money Order Prices: USPS and MoneyGram

Money Order Vendor	Under \$500	\$500.01 to \$1,000.00	2 Money Orders Totaling \$500.01 to \$1,000.00
Postal Service	\$1.10	\$1.50	\$2.20
Ace Cash	\$0.79	n/a	\$1.58
Advance America	\$0.99	n/a	\$1.98
CVS	\$0.99	n/a	\$1.98
Walmart	\$0.60	n/a	\$1.20
Kash King	\$0.50	n/a	\$1.00



Illustrative Money Order Prices: USPS and Western Union

Money Order Vendor	Under \$500	\$500.01 to \$1,000.00	2 Money Orders Totaling \$500.01 to \$1,000.00
Postal Service	\$1.10	\$1.50	\$2.20
Ataga's Market (11 locations)	\$1.00	n/a	\$2.00
Flash Market (85 locations)	\$0.49	n/a	\$0.98
Kangaroo Express (1,672 locations)	\$0.79 - \$0.99	n/a	\$1.58 - \$1.98
K Mart (1,372 locations)	\$0.59	n/a	\$1.18
Polk Pick-it-up (28 locations)	\$0.99	n/a	\$1.98
Rite Aid (~4,800 locations)	0.79	n/a	\$1.58
Sunmart Supermarket (20 locations)	\$0.49	n/a	\$0.98
Weis Supermarket (164 locations)	0.79	n/a	\$1.58



Conclusions from Price Comparison

- Postal Service Money orders are more expensive
 - Priced at least 10% higher
 - May be perceived as a superior good to justify price
 - Recipient may demand a postal money order
- To the extent that the Postal Service affects market prices it at best provides a price ceiling
 - Highest prices are list prices for private sector money orders and are either \$1.00 or \$0.99
 - Franchisees free to compete on price by charging below list
 - Lower bound most likely reflects MoneyGram or Western Union fees and/or use of money order prices as marketing tool



Conclusions (cont'd)

- Prices of money orders at large and small chains are mostly uniform and the same in all of their outlets
 - Some chains do charge prices that vary by location
- Revenue from complementary services allows large discounts
 - Some check cashing and payday loan locations offer free money orders
 - King Kash in one location
 - TriMax offers free money orders at five locations in Georgia



Conclusions (cont'd)

- Based on the access analysis (question 1), only the most rural communities do not have lower priced alternatives
- Lower priced alternatives available 7-days a week and evenings
- Money orders may represent an older form of payment
 - Originally created as a way to send money through the mail when most people paid in cash
 - Now required when e-payment or e-transfer not an option
- Electronic bill payment at a counter, money transfer, and cash cards are all examples of new technologies that serve the same purpose



MAIL BOX RENTALS



Competitors

- AIM Mail Centers
- Goin' Postal
- Mailbox Center
- Mailsource
- Pakmail
- Parcel Plus
- Postal Annex +
- Postal Connections
- Postal Depot
- Postnet
- United States Postal Service
- UPS Store
- Smaller Chains
- Independent Operators



Competitors

- Private sector competitors are all locally-owned businesses.
 - Franchise operators provide uniform services across franchisees;
 - Independent operations have more flexibility
 - Examples of independent providers offering everything from dry cleaning to tanning services
 - Competitors may operate one or a limited number of locations
- Both the Postal Service and private sector competitors have boxes available to rent in all locations in sample.
 - No indication that demand is sufficiently robust to exhaust capacity of any service provider



Complementary Services

- Parcel shipping
- Parcel packing
- Office supplies
- Packing and moving supplies, moving boxes
- Printing and copying
- Greeting cards
- Phone cards
- Notary services
- Mail forwarding
- Parcel receiving
- E-bay selling assistance
- Computer rental

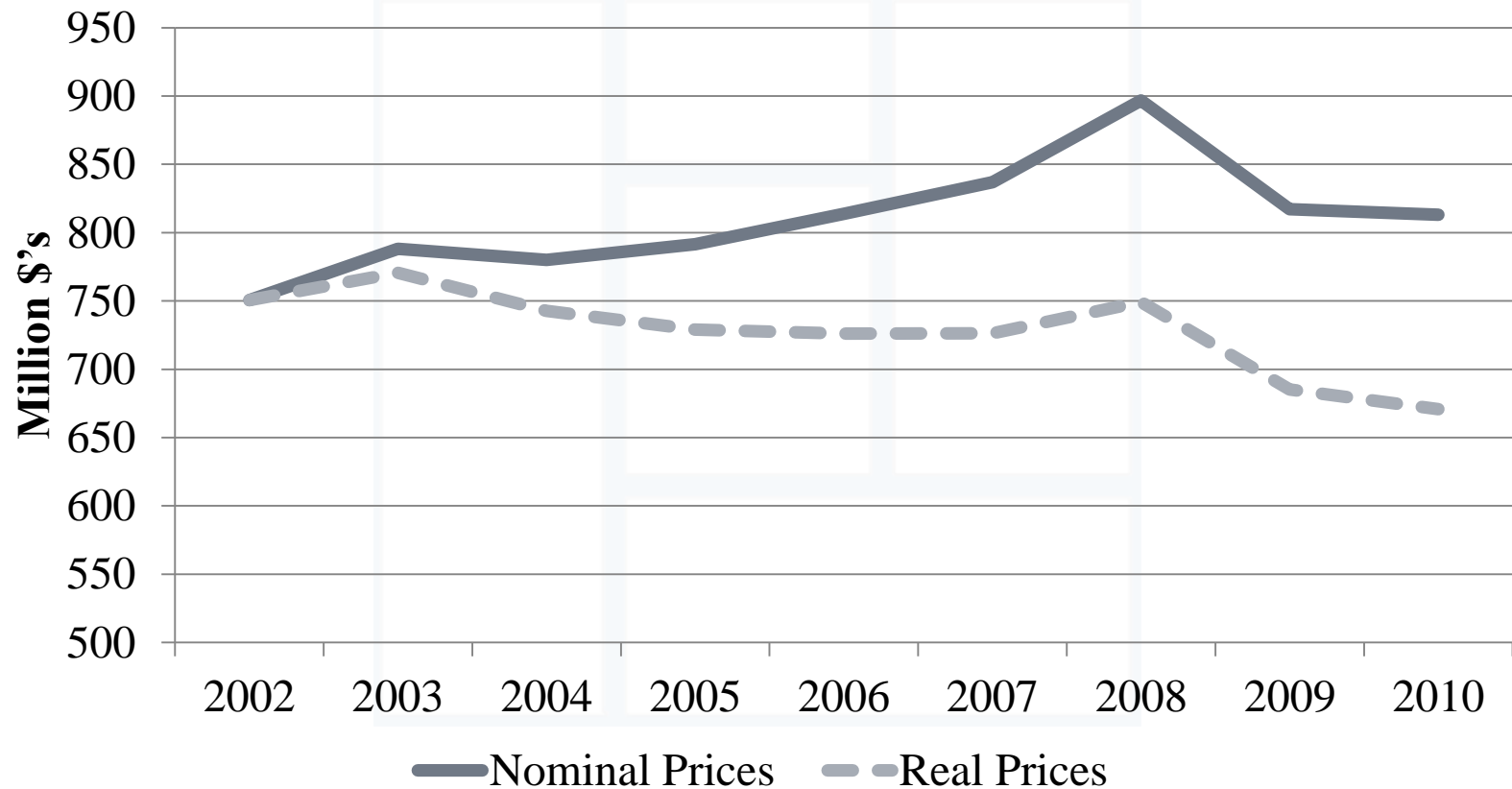


Competitive Alternatives and Additional Services

- Competitive Alternatives
 - Home/business delivery
 - Virtual Office
- Additional services
 - Dry cleaning acceptance
 - Truck and trailer rental



Revenue Generated by Postal Service Mailboxes



Price Analysis

- Three mailbox products analyzed
 - Small – 3” x 5 ½”
 - Medium – 5” x 5 ½”
 - Large – 11” x 5 ½”



Average Mailbox Price

	Small Mailbox	Medium Mailbox	Large Mailbox
USPS Price	\$45.90	\$68.18	\$116.51
Private Sector	\$132.38	\$185.27	\$254.63
Mean Difference	-\$86.48	-\$117.09	-\$138.12.

Differences are statistically significant



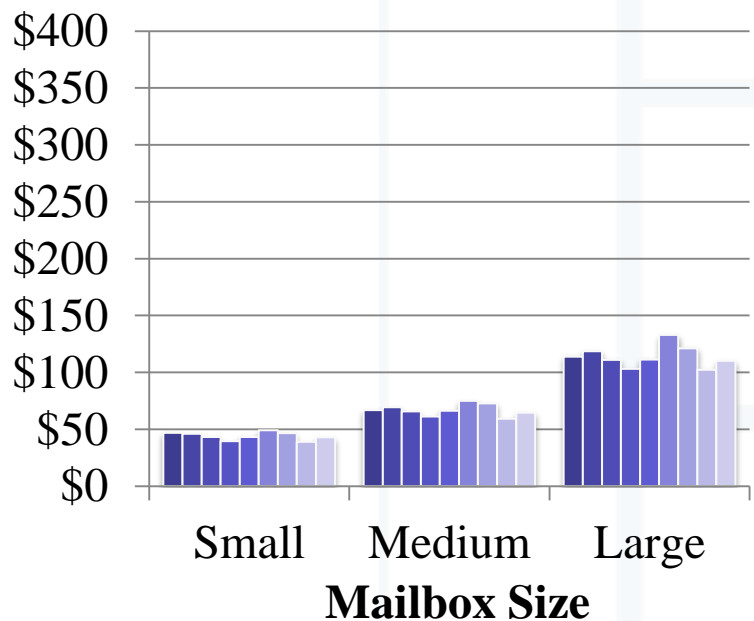
Mail Box Pricing Differences

- Postal Service is significantly less expensive
- Price differences large enough to suggest:
 - Private sector product is perceived as a superior product; and/or
 - Postal Service and private sector mail box rental products serve different markets

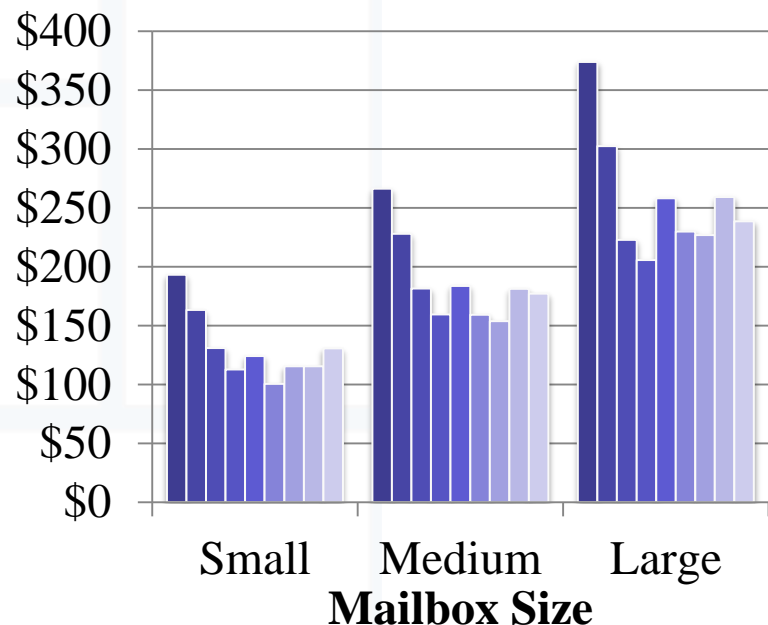


Price Differences between Urban and Rural Areas

USPS Prices



Private Sector Prices



← Most Urban to Most Rural →
 ■ 1 ■ 2 ■ 3 ■ 4 ■ 5 ■ 6 ■ 7 ■ 8 ■ 9

← Most Urban to Most Rural →
 ■ 1 ■ 2 ■ 3 ■ 4 ■ 5 ■ 6 ■ 7 ■ 8 ■ 9



Differences in Mailbox Prices Between Urban and Rural Areas – Postal Service

- No evidence to suggest differences in pricing across urban and rural areas
- No logical explanation for higher prices non-metro areas with between 2,500 and 25,000 living in urban areas



Differences in Mailbox Prices Between Urban and Rural areas – Private Sector

- Higher prices charged in urban and in the most rural zones
- Higher operating costs may explain higher prices in urban areas
- Lower demand for all services offered may explain the higher prices in most rural areas
- With the exception of the most rural areas, there is a weak relationship between the urban – rural classification and price, with higher prices in more urban areas



Conclusions – Markets Served

- Postal Service and private sector meet different market needs which may explain some of the price differences
 - Postal Service – secure delivery box
 - Ideal for mail recipients receiving checks
 - Short-term address for businesses / households that are moving
 - Private Sector – mailbox rental like contracted mail room
 - Legal mailing address for businesses and residency address for households
 - Mail forwarding – domestic and international
 - RV travelers and households with multiple residences,
 - Full mailroom services including acceptance of private sector parcels
 - One-stop-shop for mail room/copy room found in larger company



Conclusions - Pricing

- Wide differences in prices suggests that the Postal Service has little impact on private sector prices
 - Private sector selling more than just a box to receive mail
 - Address characteristics of private mailbox has significant economic value.
 - Private sector prices include full economic costs including the need for retained earnings that Postal Service prices do not.
- Availability of Postal Service boxes to rent may reflect the fact that the Postal Service has chosen to supply far more capacity than the market can consume.
 - In this situation prices are both low compared to alternatives and prices are inelastic.



Conclusions – Pricing

- Postal Service prices may not fully reflect urban and rural cost differences
- Private sector operators appear to be more sensitive to locality-based differences in costs and demand in setting prices.
- Private sector prices do not appear to be designed to maximize mailbox rental sales – not clear that private sector operators want to expand this business service
- Prices may assume that price adjustment is unlikely to significantly affect demand or market share

