



Develop a Competitive Pricing Strategy

Report Recap

The October 2001 report of the Mailing Industry Task Force called on the Postal Service to develop and implement a pricing strategy. In support of that objective, Task Force members suggested that the Postal Service 1) commit to predictable price increases at or below the rate of inflation, 2) streamline the rate-making process, and 3) collaborate with the mailing industry and with regulators to find market-based customized-pricing rate approaches, while protecting citizens' access to low-cost First-Class mail.

"The Postal Service and the mailing industry," observed Gary Mulloy, Chairman and CEO of ADVO, Inc. "cannot prosper if we expect to grow revenue by simply raising prices. We need a pricing strategy that will increase volume and grow revenue and our industry."

The Pricing Vision

The Task Force continues to believe that – as the marketplace changes and competition grows more aggressive – the Postal Service will find itself organizationally constrained, and further at risk, without flexible pricing. The rate-setting process, overseen by the independent Postal Rate Commission and created by the Postal Reorganization Act of 1970, remains virtually unchanged three decades after its inception. The rate "cases" are still expensive and time-consuming, with even minor changes in price requiring an extensive process, costing as much as \$500,000 and demanding a six-month investment of highly-specialized resources. The current pricing process continues to have far-reaching adverse affects.

As the Task Force stated last fall, flexible pricing would benefit the entire industry. Stable, competitive and flexible pricing will draw businesses back to the mail channel for their advertising and correspondence needs. As the principal influence on industry-wide costs, a predictable, responsive pricing strategy for the Postal Service could have a transformational impact.

Progress To Date

Pricing Strategy. The Task Force Steering Committee and its pricing committee members reconfirmed the vision of a pricing strategy for the Postal Service of cost- and market-based rates with prices that change at predictable intervals, and a goal to increase prices by no more than the rate of inflation. Specifically, the Task Force recommended that the pricing strategy shift to meeting market-driven requirements. Aspects of such a shift would include seasonal pricing initiatives and incentives to use the mail more. Also recommended were wholesale pricing for bulk purchases of First-Class stamps, and a reexamination of the delivery standards and processes for full-rate First-Class mail and for discounted, automated First-Class mail. A competitive pricing strategy, noted the Task Force, would ensure citizens' access to low-cost First-Class mail by preserving affordable universal service.

Task Force and committee members supported a pricing strategy initiative launched this spring by the Postal Service. Through the initiative, Postal Service Vice President for Pricing and Classification Steve Kearney told the Task Force, the Postal Service hopes to identify the leading-edge pricing strategies employed in the private sector and other postal administrations, and to determine which components might best be employed in future postal pricing. The Task Force recommended that the Postal Service work closely with its membership in identifying and evaluating such strategies, and in applying them to the pricing principles that will buttress the Postal Service's Product Redesign initiative to be implemented in 2003-2004. "The commitment by the Postmaster General for predictable prices is already there," Kearney told the Task Force.

Streamlined Rate-Setting. The Task Force identified the recent expedited rate case settlement as a precedent for a streamlined model. Phased – or fixed-interval – increases indexed to either the CPI or some other metric should be utilized, the Task Force recommended. Task Force members also called for further study of flat rate increases across all classes of mail, and improved settlement procedures. The members endorsed a proposed conference sponsored by the Postal Service and the Postal Rate Commission to discuss rate-setting and pricing, and urged that the mailing industry be given a significant role in such an event.

Targeted Pricing. The Task Force, after analyzing work being done by Postal Service pricing specialists, recommended that contract pricing opportunities be aggressively pursued, developed and launched as either negotiated service agreements (NSAs) or as cases for niche – or experimental – classifications. As a component of that recommendation, Task Force members have developed criteria for evaluating contract pricing initiatives that would require regulatory approval. Such criteria for NSAs would include the mail's characteristics, how it would generate equal or increased contribution, its cost-saving aspects, its unique attributes, its compliance requirements, and its provisions for confidentiality and expedited due process. The Task Force will offer the Postal Service assistance in identifying candidates for the test NSAs, or experimental rate cases.

Planned Action

The Task Force intends to pursue the following:

- Support a USPS/PRC conference to study the rate case process and alternatives
- Design and implement contract pricing initiatives and other cases (or NSAs) which would encompass most classes of mail
- Evaluate the pricing proposals put forth in the Transformation Plan to ensure alignment with the strategic direction of the mailing industry.

Task Force Process

A committee created to address the Task Force's proposals included industry representatives from JC Penney, ADVO, Capital One, Computer Services Corporation, Fingerhut, the Greeting Card Association, DST Output, Pitney Bowes, Time, Inc., PSI Group and R.R. Donnelley. Co-chaired by Gary Mulloy, Chairman and CEO of ADVO, and by Steve Kearney, the Postal Service's Vice President for Pricing and Classification, the committee was also assisted by several postal executives responsible for both pricing and payment functions. A representative of the Postal Rate Commission also participated in committee deliberations.

Over the course of a series of meetings held in Washington, DC and Windsor, Connecticut, this Industry Task Force committee turned its attention to three areas, and established work groups for each: pricing strategy, targeted pricing initiatives, and streamlining the rate-making process.