

MAILING INDUSTRY TASK FORCE

Develop a Competitive Pricing Strategy

Recommendation Recap

The October 2001 report of the Mailing Industry Task Force called on the Postal Service to develop and implement a competitive pricing strategy. During its deliberations, the Task Force concluded that the Postal Service had to be able to price its products and services with greater flexibility. Members concluded that this could be achieved through expedited rate-setting, market-based elements such as seasonal pricing or product bundling, and predictability. These concepts were discussed at two rate-setting process "summit" meetings, co-sponsored by the Postal Service and the Postal Rate Commission (PRC), held in May and June 2002. In addition, at the urging of PRC Chairman George Omas, the Postal Service and its customers were able to settle the omnibus rate case pending in 2002.

The Task Force applauded the decision by the Postal Service to include development of a "corporate pricing plan" as an objective in its 2002 Transformation Plan. Effective pricing, Task Force members agreed, would help the Postal Service become more businesslike, more efficient and more responsive to the needs of USPS customers.

Since the publication of the Transformation Plan, the Task Force has worked closely with the Postal Service to build understanding of the components of an effective pricing strategy, to develop a process for a negotiated service agreement and to participate in the first Negotiated Service Agreement (NSA) test case.

"The partnership has been extraordinary," said Capital One president Nigel Morris, a Task Force Steering Committee member whose company is the first to sign an NSA agreement with the Postal Service. "The industry has been supportive. The line of sight for a win-win outcome looks better and better."

USPS/INDUSTRY PROGRESS

- ✓ *Competitive Pricing Strategy Development*
- ✓ *NSA Filed*
- ✓ *USPS/PRC Rate-Setting Summits*
- ✓ *Negotiated Rate Case Process*
- ✓ *Customized MarketMail Filed with PRC*
- ✓ *New Periodical Classification Filed and Approved*
- ✓ *DMM Transformation Underway*
- ✓ *USPS/Industry January Meeting on Annual Price Changes*

Pricing Strategy Development. Development of a Postal Service corporate pricing strategy continued during the past six months. USPS Pricing Vice President Steve Kearney briefed the Task Force on the current strategy concept, which has three principal components:

- Simplify rates and services for consumers and small businesses
- Customize rates and services for large customers
- Price to discourage costly behaviors and fully cover costs

The Task Force asked for clarification on where worksharing fit into the strategy, and Kearney explained that pricing associated with worksharing would be an aspect of customized rates. Each pricing strategy component has associated with it initiatives either in development or already in implementation.

Pricing Simplification Initiatives. The Task Force supports three simplification efforts:

- The revision of the Domestic Mail Manual, to make it easier to understand, more accessible to the consumer, and available in other languages. [A Customer's Guide to Mailing](#) is the first iteration of the new approach

and there are plans for a Spanish edition of the Customer's Guide. The next version of the transformed DMM, A Guide to Mailing For Businesses and Organizations, will be distributed starting in April.

- A flat rate Priority Mail box. This could open new access and partnership opportunities, and seems aligned with efforts supported by the Consumer Gateway Services work group.
- A “forever” stamp. A non-denominated stamp, unaffected by rate changes, could have value to citizen mailers and be a new source of revenue.
- Creation of a Premium Forwarding Service. This service would provide benefits to both customers and businesses through extended mail-forwarding periods.

Pricing Customization Initiatives. The Task Force supports three customization initiatives:

- Negotiated service agreements building off the experience and lessons learned from the NSA between the Postal Service and Capital One Services, Inc., its fourth largest customer and the largest single producer of First-Class Mail. That NSA is expected to be ruled on by the Postal Rate Commission in April. The principle behind the current NSA model is to create incentives to build mail volume.
- Customized Market Mail. The Postal Service has filed a proposed rule change that would allow direct mail customers the opportunity to customize the shape and design of their mail pieces to allow for unique, high-impact advertising pieces. Because the entry takes place at the delivery unit, a high degree of customization can be made to fit the Postal Service's operations network.
- Parcels Return Service. The Postal Service is working to create a customized solution for large parcel shippers to handle their returns. Working with private sector partners, the USPS will create a more reliable and economical returns solution for large volume shippers with commercial pricing.

Pricing Behavior Initiatives. The Task Force supports two behavior-modification initiatives:

- Periodicals co-palletization. A new classification in support of co-palletization was filed with the Postal Rate Commission last November. When approved, it should increase volume and contribution to the Postal Service, and reduce mailers' costs.
- The NSA as a driver of new behavior. As NSAs expand into industries like telecommunications and insurance, processes for moving mail into new classes and increasing volume will become standardized.

Streamlined Ratesetting. Task Force members supported last year's negotiated rate case settlement, and are working to ensure that rates and classification changes continue to be implemented in timely, responsive fashion. The issue of phased-in rates remains a concern of the Task Force.

Pricing Committee Hiatus. Over the previous six months, the Pricing Committee has not met. The Steering Committee has continued to work closely with USPS and the industry to monitor and advise on pricing initiatives and strategy.

FUTURE ACTIONS

The Task Force intends to pursue the following:

- Continued collaboration with Postal Service pricing specialists to develop pricing strategy components and supporting initiatives.
- Identification of candidates for future negotiated service agreements.
- Support for consumer-focused pricing initiatives.
- Direct its pricing subcommittee to meet on an as-needed basis.

PRICING COMMITTEE MEMBERSHIP

The Task Force subcommittee on pricing includes members from JC Penney, ADVO, Capital One, Computer Sciences Corporation, DST Output, Pitney Bowes, PSI Group, Quebecor World, Time Customer Service, Inc., and R.R. Donnelley. The subcommittee is chaired by Gary Mulloy, chairman and CEO of ADVO, and by Steve Kearney, the Postal Service's Vice President for Pricing and Classification. A representative of the Postal Rate Commission also participated in committee deliberations.