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# Faculty & Research Working Paper

Pricing practice in the postal industry:  
Current approaches and challenges under  
liberalization

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# **Pricing practice in the postal industry: Current approaches and challenges under liberalization**

Research paper

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By

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## Content

1. Research summary.....	3
1.1. Key findings .....	4
1.2. Conclusion.....	5
2. Introduction.....	7
2.1. Research approach and methodology.....	7
2.2. Status of liberalization and relevance of pricing after full market opening.....	8
3. Findings on pricing practices of European postal incumbents .....	12
3.1. Pricing framework .....	13
3.2. Pricing processes.....	17
4. Conclusion – Lessons learned and recommendation on pricing practices.....	22
4.1. Harmonization with corporate strategy and alternative options for pricing .....	22
4.2. Split of pricing organization's tasks on operative and strategic level.....	24
4.3. Customer oriented market models, as core pricing method.....	25
4.4. Support of data analysis with consistent technological background .....	26
4.5. Advanced market analysis to gain insights on elasticity and customer demand ....	26
4.6. Price structure by customer segment and product demand.....	29
4.7. Identifying and exploiting sales potential by value-based price implementation.....	29
4.8. Monitoring by pricing KPIs and by scorecard for internal functionalities .....	30
5. Concluding remarks .....	30

## **1. Research summary**

Challenges facing the European postal industry are greater than ever before. The approaching full market opening in 2011 and 2013 will be the central factor driving commercial developments, where new market entrants – without the burden of the universal service obligation and additional social responsibilities as one of the largest employers in their domestic markets – will have the possibility to attract large volume B2B/B2C mailers away from incumbent national postal operators, and especially on the high-margin, high-density urban areas.

Traditional bulk mailers such as financial service providers, telecom companies and utility service providers, which are themselves under pressure to maintain their revenue streams and/or decrease operational costs, will search for cost efficient mailing alternatives and thereby foster postal competition. Substitution through electronic/hybrid communication is also a continuing major force cutting into transactional mail volumes.

Understanding customer demand and the development of customer oriented solutions will become central issues for postal operators. Part of this customer orientation will be a shift in pricing policies, which today are often considered as purely a regulatory determined component in the revenue equation, with the primary focus of commercial activity being on volume development rather than on innovative pricing and billing practices.

As postal operators are dominant market players in domestic mail markets, full market opening will not mean the absence of regulation. To the contrary, strong supervision will limit their margins in price definition for universal service products, which have complex interactions with bulk mail products. Thus, a major challenge facing European postal operators besides competition is how to retain market share and price level simultaneously.

### **Objective, approach and scope**

Price will be an important influencing factor for customers when new entrants with similar service levels appear. Therefore in this study we undertake to analyze current practices of postal operators and, together with the study participants, formulate key lessons on what should be part of preparation for full market opening in terms of market-oriented pricing.

The study was realized in three stages. We first overviewed major trends on the European postal market with an eye on the role of pricing in a liberalized environment. As a second step, through structured interviews with selected operators on current and planned pricing practices, we attempted to understand current approaches to pricing strategies. Finally, by a comparison of results on a regional level, we formulated key lessons learned. Marketing, strategy and pricing experts of incumbent postal operators were visited personally or interviewed by phone. In all cases we applied the same interview structure, which was focused on the underlying pricing framework and on pricing processes.

Under “pricing framework” we evaluated the pricing strategy, the organizational structure in place for dealing with pricing issues, the methods facilitating pricing decisions and the supporting technology. “Pricing processes” summarized the practices on pricing activities, including market analysis, pricing structures, implementation and monitoring of pricing outcomes.

The research scope included European postal operators facing various stages of market opening. Altogether we interviewed 17 incumbents; for confidentiality reasons the study

results were synthesized into Eastern and Western European practices in order to disguise the individual responses.

## **1.1. Key findings**

### **Pricing framework**

As a general note, operators in Central and Eastern Europe did not have as well developed approaches, strategies or methodologies for marketing and pricing as operators in Western Europe, all of whom have seen significant increases in competition under the 2<sup>nd</sup> Postal Directive and have markets which are relatively more attractive for entry after 2011. For these reasons, these operators have already begun significant initiatives to revamp their marketing strategies and organizational processes.

While responses of postal operators show a great diversity concerning the status of market opening, level of competition and ownership structure, some key findings can nonetheless be noted on the pricing frameworks currently implemented.

Strategy, the starting point for discussing pricing practices, shows an ambivalent picture. Countries less exposed to competition consider pricing as fundamentally defined by regulation and have made less effort to harmonize pricing strategy with the overall corporate strategy. Operators in more advanced markets have realized the importance of pricing and have devoted considerable resources to exploring customer preferences, underlying drivers for switching postal service providers and, based on this market research, on formulating a pricing strategy in line with corporate objectives.

Organizational structures face the dilemma of centralized, supervisory functions versus close-to-market, business-line related pricing tasks. There is a real split among postal operators concerning where organizationally marketing competencies should be located. About half the respondents believe pricing organizations should be in specific business lines (retail mail, bulk mail, parcels, etc.) to guarantee market orientation. The other half of the respondents believe that marketing competencies should be located centrally, with perhaps some matrix extensions into individual business lines, with the argument that company-level competencies are crucial in harvesting synergies and avoiding business line tensions in product pricing. There is a clear trend towards pricing units developing stronger marketing and customer-focused research orientation rather than the traditional organizational alignment of pricing being a unit joint of the operator's financial/regulatory department.

Methods for price definition show signs of development towards more advanced approaches. Complex market models are still in early phase, but there are selected examples of transactional level detailed simulation methods, including monitoring and modeling of actual and potential competitors.

Technology supporting price-related decision making has been a major bottleneck due to the fragmentation of customer databases. Introduction of mail processing related technological developments, such as capturing information from bar-coding of postal items that can be aggregated in various forms useful to the operator and customers, is expected to contribute to value monitoring and sophistication of billing support services and pricing.

### **Pricing processes**

Review of pricing processes used by operators showed the growing importance of advanced market analyses and innovative techniques for better understanding customer knowledge and expectations of products and definition of pricing accordingly.

The process by which market analysis is presently structured shows large gap among posts in the level of sophistication, frequency and analytical tools. Even though customer data is gathered through billing systems and sales teams, advanced statistical analysis exploring product utility and trade-off willingness of customer segments is not undertaken on a routine basis. Operators more exposed to competition have begun to place higher emphasis on market analysis.

Price structures range from standard tariff disclosure to reasonably detailed customer focused tariff structures, anchored on knowledge of customer preferences. Both approaches are uniform and non-discriminatory, partly driven by requirements in the EU Postal Directive, but the customer focused approach supports more efficient customer development by recommending value added services.

Communication of pricing policies to customers is clear and transparent, perhaps because of its uniformity. However, more detailed billing information on customer coverage, delivery patterns, service quality levels achieved and other matters of potential to customers, could better explain and justify prices to customers, and would itself be of considerable value to many customers. Internally, implementation of pricing policy towards sales is still volume driven, with less focus on overall value created.

Monitoring tools include periodic review of customer satisfaction. However, key pricing performance indicators, e.g. price elasticity of customer segments and likely responses to competitor actions, are rarely analyzed. Interviews with lost customers to determine their evolving needs and expectations and to understand churn motives has also unused potentials in most cases.

## **1.2. Conclusions**

The interviews with the 17 operators and experts from the postal industry lead us to the following key recommendations for European postal operators in preparation for market opening:

1. Pricing strategy has to be linked to overall corporate objectives and evaluation of various pricing alternatives must be harmonized with product definition, line of business strategies and the projected regulatory framework
2. Pricing organization's operational function should be to understand and monitor market developments for individual lines of business and customer segments, while marketing strategy should be directed toward responding to competition and toward new product innovation, while assuring consistency across business lines
3. Price definition should be based on pricing models, which incorporate market inputs, including customers, competition and regulatory framework and should determine price recommendations and switching propensities by market segments, even when pricing across these segments does not vary
4. A reliable data and IT infrastructure is a prerequisite for fact-based price definition and this infrastructure should integrate transaction data and customer billing systems with qualitative data sources and customer surveys
5. Market research tools should be used, beyond elementary monitoring, to provide insights on customer trade-off willingness concerning the utility of product attributes for existing and new products, and on customer-oriented billing and pricing

6. Pricing structure should reflect the market structure and competition, with tailored offers for the public and corporate segments exposed to competition, and for important sub-segments of each of these major segments
7. Customer interaction should move beyond traditional passive monitoring and tracking to be viewed as a proactive means of uncovering additional sales potential and cross selling opportunities across existing products, reflecting the required customer focus and value orientation of the sales and marketing team that will be required under competition
8. Key pricing performance indicators, following a balanced scorecard approach, should be developed to provide a means of understanding the effectiveness of an operator's pricing approach and to support early detection of market trends

## **2. Introduction**

### **2.1. Research approach and methodology**

In this study we review market oriented pricing practices of selected incumbent operators and derive lessons learned based on the findings of current pricing practices. The study structure follows a three-step approach:

- Status description of European postal market liberalization and relevance of pricing
- Review of market-oriented pricing practices of postal operators
- Formulation of lessons learned on pricing practices and recommendation

In the initial phase of the study we briefly review milestones of postal liberalization, evaluate key trends and analyze why a move towards market orientation in pricing is required. For that we review European Commission studies and academic sources and describe the value shift in the postal industry associated with market opening.

As the next step in the study, we interviewed a majority of European postal operators to understand their current pricing practices. Because of significant differences between Western and Eastern European operators, we conducted a comparative assessment separately at each regional level (details of which will be specified further below). We focused on the capabilities of the operators to realize state-of-the-art market-oriented pricing. The structured interview approach allowed us to gain comparable insight on issues operators believe are important in pricing and what current initiatives are being pursued to improve pricing.

Finally, based on the postal interviews, we identified major trends in pricing practices and formulated recommendations for best practice based on both existing marketing approaches in the postal sector as well as in other sectors. The study was completed with a cross-validation of the findings with selected experts from the postal industry.

The interview structure was elaborated in close cooperation with the Pricing Practice Group of Roland Berger Strategy Consultants. This was done to ensure a tested pricing review approach, adapted to the specificities of the postal industry. The review approach developed by Roland Berger starts with the evaluation of an operator's pricing framework, summarizing the enablers of pricing within the company, including strategy, organization, methods and technology. Based on this framework, the second level of review is focused on pricing processes, market analysis, pricing structure, pricing implementation and monitoring.

## Interview approach and content

### PRICING FRAMEWORK

- **Strategy**
  - Consistency of pricing strategy with corporate strategy in the short-, mid-, and long-term
- **Organization**
  - Organizational set-up and competencies of the pricing unit
- **Methods/Research**
  - Methodological framework underlying pricing
- **Technology**
  - Technological infrastructure for data acquisition, structure and use

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PRICING**

### PRICING PROCESSES

- **Market analysis**
  - Operational processes for data collection/analysis
- **Pricing structure**
  - Pricing models in use for identification and valuation of customer characteristics
- **Implementation**
  - Communication and consistency of pricing, both external and internal
- **Monitoring**
  - Measurement of pricing outcomes in the market and within the company

Interview results were computed into a database and structured by geographical regions to ensure confidentiality of individual answers. Interviews were semi-guided discussions; the aim was to evaluate the statement described in the question set by the applicability to the operator and to jointly identify recommendation for the study. The study scope included 17 European postal operators, 7 from Western Europe and 10 from Eastern Europe.

## Processing of the interview results

### Structured interview approach

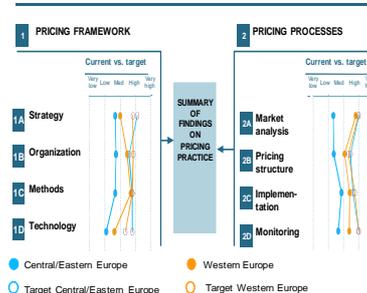
- Pricing practice was reviewed by subtopics under pricing framework and processes
- Each subtopic consisted of a set of statements on a) current status b) target status c) measures taken to reach target status – In total 39 statements and comments

### Data structuring



- Due to data confidentiality, interview results were aggregated across European operators
- Western European and Eastern European geographical clusters served to distinguish regional patterns in pricing

### Evaluation of practices

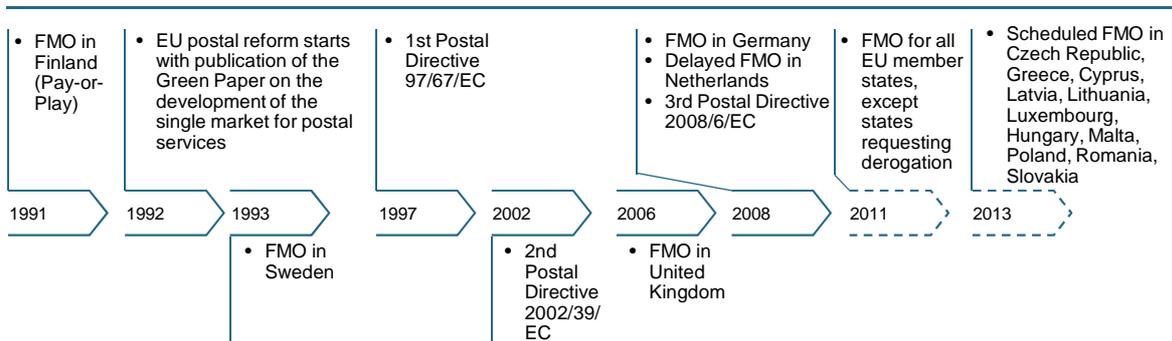


- We reviewed pricing practices by assessing the performance of each postal operator on a set of pre-specified practices
- Final results show competence and performance of operators in regional clusters

## 2.2. Status of liberalization and relevance of pricing after full market opening

The Third Postal Directive, approved in 2008, will complete a two-decade long discussion and evolution in the European Union towards full market opening. Still, even though the dates – for 2011 for most and 2013 for some countries which requested a derogation – are fixed, local country-specific regulation can still pose significant differences in the implementation of the directive. This explains the reason the level of competition in liberalized postal markets differs significantly.

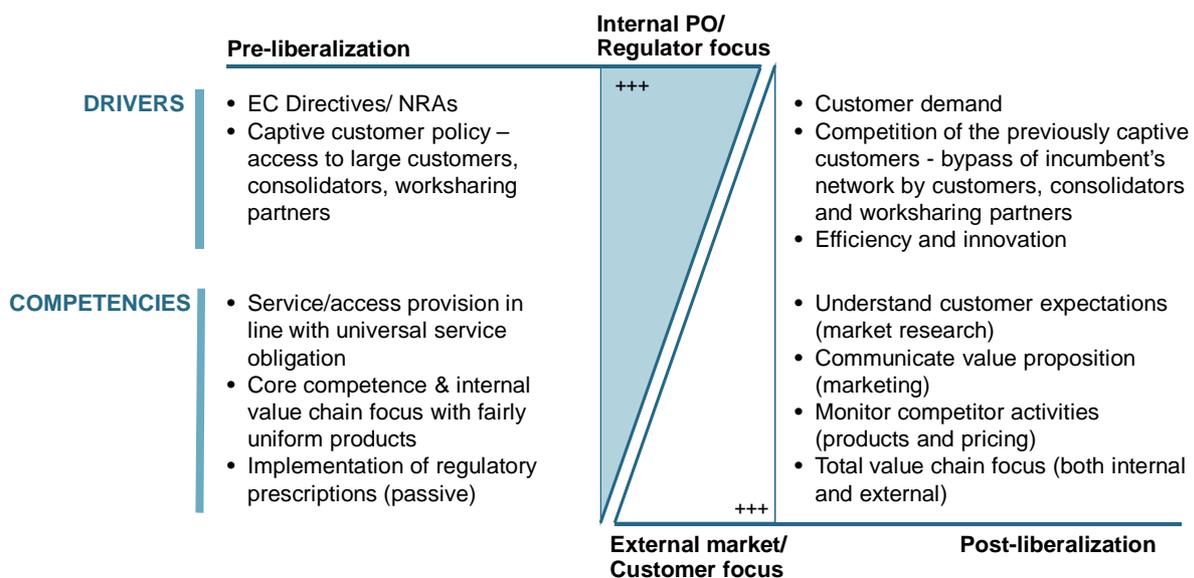
## Milestones of full postal market opening



We can observe that depending on the country-specific regulation, incumbents may lose 1-20% of volumes to entrants, especially in densely populated areas and in B2C/B2B mail flows. A recently published EC report<sup>1</sup> notes stagnating volumes, infrastructural barriers, and VAT exemption of incumbent operators as major barriers for increased competition.

Liberalization will trigger incumbent postal operators not only to reach the EC goal of a common postal market, but also push operators to become more customer oriented. As pricing continues to be rigorously regulated for universal services as dominant market players, customer orientation in pricing at operators with universal service focus has been slow to develop. A shift towards customer orientation brings both new business drivers and requirements for new competencies. In a post-liberalized market, customer demand, competition for the previously captive customers – including consolidators and worksharing partners – become major industry drivers. New competencies required will include those necessary to understand customer expectations through market research and to communicate effectively the incumbent's value proposition through marketing.

Shift from a regulatory driven to a customer driven approach in the postal industry



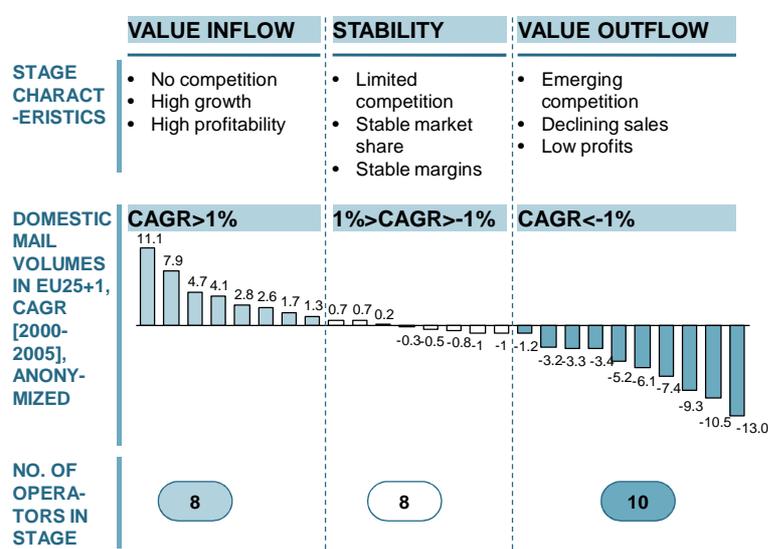
Source: INSEAD, Roland Berger

## Value migration in the postal industry

The need for increased customer orientation can be well described by transplanting the value migration concept<sup>2</sup> to the postal environment. According to this concept, value migrates from outdated business designs to new ones, which better serve current customer needs. The market share gains of new entrants in liberalized markets and the electronic substitution for traditional mail products is an important illustration of the concept in the postal sector.

Taking a closer look at domestic mail volumes, we already see the process of value migration. Nearly an equal number of the 26 European postal operators are in each of the three stages of value migration (value inflow, stability, value outflow), which characterize the value creation power of a certain business operation.

### Stages of value migration in the postal industry



Source: Slywotzky, Adrian J. : Value migration, UPU statistics, Roland Berger analysis

The reasons for postal value migration can be described by four drivers, whose strength will probably increase as we progress toward full market opening:

1. Increasing price sensitivity: Customers become more sensitive to cost and if a more cost efficient, high quality substitute is available, switching readiness increases
2. Emerging competition: Increasing numbers of competitors with competing service offerings are available in the postal industry
3. Efficient alternative business models: New entrants show efficient operational models, less fixed labor cost structure and consequently lower prices
4. Low switching cost barriers: Mail services are considered by many customers as a commodity, with no major investment required on their part to change postal service provider

New entrants in liberalized markets benefit from migrating customer values and attract new customers with flexible business models and lower price offering. Examples for offering lower prices by competitors can be found in Germany (20%) and United Kingdom (9%).

Currently, incumbents have a clearly favorable position in terms of network coverage, service level, product offering or reputation which counterbalances the price advantage of alternative operators. As soon entrants can improve service quality and clearly communicate it, price will become a more decisive factor.

Relevance of pricing – a major field of competition on a liberalized market

#### Factors of competition in a liberalized market

Factor	Incumbent position	Competitors position	Reasoning	<b>CONCLUSIONS</b> <ul style="list-style-type: none"> <li>• Network coverage, consistent service levels, &amp; broad range of products are the incumbent's primary advantages</li> <li>• Competitors have a price advantage due to lower fixed costs &amp; overall lower labor costs</li> <li>• As soon competitors can maintain consistent service levels, price will become a more decisive factor for customers</li> </ul>
<b>NETWORK COVERAGE</b>			<ul style="list-style-type: none"> <li>• Incumbents have full country coverage</li> </ul>	
<b>SERVICE LEVEL</b>			<ul style="list-style-type: none"> <li>• Competitors show network covering/quality issues</li> </ul>	
<b>PRODUCT OFFERING</b>			<ul style="list-style-type: none"> <li>• Product offering in both cases is still incumbent-driven, less by customer interaction</li> </ul>	
<b>BRAND/ REPUTATION</b>			<ul style="list-style-type: none"> <li>• Incumbents are well established brands</li> </ul>	
<b>PRICES</b>			<ul style="list-style-type: none"> <li>• 15-20% lower price levels on bulk products</li> </ul>	

Strong    Weak  
 Source: Roland Berger

#### Pricing: Core questions prior to full market opening

Approaching liberalization, market development, value migration and emerging competition all lead to fundamental questions on pricing. In our report we sought to identify the perceptions of postal operators as to challenges they face in pricing in the new environment:

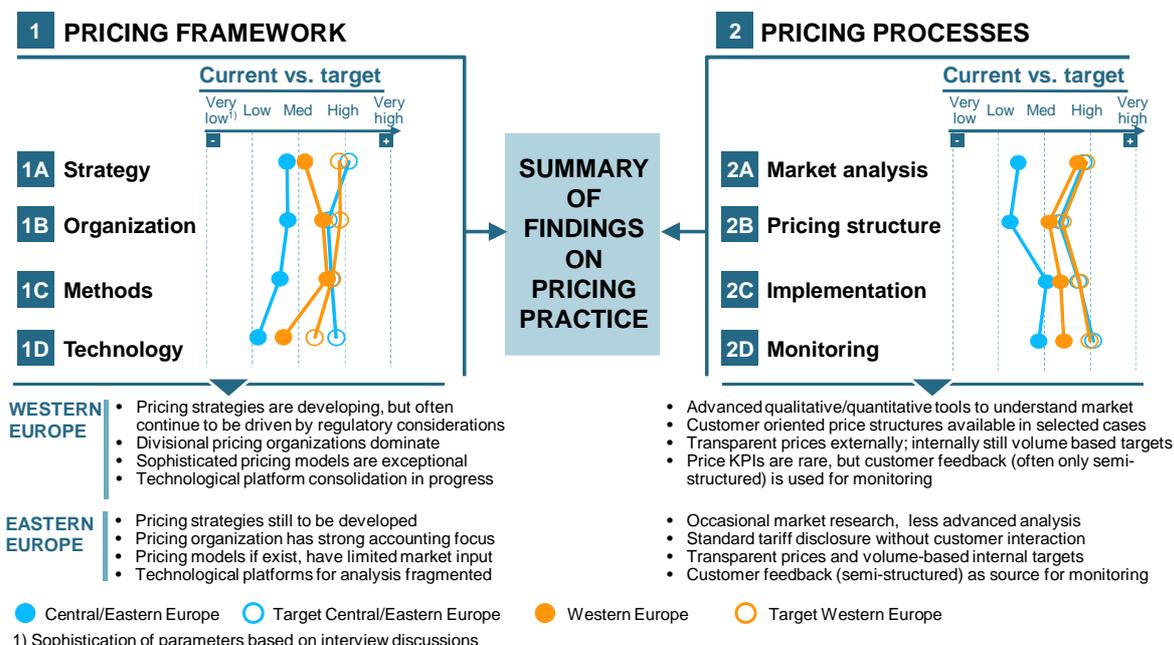
- How is pricing strategy defined and what are alternative options?
- What is the current organizational setup for price definition?
- What models, methods and procedures are used to analyze and support competitive pricing decisions?
- What technology supports pricing decisions?
- To what extent are market characteristics explored and what is the toolbox for this analysis?
- How are pricing structures for various customers groups designed?
- What tools are used to communicate pricing and value propositions to customers (externally) and to the sales team (internally)?
- How are price developments monitored in terms of their effects on customers, profitability of the operator and their impact on competition and market development?

### 3. Findings on pricing practices of European postal incumbents

This section describes the findings derived from the 17 interviews with postal operators. The results pinpoint areas where postal operators aim to improve their market orientation in pricing. The first finding is the difference by Eastern and Western European pricing practices. The reason for this gap is probably the exposure to competition. Entrants prefer high volume and high density areas, which are more to be observed in Western European countries. The other interesting finding is that despite the fact that there is a large gap between current practices in the two region, target levels of future performance look similar.

Taking a closer look on the results, major gaps in practices on the pricing framework side are in organizational and methodological aspects. In the pricing organization, regular training on market oriented pricing and the development of competencies through hiring experienced marketing professionals from other industries exposed to competition is not yet a common practice. The gap in the methods used is explained by the different practices in the application of marketing models and in the early integration of customer demand in the product – and indirectly – price definition.

Pricing processes also illustrate a gap between Eastern and Western European operators, with major differences in approaches to market analysis and pricing structures. Frequency, focus, tools and depth of market analysis shows a great variety: In some instances, operators use sophisticated marketing tools such as conjoint analysis to measure relative utility of mail products, whereas in other cases understanding of customer demand is realized through ad-hoc and less sophisticated customer polls. A new trend to be observed in advanced markets is greater emphasis on communication of prices and product offerings, exhibiting a considerable shift from a sole standard tariff disclosure to interactive customer communication. The latter enables better understanding of customer demand as well as providing an identification of additional sales opportunities.



In the next section we review in detail our findings on pricing framework and processes and describe the results of all 39 issues/practices that made up the interview assessment. Our results show the current and target status by region.

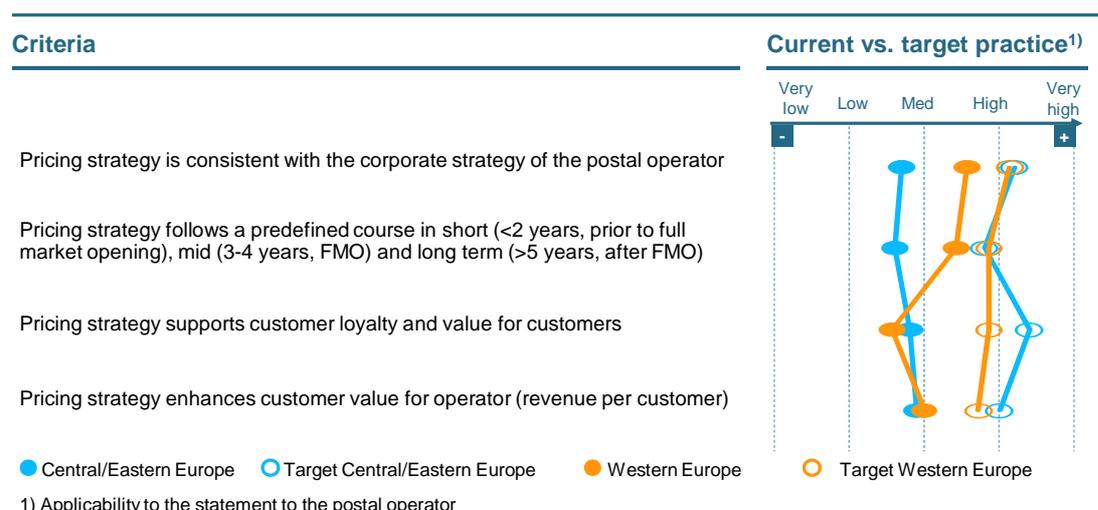
### 3.1. Pricing framework

#### 3.1.1. Strategy

##### Objectives

This section aims to examine the link of pricing strategies with overall corporate goals. We also discuss the evolution of pricing strategies over time (before market opening, during the first years and in long term) and the capability of postal operators to retain customers and foster growth of customer value by supporting sales of additional services.

#### PRICING STRATEGY EVALUATION



#### Findings in Western Europe – Need to link pricing with corporate strategy

Postal operators are aware that pricing should be an integral part of corporate strategy enhancing the long-run profitability of the operator. Simultaneously, both competition and regulators will provide pressures to assure conformity of prices with a cost-based approach, as defined in the Postal Directive. A critical perceived need is the development of pricing alternatives to remain competitive against new entrants with favorable cost structures is a top priority.

Pricing strategies are clearly undergoing an evolution in light of immanent market opening, with the new focus on increasing customer loyalty and extending service offering through product innovation, e.g. to encompass or enhance financial or broader communication services. Focus on these product synergies and on enhancing the operator-customer interface have the potential to increase value of each customer decrease customer willingness to change operators.

#### Findings in Eastern Europe – Focus on customer loyalty

So far less exposure to competition is probably the explanation why pricing strategy and corporate objectives are less integrated. Implementation of market-oriented pricing and focus on mid- and long term effects are in early phase. However, the need for improvement is clearly identified. The main task seen by operators is to estimate the scope of future competition, improve operational efficiency and develop attractive and profitable pricing schemes to retain customers.

As pricing for universal services is regulated, linkage to the value chain of customers and the development of hybrid products is considered as a means for increasing loyalty and

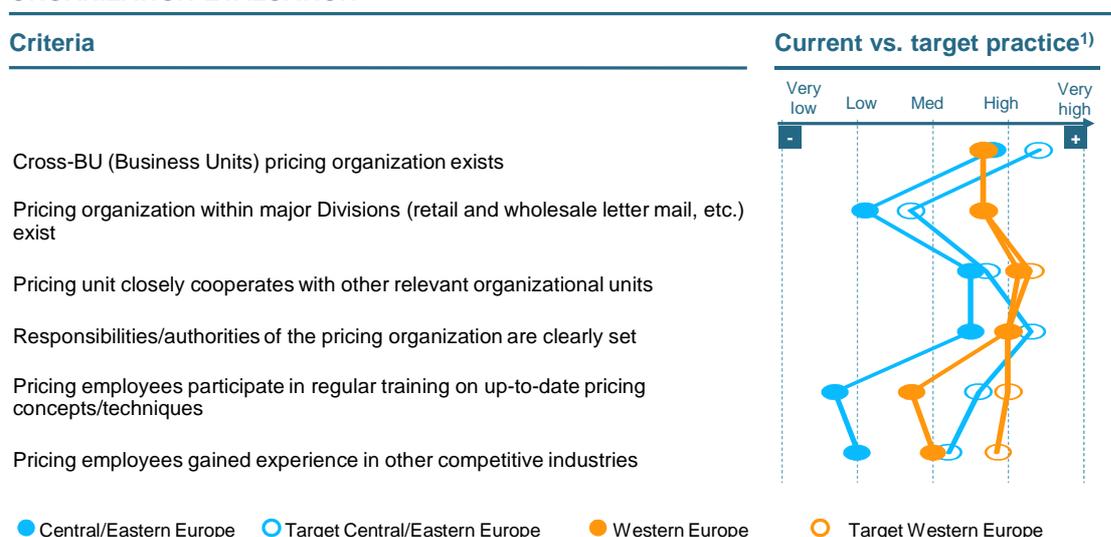
customer value. Alternative business models and their pricing counterparts, such as flexible collection and delivery networks, are not yet in evidence.

### 3.1.2. Organization

#### Objectives

The location of the pricing unit(s) in the organization has multiple options, ranging from business units to central functionalities and from departments whose primary function is regulatory policy to marketing. This section analyzes where pricing units are located, what responsibilities they have and what characterizes their relationship to other organizational units. Finally we reviewed the way operators acquire external competences through training and hiring.

#### ORGANIZATION EVALUATION



#### Findings in Western Europe – Close cooperation with marketing and hiring from industry

Increasing market orientation of the pricing organization is supported by the trend that these units are either part of a marketing strategy group or work closely together and process inputs from marketing professionals. In the mean while, the views on whether the pricing unit should be located in the business divisions or at the company level differ.

Centralization is preferred to control and coordinate Business Unit operations, accumulate knowledge on market trends and to reach scales in training on market-oriented pricing techniques. Decentralization promotes proximity of business units and their products to the market and greater understanding of customer demand.

In some cases, a mixture of the above two models is practiced (with both some centralized expertise as well as expertise in various business units) to ensure a harmonized product and pricing portfolio overall for the company, while gaining market insights from the Business Units. Concerning education, majority of operators refresh their pricing competence by hiring employees with market oriented pricing competences or graduates from universities.

## Findings in Eastern Europe – Location and tasks of pricing still to be consolidated

Many operators faced both organizational and operational restructuring recently, which also affected their pricing units in terms of size, roles and location. Still, in some cases pricing is part of a centralized regulatory, financial or controlling unit and has little interaction with marketing.

Developments in general, however, show a greater orientation towards marketing, but focused on the corporate level. Share of centralized and decentralized pricing organizations is about equal, but the target tendency shows centralized units to be more preferred.

Training and education of employees in competitive pricing methods is seen as a major task. Most pricing employees have a long track record with their current operator and have acquired strong skills in regulatory pricing. Hiring of employees with market-oriented skills is in an early phase.

### 3.1.3. Methods

#### Objectives

Our aim in this section is to analyze the tools used as inputs for pricing decisions. In the interviews we discussed the level of application of surveys for identifying price elasticity, frequency of models for simulating market developments and the involvement of customers in pilot projects on price setting.

#### PRICING METHODS EVALUATION



## Findings in Western Europe – Exploring customer demand already at product development

Western operators rate their pricing methods overall as reasonably sophisticated and in line with their target status. Customer orientation is strongly represented. Some operators act similarly to automotive suppliers in terms of integrating customer expectations already in the product/price development phase and discuss expected product features and willingness-to-pay for various product features.

Competitive market modeling is still not standard practice among operators. Only in exceptional cases do pricing models in use have market/competitive simulation capabilities. Some market models in use allow an integration of the analysis with transactional level data, including analysis of the development of individual customers, customer segments and forecast customer mailing potential based on industry benchmarks.

## Findings in Eastern Europe – Limited tools for market testing

Comprehensive modeling is not a high priority for postal operators. Exposure to less competition resulted also in lower investments in developing sophisticated pricing models. Besides limited competition, the strong regulatory focus is also responsible for the lower level of development of market modeling methods. Interestingly, the application of advanced techniques is not rated as a priority for future enhancements/targets.

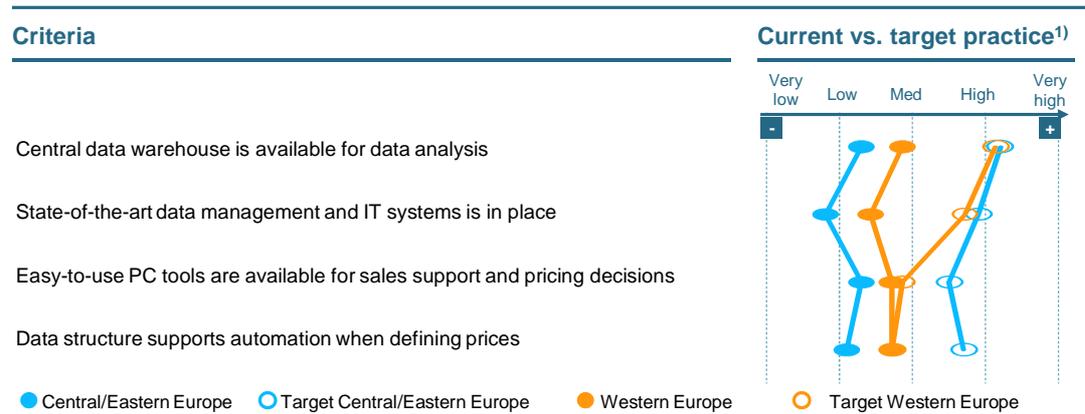
Major barriers mentioned in discussing the reasons for not using pilots and involving customers in product/price definition include the regulatory burden on price definition and the operators' belief that pilot introduction of products to selected consumer segments may be viewed as discriminatory by their regulators.

### 3.1.4. Technology

#### Objectives

Practical pricing models can only be built on reliable and detailed customer data. The technology infrastructure of postal operators is often a major bottleneck in analyses supporting pricing decisions. For this reason we dedicated a part of the interviews for technological review, including the availability of central data warehouses, IT systems for data management and solutions supporting automation in pricing decisions.

#### PRICING TECHNOLOGY EVALUATION



## Findings in Western Europe – Data availability a major concern

The interviews revealed that technology infrastructure for price analysis is a weak point among most operators. Billing and CRM systems were developed over time and the design and structure of these legacy systems has not facilitated pricing related analysis. However, mail processing developments, such as capture of transactions data from bar-coding equipment, are finding increasing use to support the analysis of mail flows and these developments should provide improved inputs on mail flows and cost-based price definition.

The dilemma operators face on pricing related technological developments is whether the investment into complex pricing will have a positive return. In particular, advances in mail automation and their more detailed inputs into pricing have yet to be proven in the eyes of many respondents, at least relative to the ability to replace current analytical work, which is not yet based heavily on real-time transactions data.

## Findings in Eastern Europe – Same patterns as in Western Europe on data status and automation

Operators see improvements in their current technology infrastructure to support pricing decisions as critical. In particular, data support for competitive price definition are considered as in need of significant improvement. Data structures are fragmented, especially across qualitative and quantitative sources. PC tools are rather limited to spreadsheets for customer segment analysis and competitive pricing decisions.

This weakness has already been identified and most operators are setting up new data warehouses and acquiring advanced modeling techniques for data analysis. Automation in price definition is not in evidence. However, it is rated as important as a the target.

### 3.2. Pricing processes

#### 3.2.1. Market analysis

##### Objective

All operators perform some sort of market analysis, but there is great diversity in the methods used. This section reviews the fundamentals of market analysis at postal operators and explores the extent to which customer data is gathered, how it is analyzed, the sophistication of market analytical tools and to what level these data, tools and methods support the postal operator in identifying additional sales potential for various customer segments.

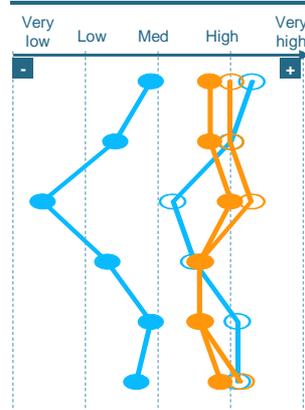
#### MARKET ANALYSIS EVALUATION

##### Criteria

- Customer data are gathered through all existing customer contact points (post offices, sales staff, etc)
- Data is regularly and systematically analyzed for a range of criteria (customer type, customer/product lifecycle, comparison to peers, etc)
- Innovative statistics are used to identify customer demands (e.g. Conjoint analysis)
- Consistent methodology is in place to track the coherence of sales, price and profit data
- Customers are segmented based on price relevant criteria
- Customers price elasticities, loyalty and cross-selling potential are understood based on segmentation

● Central/Eastern Europe    ○ Target Central/Eastern Europe    ● Western Europe    ○ Target Western Europe

##### Current vs. target practice<sup>1)</sup>



## Findings in Western Europe – Sophistication in data analysis

As competition increases in liberalized segments, operators are placing more emphasis on exploration of market and customer expectations. Information is gathered through various data sources and regularly analyzed by customer segments. Both internal organizational units and external partners are commissioned for market analysis. The results are viewed as important input for product development.

Operators are split in terms of analytical techniques used. There are examples of regular advanced marketing researches by customer segments; others focus on identifying key

accounts needs and researching this segment. In all cases, key accounts sales potential is considered to be known and operators focus on one-stop offerings, as a retention factor. Further development is seen in exploring the SME segment with similar market analyses.

### Findings in Eastern Europe – Frequency and depths of analysis to be improved

Market orientation can already be observed by the regular data analysis and the ad-hoc nature of market research. Holistic approach at the company level on market analysis, corporate intelligence or dedicated market analysis units are not common.

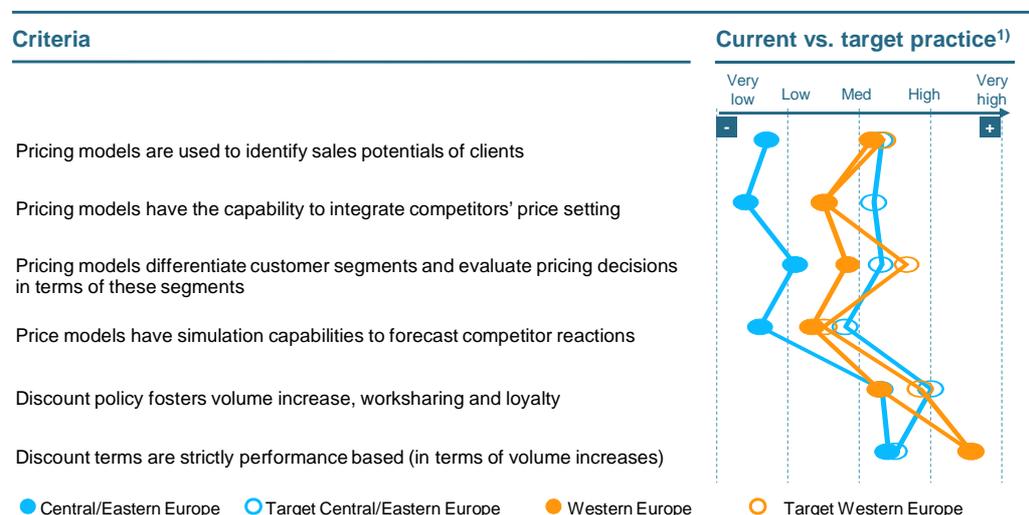
Market research typically reviews developments, market size, but does not go into customer expectations on product characteristics (delivery, collection, price, etc.). The studies focus on specific issues (e.g. attractiveness of hybrid products) and are commissioned by specific business divisions. Advanced methods are not in evidence in determining trade-off willingness or product utility among service attributes, or other elements of advanced pricing models.

#### 3.2.2. Pricing structure

##### Objective

In this part we analyzed practices of postal operators in the utilization of pricing models for identification of customer segments and setting prices based on these segment-specific models (of cost and value). We also discussed whether there are capabilities to forecast market/competitor reactions and whether currently applied volume (or other attribute-based) discounts are considered as a supportive tool for increases in segment volumes and individual customer sales.

#### PRICING STRUCTURE EVALUATION



### Findings in Western Europe – Diverse approaches in market oriented price structures

Approaches for pricing models show examples for methods that are based on sophisticated data management and models. In such an approach, all sales data by customer type/groups is computed for past years and simulation allows one to understand the differential impact of specific pricing regimes on various customer segments. A more traditional (qualitative)

approach is that it is the responsibility of the sales force to understand market tendencies and competitor reaction.

Discounts are in all cases strictly performance based without exceptions. However, the level of discounts is not considered sufficient to be a fundamental driver of market share. Current discounts are capped in many cases by regulation, which is seen as a disadvantage compared to new entrants after full market opening. Similar comments apply to restrictions on the structure of access pricing, which operators believe will be a fundamental determinant of entrant strategies and markets shares after full market opening.

### Findings in Eastern Europe – Competitive price structures still to be developed

Pricing models are in early phase, which is explained also by the lack of competition and the strong regulatory focus. In case models do exist, these have no capability to simulate competitor reaction and nor to show segment-specific results.

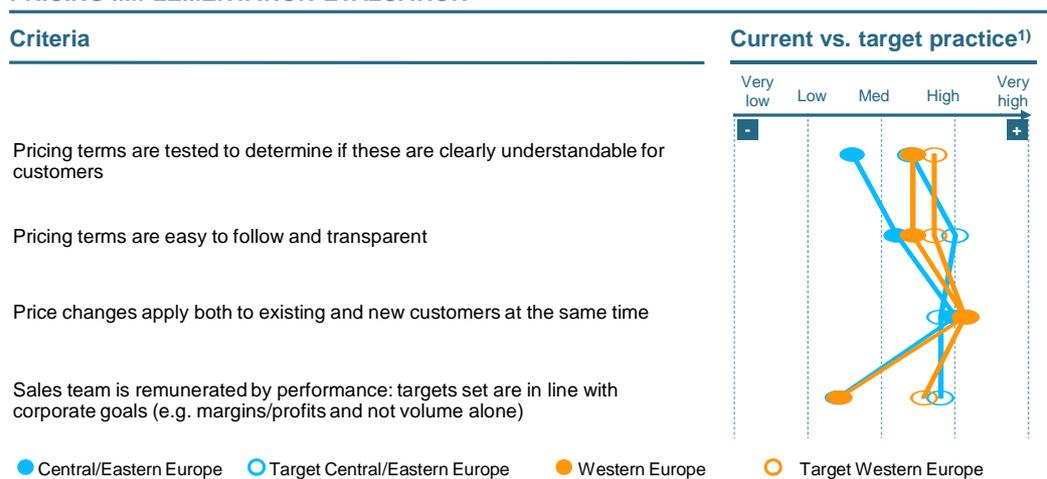
Discounts are based on volumes and the extent of worksharing in the mail tendered, and are non-discriminatory (both across customers as well as between customers and competitors). Discount levels are sufficient to be an important driver of retained demand and market share. Differentiation of transactional and direct mails is not usual. Discount by delivery area (zonal access pricing) has also potential, but is not yet in evidence.

#### 3.2.3. Implementation

Objective

Communication of pricing policies to customers and within the organization can take many forms. In this section, we report the results of our interviews on how prices are communicated to customers and whether active assessment of customer perceptions on pricing and service value is used. For internal price implementation, we explored the topic of volume vs. value-based motivation of the sales team.

#### PRICING IMPLEMENTATION EVALUATION



### Findings in Western Europe – Customer oriented pricing identifies customer needs and value drivers underlying demand

Operators are interacting with customers to understand their business demand, and thus explore additional sales potential. Instead of a standard tariff table disclosure, relevant offers

are communicated to individual customer segments using targeted advertising. Price terms are transparent, which may be a competitive risk.

It is unusual that sales is remunerated by profit contribution. The typical approach is turnover based. The explanation for this is the complexity of product value based pricing and the concern that the sales force might misuse or misinterpret product profitability details. Customer orientation in price implementation can be strengthened by detailed billing information to help users understand the details of the services actually rendered and service quality issues associated with these, as well as the total cost to them for different geographical regions.

### Findings in Eastern Europe – One-way communication through tariff disclosure

Interactivity in pricing, in terms of active two-way communication with customers is not observed. Prices are disclosed and communicated through the tariff table. Internet-based sales support systems to guide customers are beginning to appear, but this is not a regular practice yet. Prices are transparent and also easy to compare with other competitive providers (e.g., in parcels).

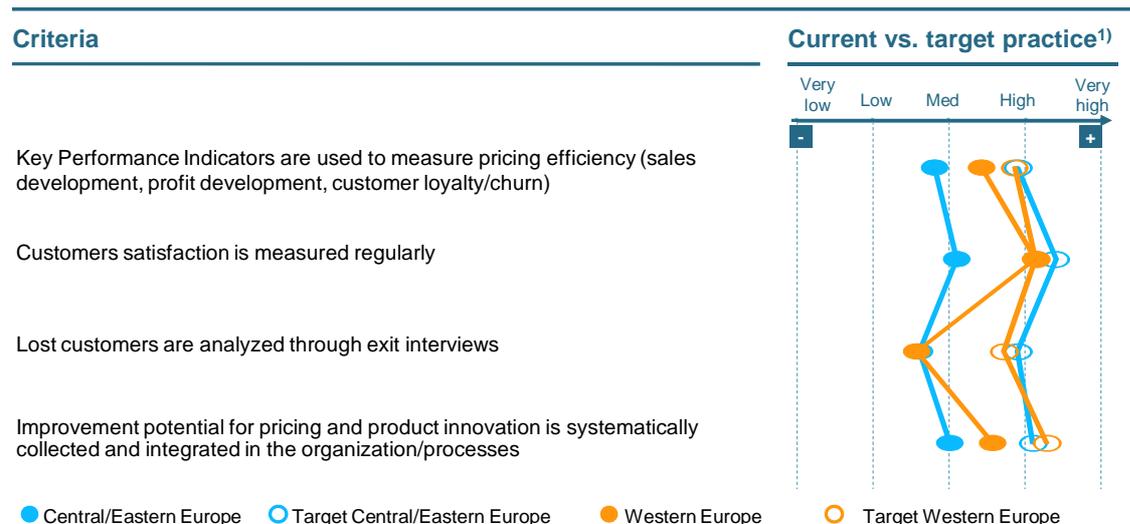
Sales motivation is evaluated by the volume sold. Remuneration targets are set by product volume, not profitability. The profitability-based approach is considered complex because of the difficulty of determining the profitability of individual products for specific customer segments.

#### 3.2.4. Monitoring

##### Objective

Our interviews concluded with a review of price monitoring tools. In this section, we report the results of our interviews concerning the range of pricing key performance indicators (KPIs) used, the inputs gathered in regard to customer satisfaction and the extent this input is used for organizational development or product innovation.

#### MONITORING EVALUATION



### **Findings in Western Europe – High level KPIs and regular customer reviews**

Widely used pricing KPIs include monthly review of volume developments. However, price elasticity measurement or estimation is less frequently observed.

Monitoring of customer satisfaction is routine for most operators, as it is also required by regulation to submit studies periodically. Some operators proactively measure the satisfaction of customer segments for certain products across alternative operators, which is a smart approach to identify service improvement opportunities. On the other hand, analysis of lost customers occurs only if a key account is lost to an alternative service provider.

### **Findings in Eastern Europe – Emphasis on measuring customer satisfaction**

Using price oriented KPIs is not a regular practice. It is usually in line with the overall management monitoring tools. Implementation of systems of metrics, including pricing, e.g. Balanced Scorecards, is expected to provide a better strategic overview of pricing related KPIs.

Customer satisfaction is periodically – typically on a yearly basis – measured, but lost customer analysis is not yet a practice. The barrier to this is the early state of development of CRM systems and the limited focus/capacities of sales force to treat lost customers.

## 4. Conclusion – Lessons learned and recommendation on pricing practices

The main lesson derived from these interviews is the growing awareness and organizational commitment to a strategic consideration of market-oriented pricing and reliable management systems to assess underlying drivers of customer demand. While this objective is clear, the approach to realize customer orientation in pricing is being pursued in different ways by postal operators. In this section, we present in eight points our conclusion on what appear to be the success factors of those operators who express some satisfaction with particular elements of their current pricing strategies. These eight points are also supported by a rich literature in theory and practice of marketing of high-volume service operations.

### 4.1. Harmonization with corporate strategy and alternative options for pricing

Pricing has to be considered an integral part of corporate strategy. To achieve this, a major evolution is required from the traditional primacy of regulatory issues in pricing. Postal operators have all developed corporate strategies for the next years in anticipation of full market opening. These strategies describe the future customer and product focus of the incumbent. Pricing to date has been considered in a majority of the operators interviewed as a regulatory pre-defined factor, explaining in part why pricing has not appeared on a strategic level. Examples from already opened markets show that new market entrants gain market shares by offering lower prices than the incumbent. In best-in-class postal examples, pricing strategy recognizes regulatory constraints but it is primarily driven by customer-oriented valuation and in light of both internal costs and competitive actions.

Besides linking of corporate and pricing objectives, execution of a pricing strategy is a central issue. Depending on the competitive environment of the postal operators, their technology infrastructure and marketing competencies, there are some alternatives, with various levels of complexity in implementation:

Some options for price strategy in the postal industry

			COMPLEXITY
<p><b>1</b></p> <p><b>ALTERNATIVE SERVICE INTRODUCTION</b></p>		<ul style="list-style-type: none"> <li>• Introduction of a second brand by the incumbent, possibly as a separate company</li> <li>• Offering of economic services, delayed delivery and by that retaining or regaining market share against low cost competitors</li> </ul>	
<p><b>2</b></p> <p><b>VALUE CHAIN EXPANSION</b></p>		<ul style="list-style-type: none"> <li>• Attracting customer groups by horizontal value chain expansion, e.g. financial services, broader definition communication services e.g. mobile</li> <li>• Extended integration into customer processes and offering one-stop solution</li> </ul>	
<p><b>3</b></p> <p><b>CAPACITY BASED DYNAMIC PRICING</b></p>	<p>Notes: ↓ Off-peak</p>	<ul style="list-style-type: none"> <li>• Improved utilization of available capacities by influencing client behavior towards off-peak timeslots</li> <li>• The complexity of the model requires investment in the network, but has the capability to provide significant improvements in utilization and productivity</li> </ul>	

Source: Roland Berger

## **1. Alternative service introduction**

Posts have to anticipate the diversity of the customers served and the services demanded. Increasing and heterogeneous expectations on collection of mail items, delivery deadlines, and the value of tracking and returns reflect the need to integrate pricing (and also branding) with the attributes and value of premium and economy services.

Under the umbrella of the premium brand, postal operators are focusing on standard, priority and value added services, based on their traditional delivery network. The economy brand can unify the services related to direct/unaddressed marketing activities and services that are considered by customers as lower value added. The introduction of planned delayed delivery is part of this service as well. The delivery network in this case has to be adapted to the value generation capabilities of the services and requires flexible operation.

The alternative model may also handle the issue of pricing competing products within the product portfolio of the postal operator. By that model the value proposition of products can be better positioned and substitutional products separated.

The approach of differentiating services improves price perception and offers alternatives for customers – and of course an opportunity for the incumbent operator to keep or recapture customers with high price sensitivity. There are operational examples of this model in Europe, offering services that are fully cost based and provide also further working opportunities and income for their own postmen, willing to shift to flexible working hours.

## **2. Value chain expansion**

Offering full range of services from one provider is a strong retention factor for business customers, which are the most exposed segment under competition. Extension of services includes not only non-universal, but non-standard postal services. Based on level of service expansion, we distinguish horizontal and vertical expansion of the value chain.

Horizontal expansion focuses on adding services to both the up- and downstream elements of traditional postal services. This includes upstream a range of preparation services, starting from mail target definition, customer data accuracy checking with the postal address base, and the physical preparation of mail items. Downstream, this service means tracking of delivery, collecting customer response (e.g. in case of direct mail) and processing responses in a form useful for the customer.

Vertical expansion has the benefit of integrating the postal operator into the processes of the mail originator and establishes a strong interface for standard postal services. Examples of vertical services include financial (payment collection and reporting), archiving (electronic storing of paper based originals) and utility (metering for utility companies) services.

## **3. Capacity based dynamic pricing**

Pricing according to capacity utilization is already common among others in the airline industry and is the core of the “smart grid” in liberalized electricity markets. However the implementation of this technique in the postal industry has strong operational and technological prerequisites. Examples in current postal practice are already available in the model developed by O'Brien, Pintsov, Obrea based on earlier work on Pintsov and Obrea<sup>3</sup>. Their basic concept defines prices by product attributes and cost drivers and allows for both planning of new products and billing for existing services to do the requisite cost calculations in real time based on encoding products in a standardized programming language.

Product attributes in Pintsov-Obrea model include information on physical description, data service requirements and access requirements. This description can promptly characterize the mail item's volume, distribution, delivery frequency, as well as the required tracking and submission information. Introduction of these parameters into a model, using a standardized description language can calculate exact cost of service by value chain elements and thereby support capacity based pricing.

Operational testing of this model has already been conducted for parcel products, but technically it is applicable for any type of mail items. The implementation of this model in practice is highly complex due to the detailed information requirement on product costs, network characteristics and workload. A simpler approach, with the same general philosophy, is to integrate capacity utilization with pricing using a delivery-area (zonal) pricing approach, in practice at many operators. The key idea here is to enable product innovation across in postal products in such a manner that prices are aligned with costs and that new product development, and billing for existing products, can be aligned with customer expectations and value of service.

### Strategic pricing options of postal operators for access of entrants to the network

It is important to also note the strategic options for access pricing as one key aspect of liberalization and competitive strategy. Crew and Kleindorfer<sup>4</sup> described avoided cost, delivery-area access and negotiated access pricing strategies. The application of each option will significantly depend on the local regulatory framework, but practical examples can already be observed, as noted below:

Strategic options of postal operators to foster network access or bypass

Strategy	Example from practice	Effect on market development
<ul style="list-style-type: none"> <li>• <b>Avoided cost</b> pricing is determined by the level of worksharing that the new entrant takes over in the mail preparation</li> </ul>	<ul style="list-style-type: none"> <li>• La Poste – Upstream competition is highly developed with the presence of mail consolidators</li> </ul>	<ul style="list-style-type: none"> <li>• 80% of direct mail and 36% of bulk mail market is prepared by consolidators</li> </ul>
<ul style="list-style-type: none"> <li>• <b>Delivery-area access</b> pricing takes into account the actual delivery costs, in addition to the worksharing taken over by the new entrant</li> </ul>	<ul style="list-style-type: none"> <li>• Royal Mail – Access to delivery is mandatory and geared to costs</li> </ul>	<ul style="list-style-type: none"> <li>• Three years after full market opening, 20% of competition is access based, only 1% E2E</li> </ul>
<ul style="list-style-type: none"> <li>• <b>Negotiated access</b> pricing depends only on the agreement between PO and new entrant, subject to non-discriminatory constraints and under conditions specified in part by the regulator</li> </ul>	<ul style="list-style-type: none"> <li>• TNT NL – No obligation to provide network access to new entrants, it is subject to negotiation</li> </ul>	<ul style="list-style-type: none"> <li>• Competitors developed their own nationwide delivery networks, in part as a response to availability of access or the terms they believed they could negotiate</li> </ul>

Source: M.A. Crew, P.R. Kleindorfer, Pricing for postal access and worksharing

### 4.2. Split of pricing organization's tasks on operative and strategic level

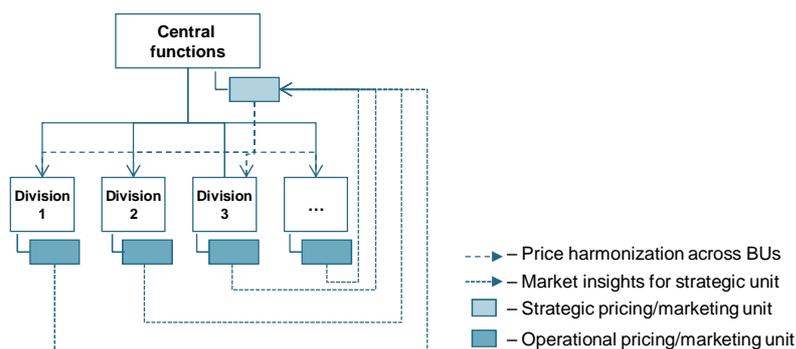
Our discussions with postal operators in some cases revealed a preference for divisional based or centrally coordinated pricing organizations. We believe the target practice should be a combination of both horizontal and vertical organization elements to enable proximity to the market in business units while providing competencies and ensuring consistency of

product offerings within the company, innovation practices and linking pricing and marketing strategy to overall company strategy.

## Target practice for pricing organizations

Combination of divisional and cross divisional pricing organizations

### Target practice



Source: Roland Berger

In this dual model, the vertical pricing unit function (operational pricing) is placed within the individual business units. The BUs are defined usually by customer groups (retail and wholesale/bulk) or product lines (mail, parcel, financial services). The responsibility of BUs is to maximize revenues for the products within their unit. The BU analyses product sales, requests market surveys, and develops competitive strategy for its product line. In this model, on-going interaction is crucial between marketing within the BUs and strategic pricing on the corporate level.

The horizontal, cross divisional unit (strategic pricing) has the responsibility to balance divisional objectives with overall corporate pricing targets. To reach this goal, it defines the pricing strategy, harmonizes price setting among the divisions, including recognition of product synergies across divisions, and ensures implementation of regulatory policies.

### 4.3. Customer oriented market models, as core pricing method

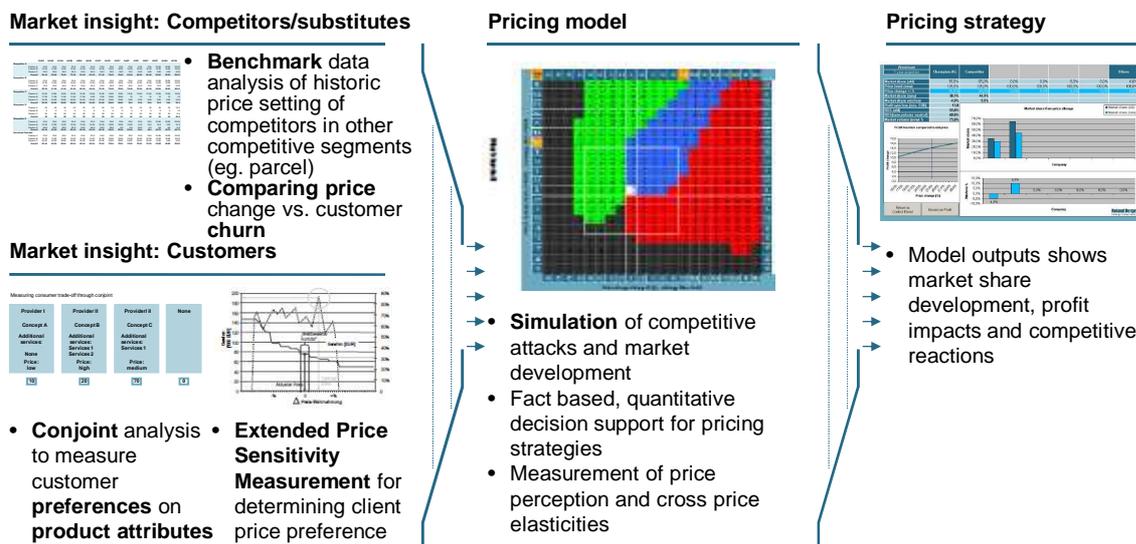
Discussing pricing methods with postal operators often was overshadowed by the constraints and lack of maneuvering room perceived to be in place because of the regulatory framework. Although the need for market orientation in pricing after full market opening is self-explanatory, we came only in rare occasion across pricing models with strong simulation capabilities and dynamic representation of competitor responses. Market-oriented pricing models, which integrate customers, competitors and regulators and which provide results by customer segments, are still only a target, not a reality, in the postal industry.

There are many examples in the marketing literature of “how” to do segment-specific modeling. To take a recognized standard, consider the Roland Berger framework<sup>5</sup>, which follows this approach on price definition and uses market information as simulation input for pricing strategies.

The objective of the model is to incorporate market information through benchmarks and innovative customer analysis as a foundation for pricing strategies, with simulation results

providing insights on customer/competitive reactions to various pricing measures. Market shares, elasticities, loyalty and switching effects are derived using a game-theoretic approach to dynamic interactions in the market place. Following the marketing research literature, the key elements here are the integration of market data with plausible models of customer and competitor responses to postal operator product definitions and pricing.

### Overview of Roland Berger's pricing model



Source: Roland Berger Pricing Practice Group

## 4.4. Support of data analysis with consistent technological background

To deliver consistent and comparable input for price modeling, an integrated customer database is required. Postal operators possess a range of customer information, related to sales, market positions, customer expectations. The availability of this data, however, is rather fragmented by information platforms and often by business divisions as well.

Major barriers to implementing a consistent database are the high cost of investment and the time to move from legacy systems to new systems while maintaining operational capabilities. While the costs and organizational resources are significant, when evaluating these investments, benefits, such as productivity gains, elimination of data or research redundancies, availability of reliable and consistent data analysis should also be considered.

In addition to the increase in efficiency, a consistent database on customers serves pricing, but also becomes the fundament for developing customer relations. Compiling and managing customer-oriented information supports not also pricing, but also informative billing, which can be a significant value-added improvement for both customers and product managers.

## 4.5. Advanced market analysis to gain insights on elasticity and customer demand

All operators make efforts to understand preferences of their customers and use a variety of analytical tools. However in some cases the results do not support shaping of product offering in line with customer expectation. The reason for that is often customer utility, trade-off willingness and price elasticity is not in the focus of the research. In our recommendation,

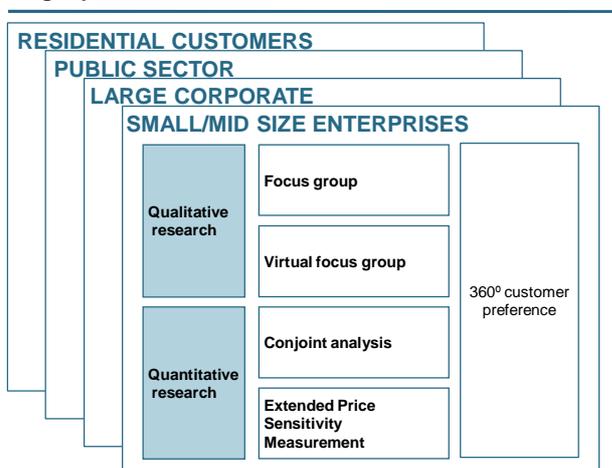
we note both qualitative and quantitative tools that we believe in combination can strongly support the development of customer-oriented products and prices.

As the initial step of the research, we propose focus groups or virtual focus groups as qualitative tools to understand price elasticities of the target groups. These tools are important in setting up a framework to develop and explore the value of alternative postal product attributes, including the pricing of these. Increasingly web-based tools are coming into use to reduce the transactions costs of obtaining such information.

Quantitative methods – based on the product framework elaborated in the focus groups – can scrutinize individual product attributes and research a larger customer base. A combination of conjoint analysis and price sensitivity measurement have the capability to show a balanced results on price perception.

Advanced market research to gain insights on customer groups

#### Target practice



- Best in class examples show a combination of market research tools, from qualitative and quantitative aspects
- In **qualitative** market research, typically in-depth customer interviews /focus groups are used to gain detailed insights into customer expectations:
  - **Focus groups** are in practice to generate hypotheses, structure questions, evaluate new ideas and find explanation in early phase of product/price definition. The groups, led by a moderator face a challenge of collective pressure that might alter individual responses
  - **Virtual focus groups** have the benefit of not only being an efficient tool, but eliminate through anonymity the group pressures of classical focus groups
- **Quantitative methods**
  - **Conjoint analysis** supports the understanding of the utility and relative importance of certain product attributes and simulates alternatives
  - **The Extended Price Sensitivity Measurement** focuses on price perception and determines optimal pricing points by customer segment

### Virtual focus groups

The overall goal of virtual focus groups<sup>6</sup> is to gain understanding of a specific target group's expectations concerning services and product features and thereby strengthen or eliminate initial hypotheses. Being virtual and anonymous to other participants, the research helps developing pre-synthesis without the influence of collective pressure. Depending on the research objective, the virtual approach also has the capability to utilize collaborative filtering mechanism by highlighting most supported ideas of the group or to identify subgroups which expectation differ from the mainstream.

Participants of virtual focus groups are invited for an online meeting to discuss a focal topic. The moderator of the group defines a core question (e.g. "What influences your decision when switching postal service provider?") and sets the framework for generating individual ideas. In this case, collection frequency, geographical coverage, delivery days, price, provider brand would be the subtopics for voting, where for all attributes a range is defined. The voting concludes in quantifying and detailing of these options and filtering for the relevant drivers. (e.g. price discount a major switching factor, but only over 10%).

Identification of most accepted opinions and recommendation for product features is the result of the virtual focus group. As the study is e-based, it can also record information on self-revealed general affiliations of individual participants and segments (e.g. financial service providers vs. utility companies) and the segmented reactions/motivations to questions regarding, e.g. product attributes.

### **Choice based conjoint analysis**

Often used in postal research<sup>7</sup> the conjoint approach supports measuring consumer preferences by offering trade-offs of product attributes, and their relative importance. From various conjoint approach, choice-based conjoint is usually preferred for price determination, as it allows to understand how customers make choices from competitive choice sets.

Conjoint analysis usually contains a qualitative pre-phase analysis to support the questionnaire design. The pre-phase is realized through in-depth interviews to reveal among others switching affinity of customers quality perception and price sensitivity. The results of the qualitative research phase gives important inputs and validates the design of the conjoint questionnaire.

Based on the pre-phase results, the conjoint analysis simulates different hypothetical situations, where customers choose from postal product attributes, such as supplier, coverage, price, delivery, collection. The conjoint measurement then calculates the customer's preference by it's allocation of fixed resources (characterized usually by 100 points) to various alternatives, typically in a set of 10-12 combinations.

The combination of qualitative and conjoint method provides important insights on the utility and relative importance of product features. Conjoint can reveal the price perception of mail items to other attributes and by that demonstrate relative importance for various customer segments. When coupled with on-going market data, these studies can provide a foundation for better pricing and better value creation for customers.

### **Price elasticity analysis – Extended Price Sensitivity Measurement (EPSM)**

The EPSM model measures the utility of services for customers by segments, with a focus on pricing. The initial Van Westendorp<sup>8</sup> model was extended by the Roland Berger Pricing Practice Group with the objective to enhance practical applicability by showing segmented results by customer groups, in line with their affinity to change provider for price discounts or based on perceived differences in product features.

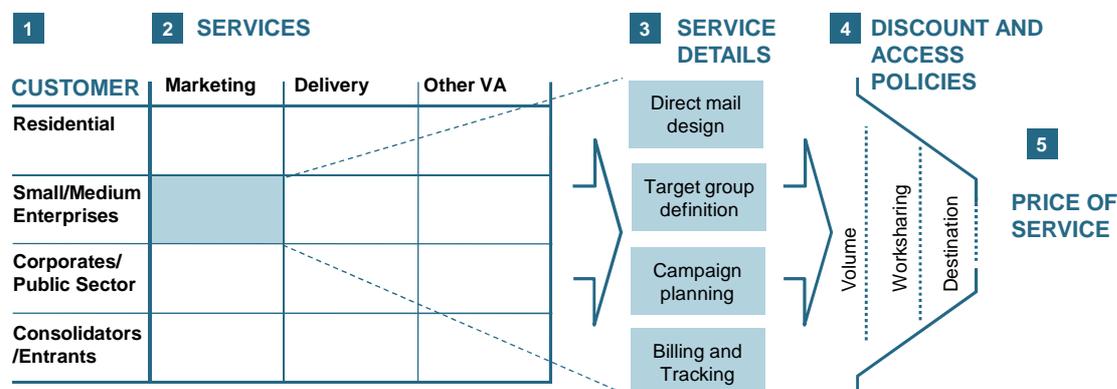
By asking four price perception questions the model identifies pricing curves and sets a fencing corridor towards the optimal price position. The direct and supported questions on expensive/cheap perception of products can be mapped by the perception curves. An important notion to the curve intersection is that it does not apply equally to all customers. IN line with the market research literature on loyalty and retention, three segments ("gas" for active seekers, "water" for influenceable and "ice" for reluctant) are distinguished by Roland Berger, subject to their elasticity to price changes.

The analysis results in a realistic calculation of customer and volume changes in consequence of price changes, considering subjective price perception and is a starting point for further market analysis. This approach is an additional feature to conjoint analysis and in combination can provide valid insights on customer preference. Again, integrating this with on-going market data can be a foundation for improved pricing and customer-oriented product definition and communication.

#### 4.6. Price structure by customer segment and product demand

As reflected in the figure below, price structures should reflect the diversity of customer demands by size, type of business and postal services.

Customer demand based price structure – Demonstration through DM services for SMEs



In this five-step approach – which is already applied by some posts<sup>9</sup>, price structure is defined by major customer groups, such as residential customers, small/medium enterprises and large corporate/public sector. The identification of the customer by service definition, split into delivery, marketing and logistics services helps to define and provide offers which correspond to meaningful needs of these customers. Required services are broken down into service elements – the example shown above is for marketing services for SMEs. The offering consists of direct mail design, target group definition and campaign planning. Based on that the discount policy is determined by the required service attributes, e.g. volume, customer involvement in the postal value chain and delivery location. Finally the prices are set, which in the end result are derived from actual customer demand and based on the full bundled service offerings provided to the customer.

#### 4.7. Identifying and exploiting sales potential by value-based price implementation

The implementation of pricing is a means of communication with the customer – and within the company with sales. This process should reflect a reversal of traditional postal pricing practices which were company-centric or regulator-centric. Competition should move the central focus to the customer. While regulators and cost accounting with the company will continue to play an important role in aligning prices with cost and in avoiding cross subsidies, the center piece of pricing and value under competition will bring the customer into focus as the primary driver of pricing structure and pricing communication.

To implement customer-oriented pricing interaction with customers, several important preconditions must be in place: understanding product features, collection modes, delivery location and value added options. The viability of the interactive approach from a business perspective is that by showing additional options it reveals new sales potentials to customers.

The objectives of sales orientation need to be reflected in the communication with the sales team, more precisely in the sales compensation and incentive systems offered. In most cases, goals are defined in volume growth, which indicates to sales the focus on low value, high volume products. If a post plans to expand beyond standard postal products, the shift to a value-oriented perspective for sales is essential. The implementation of a value-oriented

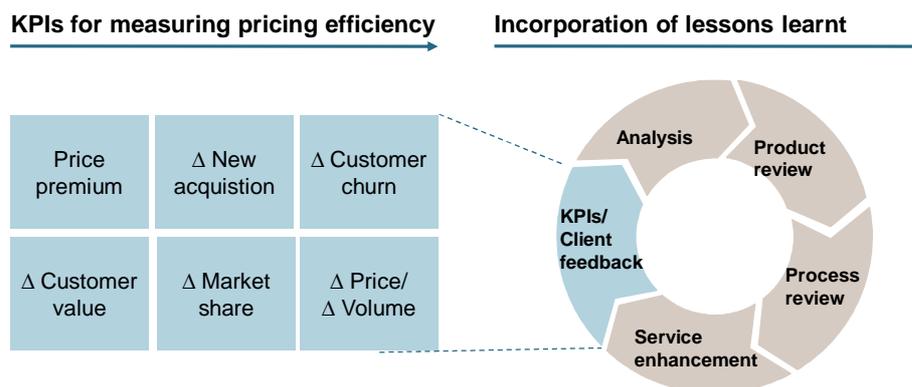
approach is more complex, however, since it requires postal operators to calculate the value generation of individual products, both for established products as well as for new products whose value generation may lie in the future. While these are well recognized problems in the marketing and sales literature, little progress to date is evident in applying established solutions from other competitive industries to postal operations. This needs to change.

#### 4.8. Monitoring by pricing KPIs and by scorecard for internal functionalities

Operators use some key performance indicators, but a structured approach towards KPI use and scorecards shows early signs of corporate performance and also delivers lessons learned for corporate development<sup>10</sup>.

In competitive industries a range of KPIs is used to measure pricing efficiency. This includes price premiums to reflect the relative price of postal products to competitors. In addition, new acquisition and customer churn show the development of the customer base after a pricing measure is implemented.

Utilization of key performance indicators (KPIs) and corporate learning



The internal aspect of monitoring can best be characterized by a pricing scorecard. This tool acts as a systematic control tool for market-oriented pricing of a postal operator.

The pricing scorecard shows the actual pricing fitness of the postal operator, resulting from a comparison of the current versus the target status of the pricing performance. The scorecard can measure development of postal operator pricing practices over time and also against competitors, if data is available. If data is not (yet) available, it indicates data gaps and shows how to close them.

Performing a pricing scorecard analysis on a regular basis helps to quickly identify points for improvement. This structured approach reviews all aspects of the pricing framework and pricing processes, in a similar form as described in this paper.

#### 5. Concluding remarks

The central point that this report has made is that for both postal operators in Eastern and Western Europe pricing and pricing strategies will be a core element to successfully overcome the challenges of full market opening. Pricing will be essential to assure postal

operators of continuing viability in their public mission as universal service providers while also fulfilling the increasing requirements for value-added services and product innovation as a commercial entity.

This report identified emerging trends in the area of competitive postal pricing and noted the strong and continuous evolution towards more customer-orientated pricing strategies. Coupled with product innovation and productivity initiatives, this trend can be expected to positively influence market development from both a local and global perspective.

We are very grateful to our respondents for allowing us the opportunity to take a snapshot of this important topic in 2009 and to present the thoughts of a majority of postal operators in Europe on current challenges in the pricing domain. The recommendations recorded above present a full menu of further challenges in implementing effective pricing strategies and developing the needed organizational competencies to pursue these. We can therefore look forward to further exciting developments in the near future.

We appreciate your feedback and interest in this study. Please contact Zoltán Szirmay, Senior Consultant at Roland Berger Strategy Consultants at the following contact details: email: zoltan.szirmay@rolandberger.com, phone: +36 30 415 1621.

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