

# Pricing Process Overview

March 2019




- Transparency
- No unintended consequences
- Simplification
- Growth

## Significant rate relationships

- Letters - How has volume migrated? What is appropriate pass-through?
  - First-Class Mail Single-Piece vs Meter
  - AADC vs. 5 Digit letter discount (FCM and MM)
  - Marketing Mail Origin letters vs. DNDC vs. DSCF
  - 5-Digit vs. High Density, HD+, Saturation
- Flats- How has volume migrated? What is appropriate pass-through?
  - 5-Digit vs. Carrier Route vs. High Density, HD+, Saturation
  - Has volume CR moved to direct pallets in non-FSS zones?

- Solicit ideas
- Work with industry on impact, identify pros & cons
  - MTAC
    - Work Group 8 (Promotions)
    - Work Group 13 (Operational Optimization)
  - Association Meetings
  - PCC's
  - NPF

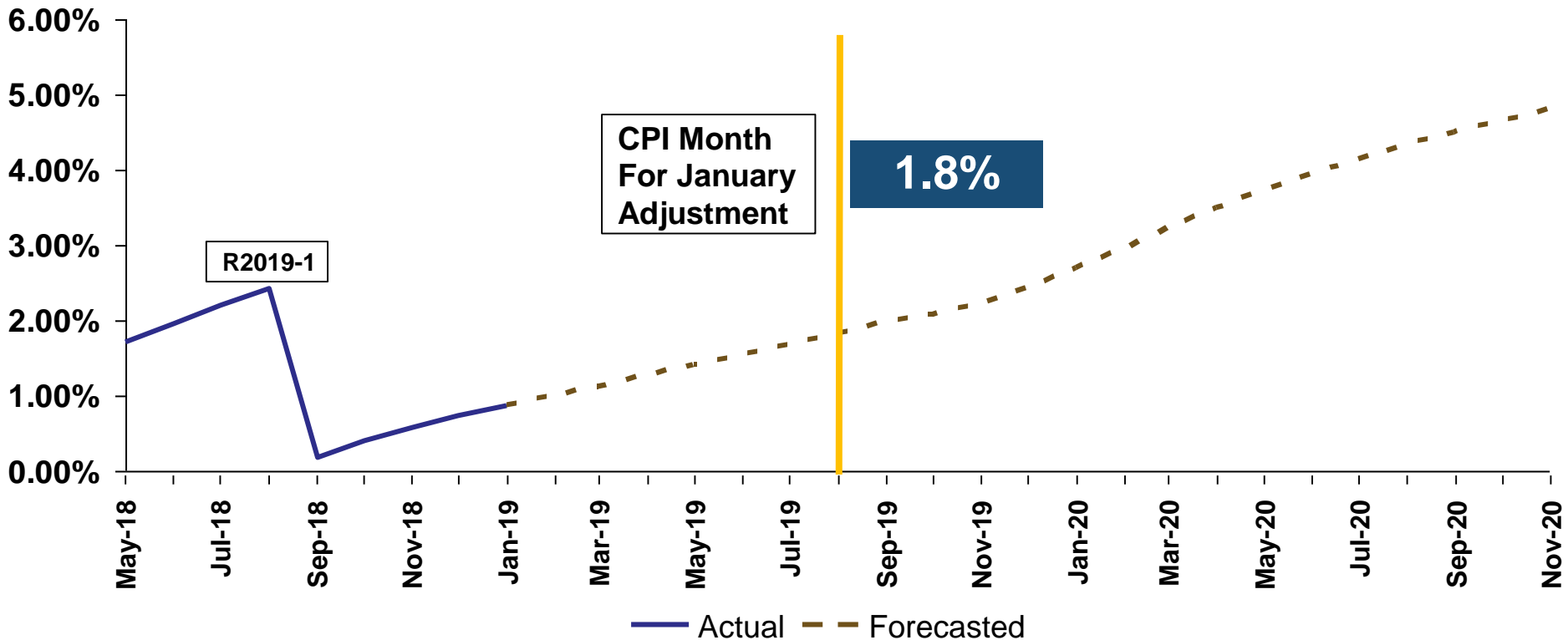
- Determine which ideas to pursue
  - Operational test
  - Financial analysis
- Share ideas with BOG & Senior Management
- Share draft requirements with industry
  - Mailing Standards
  - Postage Statements
  - Technical Specifications
- Develop prices/structure
- Seek BOG approval

		Market Dominant	Competitive
Rules		<ul style="list-style-type: none"> <li>Increases limited by Consumer Price Index (CPI-U) cap</li> <li>Promotions impact cap calculation</li> <li>Workshare discounts heavily regulated</li> </ul>	<ul style="list-style-type: none"> <li>At minimum, must cover costs</li> <li>At minimum, must make “appropriate share” of institutional costs</li> </ul>
Size		Domestic Volume: 140.7B Revenue: \$47.6 B	Domestic Volume: 5.7B Revenue: \$23.2 B
Market Environment		<ul style="list-style-type: none"> <li>Electronic substitutes: established and emerging</li> <li>Improving ROI of transactional alternatives</li> <li>Rising costs of other inputs (paper and ink)</li> </ul>	<ul style="list-style-type: none"> <li>Direct Competition</li> <li>Insourcing of last mile</li> <li>Rising Customer Expectations</li> <li>Last mile network in rural areas</li> </ul>

Cannot exceed change in Consumer Price Index – Urban (CPI-U)

Market Dominant price increases are capped at **CLASS LEVEL**

Uses previous 4 quarters of volume to calculate price change



## Postal Regulatory Commission directives

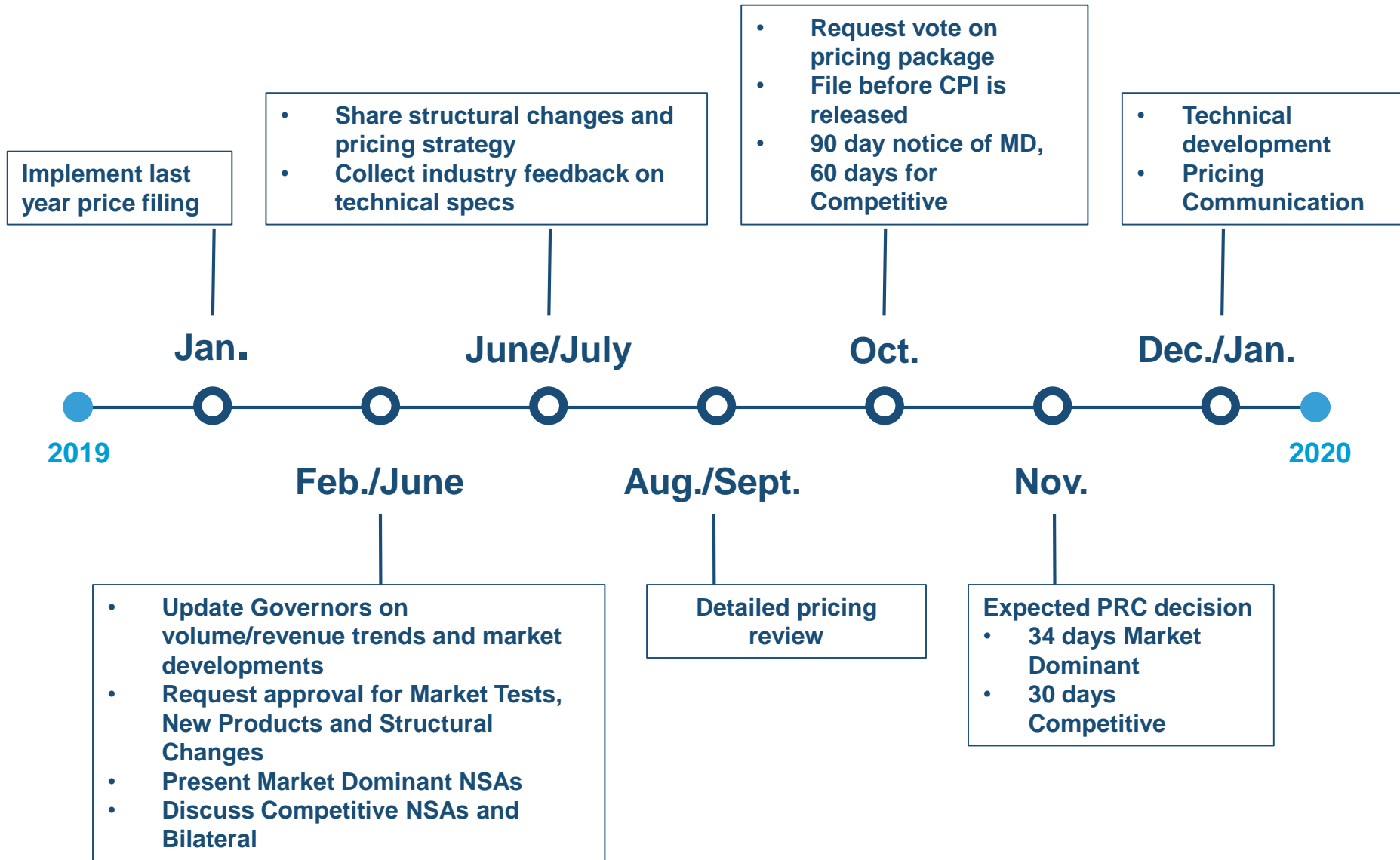
- Allocate at least 105% of CPI cap to Marketing Mail Flats
- Reduce discounts that exceed cost avoided

## Federal Statute requirements

- Ensure revenue per piece of Nonprofit Marketing Mail is 60% of revenue per piece of Commercial Marketing Mail
- Price Library Mail 5% less than Media Mail
- Media Mail prices may not vary by distance traveled
- Maintain separate classifications for certain Periodicals products
  - Within County
  - Science of Agriculture
  - Classroom



- Volume Trends
- Price Elasticities
- Rate Relationships
- Competition
- Substitutes
- PRC Requirements





**Questions?**