



Postal Pricing Flexibility and Product Rationalization

Bold ideas to drive value

Deloitte Consulting LLP

Lessons Learned concerning Pricing and Products

- **TOO MANY PRODUCTS** - Across industries, we have found that excessive product variety can impair profits and may not encourage proportional customer adoption
- **CHANGE MANAGEMENT** - Large transformations are complex, and require a specific combination of change management, process excellence, and fortitude to see things through
- **DEDICATED MANAGEMENT** - There should be a designated management group willing and able to make the hard choices to keep the project on-track
 - Changes to the status quo (e.g., work share discounts, surcharges, operations conventions)
 - Introduction of new pricing concepts (e.g., loyalty, geography, capacity-based, volume discounts, etc.)
 - Sustained Implementation
- **DATA** - Product and pricing initiatives are data-intensive; the joint team will need to moderate the “art of the possible” if certain data views are unavailable, of suspect quality or time-consuming to assemble
- **IMPLEMENTATION** – For implementation:
 - A limited “proof of concept” approach provides a lower risk means of testing high impact opportunities
 - A defined longer-term roadmap allows the organization to facilitate appropriate conversations with key stakeholders to gain consensus, build approval, and drive towards sustainability

Questions you need to ask, internally, for pricing and products

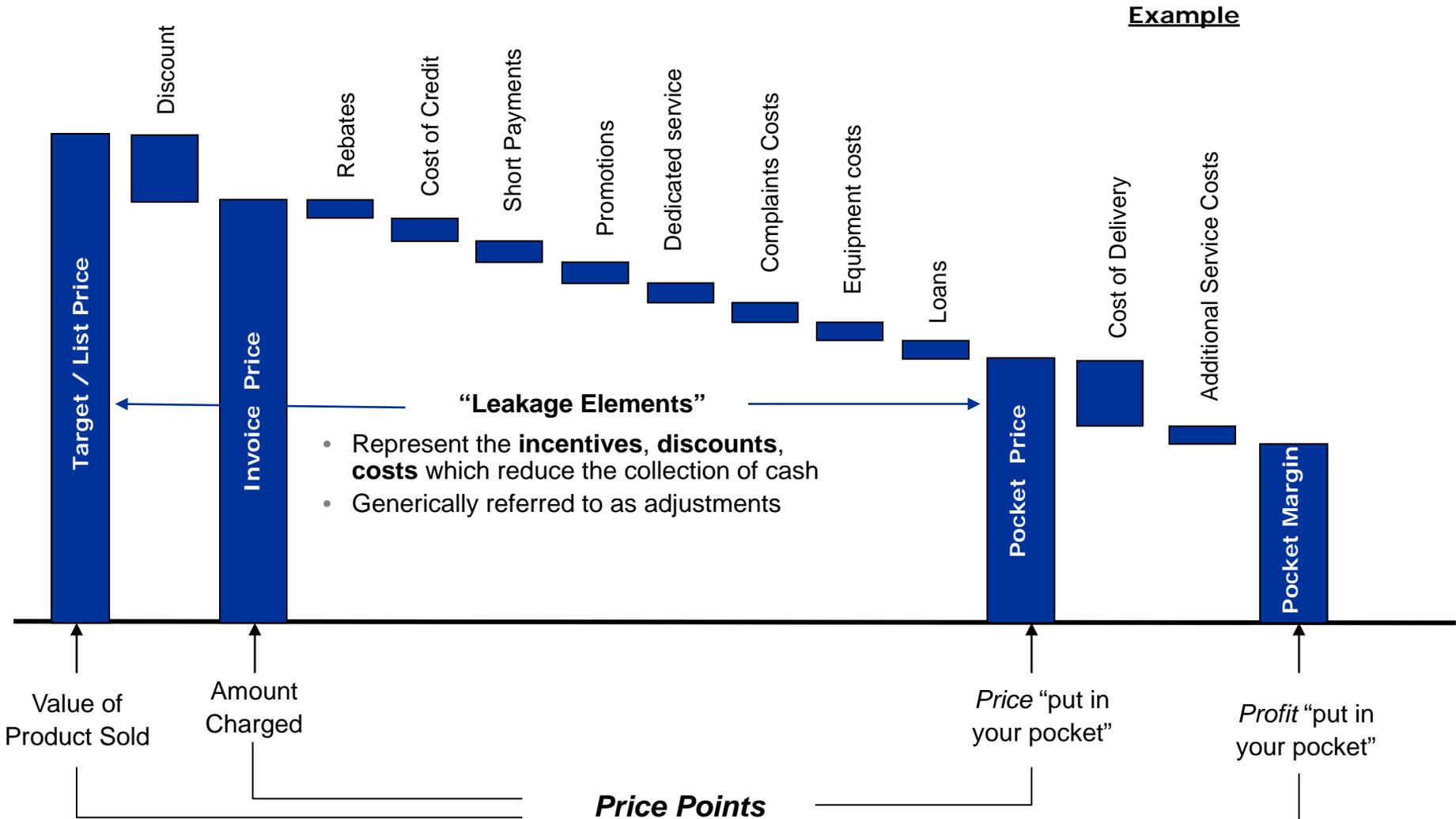
1. Why do you need to do pricing and product rationalization in parallel?
2. What is the specified objective of the project (or rank each in priority order)?
 - a) Volume preservation
 - b) Revenue growth
 - c) Margin/contribution maximization
 - d) Product cost reduction
3. The pricing flexibility strategy can yield up to four possible action scenarios; which is the most important for practical execution purposes:
 - a) Current product mix; current pricing
 - b) Current mix, adjust pricing
 - c) New product mix; current pricing
 - d) New mix; adjust pricing
4. How “provocative” do you want us to be (i.e., grounding recommendations in the pragmatic, considering ability to execute)?
5. What flexibility exists to streamline / collapse / cancel products?
6. To what extent should competitive products / emerging offerings be considered (i.e., to fill gaps in product capabilities, customer preferences or price points)?
7. Are extra services included in the analysis (e.g., certified mail, registered mail, delivery confirmation)?

Questions (cont'd)

8. Do you have survey or other data to substantiate the “voice of the customer?”
9. Do you have product cost and elasticity information that can be used for the analyses? What is meant by “appropriate price elasticities for products in our current portfolio” (i.e., what they are, vs. what they should be, vs. how they may change)?
10. Do you have is low-hanging fruit (easy to change prices or products) that can be captured, or is it more likely that structural, longer-term changes are more likely?
11. Does the strategy analysis need to account for value-add factors being developed/delivered to the market)?
12. Who will make approval determinations on pricing strategy and product rationalization recommendations (interim and final)?
13. Will there be a Pricing/Product governance group?
14. What is the expected timing of reviews & approvals so you do not delay market introduction?

Value Chain - Pricing and Profitability

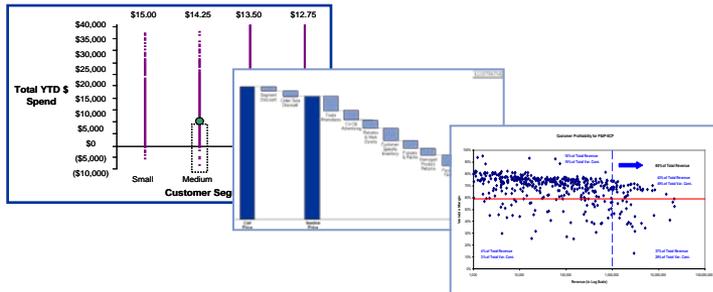
At Deloitte, our Pricing practice helps businesses improve the way they analyze, set, execute, enforce and measure price and price policies to align with business objectives



Benefits and Barriers - Pricing and Profitability

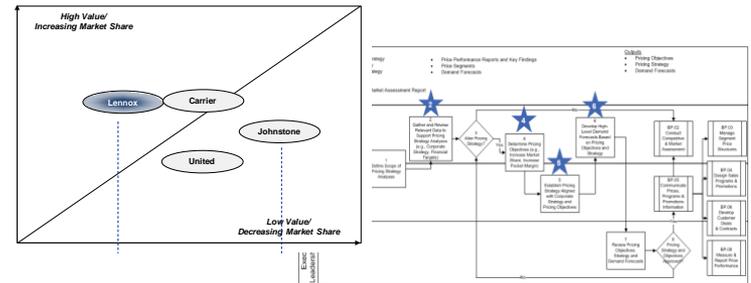
At Deloitte, our approach identifies potential benefits for pricing changes and prioritizes this against the organizational challenges required to execute

Quantified Benefits (\$)



- Describe and estimate value of opportunity
- Provide specific pricing improvements

Qualified Barriers to Change

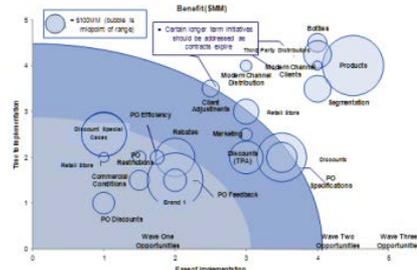


- Identify the key barriers to change, and efforts required to overcome (regulatory, etc)

Opportunity Prioritization

- Prioritize opportunities based on value and implementation criteria
- Identify trade-offs between potential benefits to USPS and the challenges to implement

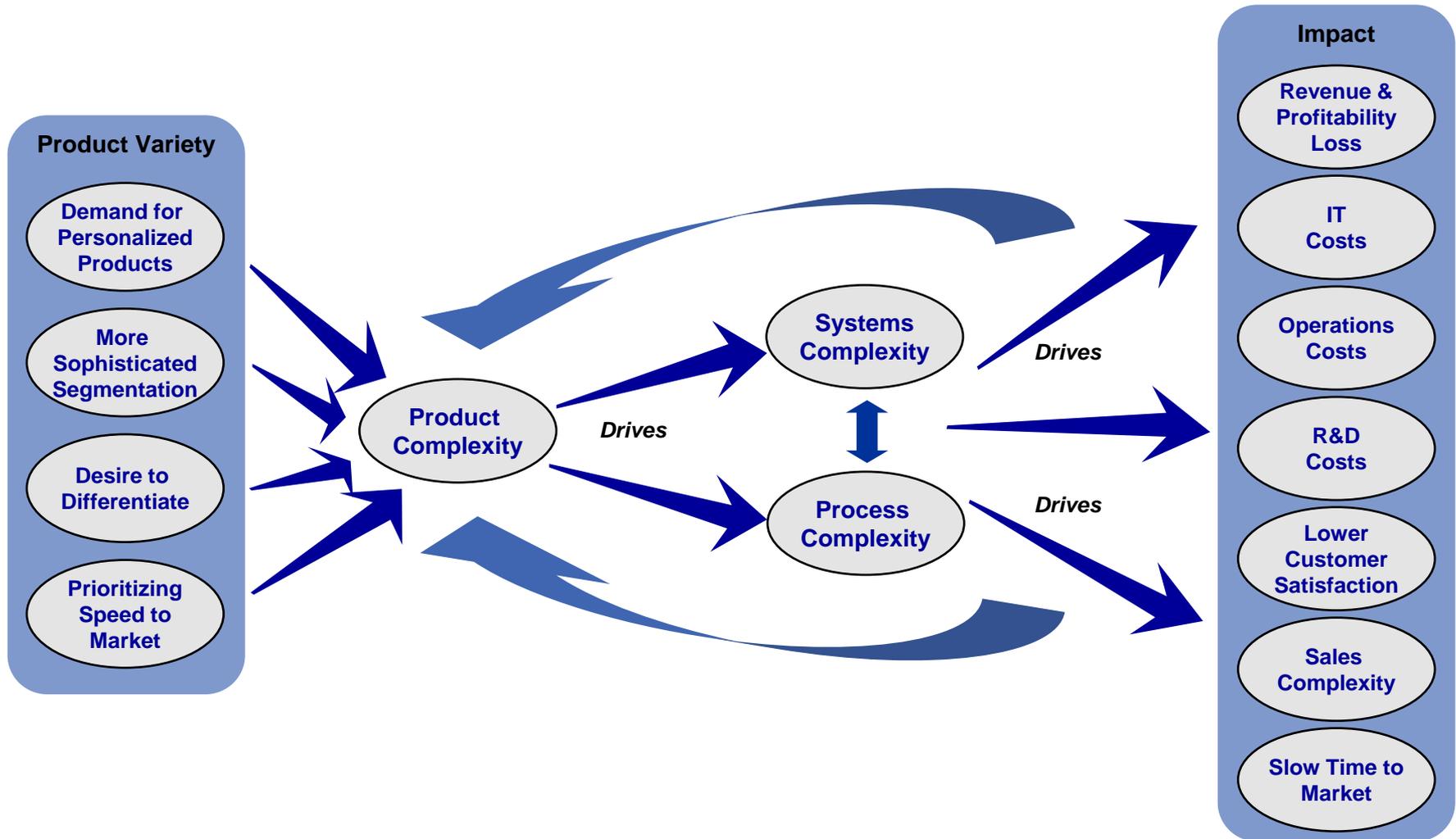
“What specific pricing actions should we take?”



“What benefit will each action provide?”

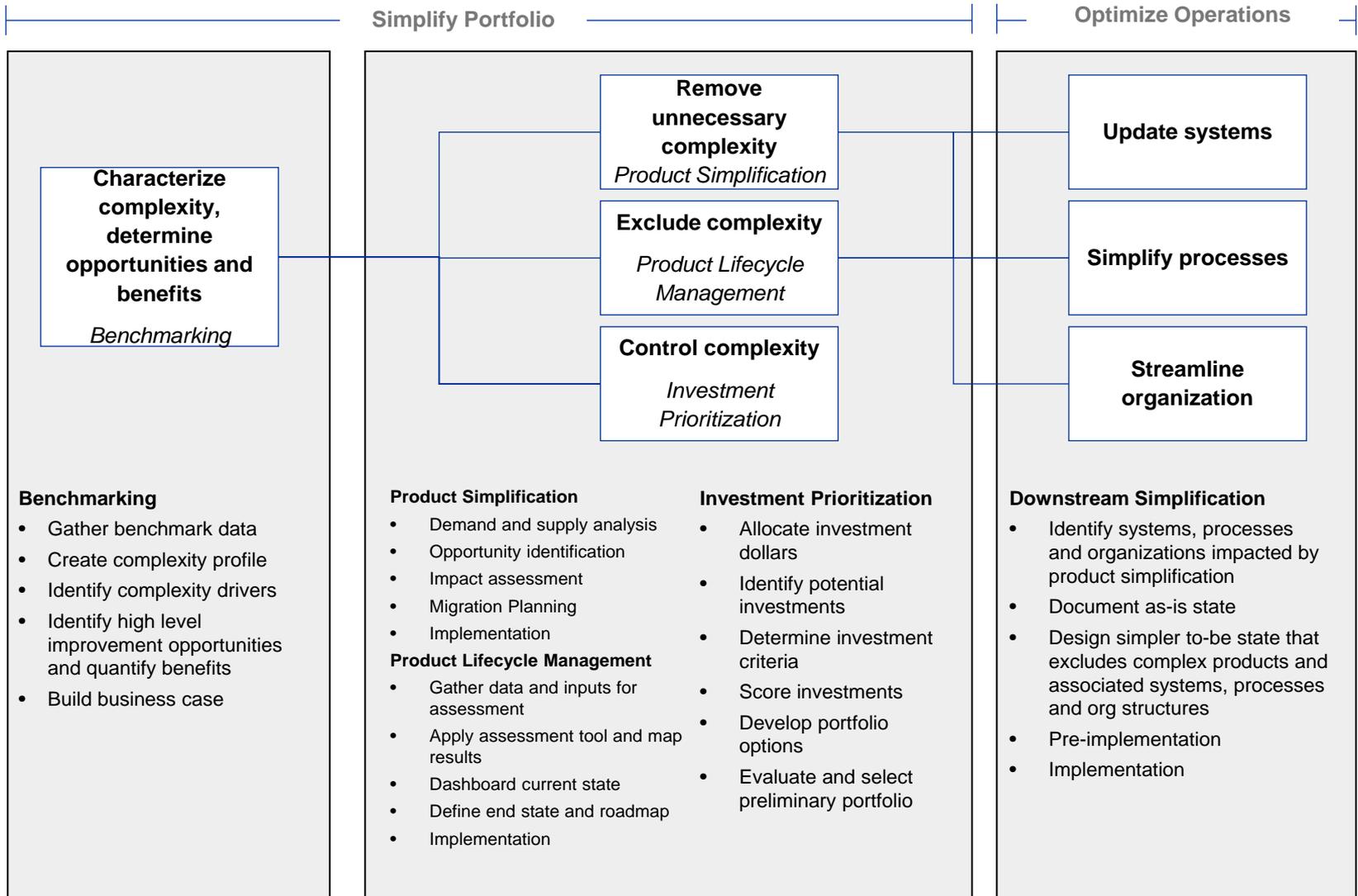
Perspectives – Product Rationalization

Many product variants drives costs through processes, systems, and supporting infrastructure; simplification by elimination of unnecessary product variety can result in significant benefits



A Portfolio Approach – Product Rationalization

With a Portfolio approach, benchmark your data, make it less complex and then adjust and simplify



Deloitte Capabilities - Pricing

Deloitte has deep pricing capabilities across a variety of industries, services and regions with over 400+ trained practitioners working across a network of global member firms.

Leading Position in the Industry

- Number 1 Ranking of pricing consultancies by the Kennedy Group. *“A standout in the field of pricing, firm’s (Deloitte’s) Pricing and Profitability Management practice has few all-around competitors among its peers₁...”*
Quote source: Kennedy Consulting Research & Advisory
- Valued partner of the Professional Pricing Society (PPS)
 - Regular presenter at PPS conferences
 - Author of a certification curriculum for pricing professionals
 - Frequent publications in industry journals, including Journal of Professional Pricing

Innovation and Thoughtware

Pricing Center of Excellence is the industry’s first funded pool of dedicated pricing resources

- Provides thought leadership in the form of research, public speaking, publications and education
- Alliance management with software vendors
- *“[The] Pricing Center of Excellence gives Deloitte a significant advantage over competitors that have not aggressively organized to meet this growing need₂.”*
Quote source: AMR Research
- First industry-wide Software Technology Assessment

Our Experience and Capabilities

- Successfully delivered 140+ pricing projects across a variety of industries
- Tested framework and tools for specific phase of the pricing strategy development framework
- Virtually unmatched breadth of pricing services including strategy, human capital and technology
- Our member firms serve Postal industries across the globe including North America, SE Asia, Eastern and Western Europe, and Latin America

¹Source: Kennedy; Customer Strategy and Interaction Consulting Marketplace 2009-2012

²AMR Research, "Price Management Project Costs are Increasing, but It's Worth It" July 20, 2005

Deloitte Qualifications – Product Rationalization

Deloitte has conducted dozens of product strategy engagements for a diverse set of clients; below are some representative engagements

Qualification	Market Sizing & Analysis	Customer Segmentation & Analysis	Marketing Effectiveness	Product Portfolio Strategy
Local exchange carrier	✓	✓	✓	✓
Automobile Manufacturer	✓			✓
Global High Tech Office Equipment Company	✓			✓
Audio and Video Equipment Manufacturing		✓		✓
Computer Equipment Manufacturer M&A	✓			✓
Manufacturer, marketing and distribution of spices, seasonings and flavors			✓	✓
Global Telco Alliance M&A				✓
Major Telco Service Provider Divestiture	✓			✓
High Tech Equipment Manufacturer	✓	✓	✓	✓
Manufacturer of consumer packaging products	✓	✓		✓
Manufacturer of hospital beds, furniture, and other equipment			✓	✓
Design and manufacturer of consumer electronics				✓
Wireless communications provider			✓	✓
Direct health and medical insurance carriers	✓		✓	✓
Replacement windows and doors Company		✓		✓
One of the world's largest food producers				✓
Global designer, manufacturer, and supplier of communications equipment, services, and systems	✓	✓		✓
Manufacturer of bottled water for the international market				✓
Weight-loss, nutrition and skin-care products company				✓
Manufacturer and distributor of pharmaceuticals and veterinary products)				✓
Hospital and medical service plan provider				✓
Premier supplier of power transmission components, drives, and conveying equipment				✓

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