



Australian Competition & Consumer Commission

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PRICING REVIEW

Advisory Report

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Pricing Review

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Pricing Review

Executive Summary

Objective

The Commission sought a review of pricing practices for products and services made available to the public. Reasons for undertaking the review included:

- The pricing of government goods and services has been under close scrutiny as a consequence of the politics associated with the introduction of the Goods and Services Tax;
- The Commission is introducing different types of products for which there are no existing pricing principles; and
- There is uncertainty regarding the implications on pricing of the GST.

We interpreted these requirements in terms of the following focusing questions:

Do the current pricing methods provide an appropriate level of cost recovery?

Can the pricing arrangements be enhanced?

What is the impact of the GST on pricing?

The answers to these questions are provided in the following section. Information in support of each is provided in cross-referenced sections of the Executive Summary and the Attachments.

Conclusions

We have drawn the following conclusions to the focusing questions:

Level of Cost Recovery?

It is our opinion that the Commission is recovering all of the costs associated with the preparation for, and distribution of, products for sale. We have not set out to identify the proportion of the total cost (development plus distribution) that is represented by sales.

We have supported this conclusion with a costing model that, although making brave assumptions, had provision for direct costs (salaries, materials, postage etc), indirect costs (computing, communications, storage and accommodation etc) and corporate overheads (support from the Executive, Corporate Services etc.).

The modelling indicates that, in the area of publications, there is a small contribution made to the development and set up costs. The average contribution was in the order of \$2 per item.

See Attachment A for details as to the modelling.

Enhancement to Pricing Arrangements?

The current pricing arrangements consist of:

- Regulated amounts – e.g. for copies from public registers;
- Comparative amounts – i.e. prices charged for similar facilities in the local area (for example - venue hire in Melbourne); and
- Indicative fees for publications by type – e.g. \$10 for guides and \$15 for conference papers.

We were unable to locate any documentation that would give support to the principles that underpinned the adoption of the discretionary charges. As a consequence, there is no guidance available to Commission staff with which to make assessments about the appropriate pricing for new or divergent products / services e.g. CD ROM copies from the public registers.

Formalising the basic principles could enhance the arrangements. *Some suggestions are provided under the heading Pricing Principles.*

GST Impact?

The potential impact of the GST, in a financial sense, can be illustrated by reference to the sales revenue earned in the previous financial year. That is, on sales of \$130,000 the GST would have been \$11,800. The Commission would not have attracted GST input credits on the inventory of publications prepared in prior years but would be able to claim a small proportion of costs incurred on the printing of items produced after 1 July as well as the GST component of materials and postage.

Whilst the Commission had revenue from other sources (some \$896,000) – for fees and charges – it is our opinion that these will be exempted from the GST arrangements. Further they will not attract any GST input credits.

Details and Proposed Model

Pricing Principles

The ACCC service charter states that information about individual's rights and obligations under the legislation will be available from ACCC offices. It is our opinion that this function is a *community service obligation* and that as a consequence no charges should be applied other than for expenses directly related to the additional effort required to prepare the material for public release.

Much of the printed material developed by the Commission is made available on a complimentary basis – either by mailing list or through its availability on the Internet. This is considered an appropriate demonstration of the Commission's observance of its *community service obligation*.

We recognise that the Commission is required by legislation to apply fees at specified levels. For example, the charges for certified copies and page copies from Public Registers. It is anticipated that any movements in these charges will be undertaken on a Commonwealth wide basis and after changes to the appropriate regulations.

Notwithstanding the former, it is appropriate to establish a basis of pricing that is simple to apply, is easily understood and can be applied to a wide set of current and future products. The advantages of such an approach are flexibility and reduced administrative costs. The latter benefit being currently achieved by having common prices for publications such as guides and conference papers.

However pricing is also a resource allocation mechanism. The Commission should not act in such a manner as to distort local market conditions by undercutting local competition. In pricing decisions such as venue hire charges it is appropriate to look to a charge that reflects the prices charged for similar quality facilities. This requires the Commission to recognise the full costs of providing the venue.

Proposed Pricing Model

We have developed a 'decision tree' to identify the key decisions that should be made in determining prices.

1. Is there a price directed by regulations?
2. Where the product or facility is available due to spare capacity (venue hire) is there a benchmark price that could be applied?
3. Are any of the development costs associated with the preparation of the product for sale?

4. If so, what proportion of the development should be considered as being related to the sales activity?
5. What proportion of staff time is allocated to the promotion, preparation for sale or distribution of the products? And at what levels?
6. Is this a type of product for which there is an established pricing level? For example a guide or conference paper.
7. If so, is the anticipated cost within the general price provision?
8. Is it possible to recognise materials and postage that are directly related to the sale of this product? (E.g. CD case, printing, wrapping etc.)
9. Do the staff members use computing and communications equipment in a similar proportion to the time they spend in (5) above?
10. Are there any assets that are used solely for this activity – e.g. CD burner? and
11. What is the anticipated sales volume on an annual basis?

The answers to these questions provide the input required for a simple costing model (a copy of which has been provided to the Commission).

The model would be used in the assessment of prices of new products in the following manner:

1. An assessment is made as to whether, and to what extent, development costs should be recovered;
2. Direct costs for materials are determined on a per unit basis – printing cost, packaging, postage etc.;
3. An assessment of the time required by staff at particular levels is made. Of these the only variable cost is for the staff members salary related entitlements – information can be obtained from personnel on a generic level; and
4. The transaction volume is estimated.

We have used this process to explore the pricing arrangements for some existing products as well as for the proposed sale of CD copies of the Public Register and subscriptions under the heading *'Examples of Extending the Model'*.

Background / Approach

The team that undertook the work consisted of:

- Frank Bowles - KPMG;
- Jenny Morris - ACCC; and
- Amanda Jupp – KPMG.

The review, was undertaken by talking to relevant staff of the ACCC's Canberra and Melbourne Offices. We sought details to support the basis for the determination of current prices through discussions and by review of documentation selected by analysis of the TRIM thesaurus.

It was necessary to create a simple costing model to make assessments as to the level of cost recovery provided by the current pricing arrangements. This procedure required the collection of financial information from Finance, Office Services, Personnel, Publications and Information Services. The outcome of the model was discussed with staff to determine their level of acceptance of its results.

We reviewed benchmark prices, where available, to establish the currency of the ACCC charges. *See Attachment B*

Current Arrangements

The current pricing arrangements for the publications is based on unwritten procedures. That is the publications have been divided into prices in accordance with their type and size. Price points of \$10 and \$15 were chosen for administrative convenience. Prices are often negotiated within the government and with external bodies.

An analysis of the known components of the sales price indicated that approximately 25% of the marked price related to printing expenses.

A significant proportion of the Commission's products are provided on a complimentary basis. The most significant of these are the bi-monthly journal and the Update. The printer (currently NCP) distributes the Journal to clients and ACCC offices. A mailing house distributes the updates.

The Commission also provides goods and services other than the publications. Charges have been determined for other types of products – e.g. venue hire in Melbourne and speaker's expenses for appearances at conferences. The pricing for these items was originally determined by benchmark comparisons. We are unaware if the benchmarks have been reviewed of recent times.

Some of the products delivered by the Commission have prices set by regulation. For example the cost for obtaining copies from the public registers. These charges are targeted to recover the administrative costs incurred in arranging the copying. When the same information is down loaded from the Internet there is no charge.

Assumptions

During the course of the review we were required to make assumptions on the following basis:

- the number of publications sold;
- the number of free copies distributed;
- the cost of some overheads;
- the cost of postage; and
- current cost allocations - as a consequence of the absence of some detailed definitions in Finance 1.

Consultation

During the review we spoke to the following:

- Alana Woods;
- Robert Booth;
- Ashley Cadogan-Cowper;
- Gail Neumann;
- John Corin;
- Howard Taylor;
- Bill Peterson;
- Mike Gottaas;
- Rudi Irgang; and
- James Malizani.

Pricing Comparisons

Internal Comparisons

Publication handling

As was mentioned previously the Commission uses product distribution by contract by NCP and Canberra Mailing House. The costs of mail handling as charged by the two contractors can be compared to the in-house distribution cost.

Postage of the Update is undertaken by the Canberra Mailing House and is charged directly to the Commission's Australia Post account. The handling cost of delivery for the Canberra Mail House is \$2.59.

On the other hand, the journals are printed by National Capital Printing who include in their price the cost for delivery. This cost is approximately \$3.00.

The estimated handling cost for internally handled items was \$3.50 but this cost included management of the mailing list and promotion activities.

External Comparisons

Venue Hire

The Commission releases two rooms in the Melbourne Office for hire to the public. We undertook a pricing study for the hire of these venues by comparable organisations. We also looked at equipment hire, although most equipment is included in the room hire price. *See Attachment B.*

Examples of Extending the Model

Example One – Training Materials

The Commission currently sells training manuals for various activities. The printing cost of the manuals is in the order of \$30 whereas the sale price is \$390.

The price is considered appropriate because the material was prepared for public release and therefore the development costs should be amortised over the anticipated number of sales. That is Pricing Principles 4 and 11 come into effect. We have not undertaken a detailed costing but would consider the \$360 contribution per copy as being sufficient to cover development and distribution costs.

Example Two - CD ROM copies of the Public Register

The proposed distribution of copies of extracts of Public Registers on CD has two objectives. Firstly to make the information more available and secondly to change the Public Viewing Room concept from a physical to an electronic arrangement. The mark up work undertaken on the public register material was directed to its availability on the Internet and is not associated with preparing the product for sale. We would therefore not support loading the overall cost with a proportion of the development costs.

The process does have direct costs – CD and case, printing of the CD insert, burning the CD and sales promotion (pricing principle 3). We can estimate the proportion of staff time that will be allocated to the preparation of the CDs (pricing principle 5) and we can identify specific assets (pricing principle 10).

The materials costs have been estimated at \$4.50 per copy, postage at \$2.50 per copy, amortisation of the CD burner at \$1.00 per copy and staff and support costs of \$10 per copy due to the small anticipated volume.

There are neither benchmark comparisons nor pre-existing pricing points (pricing principles 2 and 6).

We have run the figures through our cost model, estimating a sales volume of 500 per year. Bearing in mind the assumptions previously identified we consider that the CDs could be priced in the range of \$20 to \$25.

NB A similar reasoning could be used for the pricing of the CD containing media releases. However it is feasible that a shared arrangement with Corporate Information could result in economies of scale and a lower overall price for the burning of the CD for both public register information and media releases.

Example Three - Subscriptions

By definition a subscription refers to the distribution of a series of related items over a stipulated period. For example monthly copies of a corporate journal.

The pricing principle for a subscription would follow the pattern previously described in that it represents a known number of distributions for products that are of similar cost. To calculate the subscription cost using the pricing model the following procedure would be used:

- 1 Calculate the price estimate for a single issue;
- 2 Multiply this cost by the number of issues;
- 3 Determine the discount that would reflect the reduced amount of administrative activity that would be related to handling a single payment e.g. 5%; and
- 4 Apply the discount to the total price and then round up or down to the closest pricing point.

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Attachment A

Costing Models – Publications and CDs

Costing Model for ACCC Publications

	%	Rate	Volume	Cost
Direct Costs				
Salary	50	44430	1	22215
Materials	100	50	1	50
Printing for Sold Copies	100	25000	1	25000
Postage	100	27500	1	27500
Mailing House Fees	100	2.5	19000	47500
NCP Journal	100	2800	4	11200
Indirect Costs				
Computer Costs	50	2000	1	1000
Printer	10	1800	1	180
Communications	50	1080	1	540
Facsimile	10	1080	1	108
Storage Space - Basement	100	80	60	4800
Storage Space - 7th Floor	10	210	16	336
Sales Officer Space	50	4578	Std.	2289
Overhead Costs				
Corporate Overheads	50	20000	1	10000
Total Costs				152718
Activity Levels				
		#		Average Co
Items Distributed		13392		\$5.15
Number of Distributions		6696		\$10.31
Example Pricing				
Printing Cost Per Copy				\$2.95
Average Handling Cost				\$5.15
Lowest Cost Recovery Price				\$8.10

Costing Model for ACCC Public Register CD

	%	Rate	Volume	Cost
Direct Costs				
Salary	10	34000	1	3400
Materials	100	4.5	500	2250
CD Burning	100	580	1	580
CD label printing	100	1	500	500
Postage	100	2.5	500	1250
Indirect Costs				
Computer Costs	10	2000	1	200
Printer	10	1800	1	180
Communications	10	1080	1	108
Facsimile	10	1080	1	108
Overhead Costs				
Corporate Overheads	10	5000	1	500
Total Costs				9076

Activity Levels

	#	Average Cost
Items Distributed	500	\$18.15