



Efficiency, cost recovery and pricing: examples of approaches

Revenue Policy Development Board 30th April 2019



Purpose

- Set out strategic approaches to costing, pricing and charging
- Illustrate a framework for developing a strategic approach
- Take steer and direction from the Board on next steps

Structure

- Set out approaches to costs and pricing (20 mins)
- Group discussion (20 mins)
- Next steps (5 mins)

Approaches elsewhere



Cost, price and charging framework Our Approach & Methodology



1 3 5 2 4 Define strategic objectives of the Develop robust Consideration of **Develop new** Scoping / product or service understanding of factors which may understanding the pricing and (e.g. policy, cost of delivering influence pricing current picture charging approach behavioural, decisions product or service commercial) Determine the degree to Scoping the current Applicability of different Each service to set Consider factors such as picture of fees and political, behavioural, pricing strategies which which cost recovery is to political sensitivities, charges across commercial objectives be achieved and ensure market competition, achieved predetermined Departments firm justification where customer segregation strategic objectives, it is not achieved. etc. which may have including: Any issues or technical positive or adverse Cost based constraints which need Utilise this step as an effects on pricing Competition based to be taken into Demand based opportunity to assess decisions. consideration, which the efficiency of the affect the areas in scope delivery model.

A five-staged approach

SCOPING PRODUCTS & SERVICES



Cost, price and charging framework STEP 1: Scoping products & services





STEP 2 DEFINE STRATEGIC OBJECTIVES

Cost, price and charging framework STEP 2: Define Strategic Objectives

Strategic discussion about policy, behavioural and commercial objectives for (a) Government as a whole (b) particular service. Note – basket of objectives may apply; not necessarily mutually exclusive

	Influence behaviour	Fund Investment	[Generating a higher level of income for the purpose of either investing back into the product or service to improve it or into another area of focus
Deliver policy priorities		Influence Public Behaviour	[Control of access through encouraging or discouraging use of a product of service e.g. encourage recycling or reducing car use.
		Respond to Competition	[Considering a change in price to respond to recent market activity
		Increase Customer Retention	[Increasing revenue through increased market share or repeat customer business
		Develop a new Customer Base	[Is the Government considering entry into a new market or introduction of a new product / service
		Improve Customer Service	[Improving the quality of the product or service to drive customer satisfaction, having the potential to increase uptake and / or retention
		Increase Productivity	[Increasing the productivity and efficiency of delivering the product of service i.e. better resource allocation, economies of scale, cost reduction.
		Drive Revenue Growth	[Generating a higher level of income through greater volumes of product sales or increased use of service (both in terms of frequency and customer base).
		Increase Profit Margins	[Increase profitability through better cost management, increasing turnover, increasing productivity, and increasing efficiency.
		Ensure Value For Money	[Ensuring there is value derived from every purchase of product or use of service for money spent. This includes efficiencies as well as cost.
		Introduce New Products (New & Existing Markets)	[Is the objective to introduce and establish a target audience for a new product or service or an existing product or service into a new market.





Cost, price and charging framework STEP 3: Exploring Costing Methodologies

Many approaches to derive costing – appropriateness will be determined by the product/service in question

1. Activity based costing	2. Target costing	3. Direct costing	4. Standard costing	5. Job costing	6. Process costing
 Matching overhead costs as closely as possible with organizational activities 	• Costs that are expected to be incurred and how this will impact the viability of the product or service	 Costs that are directly associated with changes in production volume 	 Creation of predetermined costs to approximate actual costs 	 Production costs attributable to specific units or groups of units 	 Costs for processes, which involves homogenous products or services





STEP 4 & 5: PRICING INFLUENCES & STRATEGIES

Cost, price and charging framework STEP 4 & 5: Pricing influences & Strategies

Many factors influence pricing – some are more within our control than others

Examples of pricing influences

There are various strategies for pricing, depending on the commercial and strategic objectives

Examples of pricing strategies





Group discussion



What's your view on...



Services in scope?

Priority areas?

Strategic objectives?



Influence Public Behaviour

Respond to Competition

Increase Customer Retention

Develop a new Customer Base

policy priorities

Deliver

behaviour

nfluence

Improve Customer Service

Increase Productivity

Drive Revenue Growth

Increase Profit Margins

Ensure Value For Money

Introduce New Products (New & Existing Markets)







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