

# 6. Block Pricing for Indian Postal Services

## 1. Introduction

CURRENTLY, IPD charges differential prices for several of their services depending on their value or weight. The services having block prices by weight are: letters, book packets, parcels, newspapers, etc. while money orders, postal orders have block prices by value. Table 6.1 provides information about block prices charged by IPD during the year 1985-86 for some of its services.

There are several arguments for justifying block pricing by IPD for some of its services. First of all, the cost of supplying a service may vary with the weight or value of the service. Secondly, there may be private market alternatives for bulk services, in terms of weight or value so that IPD has to offer concessional prices to keep its share of market of these services. Thirdly, concessional prices can be charged in respect of services which are known to be availed of more by the poorer sections on equity considerations.

In the case of letters, books, newspapers and parcels, the cost of providing the services may increase with the weight. Also, there may be private market alternatives for bulk services in weight so that IPD has to fix the prices at concessional rates to keep its share of market. Therefore, depending upon the relative weights that IPD gives to these opposing factors, the prices for different blocks of a given service often have to be fixed at varying rates.

Though this has not been tried in practice, it is also possible to have differential prices for a given service according to source of demand. If it has the objective of distributional equity, there is a justification for having differential prices for a given service depending upon whether its demand originates from rural or urban sectors, developed regions or backward regions, and business or household sectors in the economy. For example, (the case of IPD charging) different prices can be charged for traffic originating from developed regions and backward regions of the country. Depending upon a well defined criterion, one may be in the position to identify certain pockets of the country as developed and others as less developed. IPD can thus have dual prices for a given service: a lower price for less developed regions to promote the objective of reducing regional disparities. For registered mail originating from different regions, dual pricing scheme can be easily implemented while it may be necessary to make special efforts to implement it for unregistered mail. Post offices in the less developed regions may be supplied with specially embossed post cards, inland letters and envelopes with concessional prices notified on them which would be valid if the cards etc., are mailed through a post office in a backward region.

## **2. Block Prices for Letters**

Letter is an important service which has differential prices fixed by IPD by weight classes. Column (5) of Table 6.1 shows the actual prices for letters charged by IPD by weight classes during the year 1985-86. These prices range from Rs. 0.35 to Rs. 1.65 for weights varying from 10 to 100 grams. On the other hand, the estimated cross-subsidy-free prices by weight classes, as given in column (4) of Table 6.2, range from Rs. 0.20 to Rs. 3.80 as the weight of the letter varies from 10 grams to 100 grams. These cross-subsidy-free prices are estimated by assuming that the supply cost of letters increases in direct proportion to their weight.

**TABLE 6.1**  
**Block Prices Charged by IPD During the Year 1985-86**

<i>Item</i>	<i>Rate charged (Rs. )</i>
<b>Registration Fee</b>	
(a) Fee	2.00
(b) Stationery charge	0.10
<b>Insurance Fee</b>	
(a) Upto Rs. 100/-	1.00
(b) Per Rs. 100/- thereafter upto Rs. 5,000/-	0.50
(c) Per Rs. 1000 thereafter upto Rs. 10,000/-	3.00
<b>Money Order</b>	
(a) Per Rs. 10/- upto Rs. 20/-	0.25
(b) Per Rs. 20/- beyond Rs. 20/-	0.50
<b>VPP Posting Fee</b>	
(a) Upto Rs. 10/-	0.50
(b) Exceeding Rs. 10 upto Rs. 20/-	1.00
(c) Exceeding Rs. 20/-	1.50
<b>Demurrage charge on V P Articles</b>	
<b>For detention beyond 7 days</b>	
(a) Parcels	0.25
(b) Other articles	0.15
<b>Indian Postal Orders</b>	
(a) For each upto Rs. 10/-	0.20
(b) For each upto Rs. 20/-	0.40
(c) For each upto Rs. 30/-	0.60
(d) For each upto Rs. 40/-	0.80
(e) For each upto Rs. 50/-	1.00
(f) For each upto Rs. 100/-	2.00

Table 6.1 (Cont'd.)

<i>Item (in grams)</i>	<i>Rate charged (Rs.)</i>
<b>Letters</b>	
(a) Upto 10gms	0.50
(b) For every 10gms thereafter	0.20
<b>Book Patterns, Sample Parcel</b>	
(a) Upto 50gms	0.30
(b) Every added 25gms in excess	0.15
<b>Book Packets containing Printed Books</b>	
(a) Upto 100gms	0.15
(b) For added 50gms or part thereof	0.10
<b>Parcels</b>	
(a) For first 500gms	3.00
(b) Every added 500gms or part thereof	3.00
<b>Book Packets containing Periodicals (Registered)</b>	
(a) For first 100gms	0.25
(b) Every added 50gms or part thereof	0.30
<b>Newspapers (Single copies)</b>	
(a) Upto 50gm	0.05
(b) Upto 100gm	0.15
(c) Every added 100gms or part thereof	0.10
<b>Newspapers (Multiple copies)</b>	
(a) Upto 100gms	0.15
(b) Per every added 100gms or part thereof	0.10

**TABLE 6.2**  
**Estimated and Actual Rate Charged According to Various**  
**Slabs for Letter Mail Services During the Year 1985-86**

<i>Weight slabs (in gms.)</i>	<i>Average weight</i>	<i>Relative frequency</i>  (Rs.)	<i>Estimated Cross- subsidy-free Prices</i>	<i>Actual Prices</i>  (Rs.)	<i>Estimated Prices with a distinction between Fixed and Variable costs</i>  (Rs.)
(1)	(2)	(3)	(4)	(5)	(6)
0-10	5	44.0	0.20	0.35	0.95
10-20	15	17.5	0.60	0.45	1.04
20-30	25	10.0	1.00	0.60	1.12
30-40	35	7.5	1.40	0.75	1.21
40-50	45	5.0	1.80	0.90	1.29
50-60	55	3.6	2.20	1.05	1.37
60-70	65	3.2	2.60	1.20	1.45
70-80	75	2.4	3.00	1.35	1.53
80-90	85	1.6	3.40	1.50	1.62
90-100	95	1.0	3.80	1.65	1.71
100-300	200	4.2	7.99	4.65	2.58

In actual practice, it may be the case that the cost of supplying a letter may be fixed and has to be incurred by IPD irrespective of the weight of the letter. In the case of letters, with the exception of transport cost (airmail, RMS and surface), all other costs may be taken as fixed costs. Column (6) of Table 6.2 provides estimates of prices of letters by weight classes assuming that transport costs vary with respect to weight. These costs differ significantly from the estimates of costs given in columns (4) and (5) of the same table. Given the price of Rs. 0.95 for a letter weighing 10 grams, the estimates show that price increases by 9 paise per every 10 grams increase in weight, whereas in the case of prices actually charged by

IPD, given the price of Rs. 0.35 for a letter weighing 10 grams, the price increases by 15 paise for every 10 grams increase in the weight of the letter. Therefore, the differences in the estimates of prices presented in columns (5) and (6) are attributable partly to differences in the fixed cost and partly to differences in incremental prices across the blocks.

Given that IPD practises differential pricing for letters by weight classes, though in an arbitrary fashion, we recommend that any one of the methods described may be followed above for fixing these prices. However, we are more inclined towards the method that distinguishes between fixed and variable costs with respect to the weight of the letter. Differential pricing for letters from the point of view of distributional equity may, however, be followed if there is any evidence to show that letters in the lower weight categories are used relatively more by the poor than those of higher weight.

### 3. Block Prices for Parcel Services

The actual prices charged by IPD for parcels bearing different weights are at the rate of Rs. 3.00 per 500 grams in 1985-86. But the estimated cross-subsidy-free prices are much higher than the actual prices as can be seen from columns (4) and (5) of Table 6.3. The cross-subsidy-free price is Rs. 10.68 per 500 grams.

In the case of parcels also we may assume all costs with the exception of transport cost to be constant with respect to weight. Transport cost increases with weight/volume of the parcel. Column (6) of Table 6.3 presents estimates of prices of parcels by weight classes assuming that the transport cost per every 500 grams is estimated to be Rs. 2.51 using the data for 1985-86. The fixed cost of a parcel is estimated to be Rs. 12.77 while the variable cost increases at the rate of Rs. 2.51 for every 500 grams increase in the weight of a parcel. On this basis, the price of a parcel should increase from Rs. 14.03 to Rs. 34.11 as the parcel size increases from 250 to 4250 grams, as can be seen in column (6) of Table 6.3. However, if we have prices based on incremental/marginal costs only, the price changes from Rs. 1.26 to Rs. 21.42 as the weight of parcel

increases from 250 to 4250 grams. Column (7) of Table 6.3 presents these estimates. As we can observe from columns (5) and (6), the discrepancy between the actual rates charged by IPD and the prices based on marginal costs is much less in relation to discrepancies between the other estimates and the actual prices.

It is recommended that one of the procedures described above may be adopted for fixing the prices for postal services. We feel again, that as in the case of letters, the method that distinguishes between variable cost and fixed cost with respect to the weight of a parcel is superior as it is based on sound economic logic.

TABLE 6.3  
Estimated and Actual Rate Charged According to Various  
Slabs on Parcel Services During the Year 1985-86

<i>Weight slab range (in gms.)</i>	<i>Average value</i>	<i>Relative frequency</i>	<i>Estimated Cross-subsidy-free Prices</i>	<i>Actual Prices</i>	<i>Estimated Prices with a distinction between Variable &amp; Fixed costs</i>	<i>Estimated Prices based on Marginal cost</i>
			(Rs.)	(Rs.)	(Rs.)	(Rs.)
(1)	(2)	(3)	(4)	(5)	(6)	(7)
0-500	250	51.91	5.38	3.00	14.03	1.26
500-1000	750	24.75	16.14	6.00	16.54	3.78
1000-1500	1250	10.04	26.90	9.00	19.05	6.30
1500-2000	1750	5.74	37.66	12.00	21.56	8.82
2000-2500	2250	2.48	48.42	15.00	24.07	11.34
2500-3000	2750	1.66	59.18	18.00	26.58	13.86
3000-3500	3250	1.01	69.94	21.00	29.09	16.38
3500-4000	3750	0.88	80.71	24.00	31.60	18.90
4000-4500	4250	1.53	91.47	27.00	34.11	21.42

#### 4. Block Prices for Money Orders (MOs)

IPD charges differential prices for money orders by value classes. Actual commission charged by IPD for MOs during the year 1985-86 varies from Re. 1.00 for Rs. 50 to Rs. 24 for Rs. 1000 as can be seen from column (5) of Table 6.4. The cross-subsidy-free prices estimated under the assumption that cost of supplying MO services increases with the value of MO are much lower than the actual price. But given the peculiar characteristic of MO services, one cannot assume that the cost is an increasing function of the value of MO. For IPD the cost of supplying MO service may be the same irrespective of the value of MO unless one assumes a rapid increase in the risk factor with the rise in the value of the MO.

TABLE 6.4  
Estimated and Actual Rate of Commission Charged  
According to Various Slabs on MO  
During the Year 1985-86

<i>Value of MO slab wise</i>	<i>Average value</i>	<i>Relative frequency</i>	<i>Estimated Cross-subsidy-free Prices</i>	<i>Actual Prices</i>	<i>Estimated Prices with a distinction between Fixed and Variable costs</i>
(Rs.)			(Rs.)	(Rs.)	(Rs.)
(1)	(2)	(3)	(4)	(5)	(6)
0-50	25	34.85	0.20	1.00	2.00
50-100	75	24.32	0.59	2.00	2.00
100-200	150	16.83	1.18	4.00	2.00
200-300	250	8.57	1.97	6.50	2.00
300-400	350	3.63	2.76	9.00	2.00
400-500	450	4.82	3.55	11.50	2.00
500-600	550	1.83	4.34	14.00	2.00
600-700	650	1.0	5.13	16.50	5.00
700-800	750	1.3	5.92	19.00	5.00
800-900	850	0.5	6.71	21.50	5.00
900-1000	950	2.35	7.50	24.00	5.00



The distribution of cost of supplying MO services in direct proportion to the value of MOs may be justifiable only if IPD has other considerations like equity. In this case there may be a case for arguing that people living in rural India may avail this service for sending small amounts of money to their kith and kin mainly because they do not have access to banking. However, MOs involving larger amounts of money have to compete with the banking system in rural as well as in urban areas. The information relating to fees charged by commercial banks in India for demand drafts of various denominations is given in column (6) of Table 6.4. In order to compare these rates with the rates given in columns (4) and (5) of Table 6.4, we have to add to them the postal charges for sending a demand draft to the receiver. The differential charges for MOs by value classes have to be fixed keeping in mind all these considerations.

## **5. Conclusions**

In this chapter we have discussed the rationale for variable marginal prices for selected postal items such as letters, parcels and money orders. In designing these block prices the postal authorities have to pay attention to the link between the cost of these services and their weight/value, and the price structure of competitive services.

As with several other areas of operation of IPD, detailed statistical work needs to be done in order to better quantify the factors that affect variable marginal prices. Detailed information on joint and variable costs, the distribution of costs by weight/value and the tariff structure for competitive services should be obtained in order to develop a better structure of tariff for the services of IPD.