EXECUTIVE SUMMARY

ABC Parcel Services is a leader in package delivery via ground and air shipping. It has provided services internationally as well as in all the 50 United States for almost 100 years. At the beginning of 2001, the CEO and the management of the company were faced with an unusual fiercely competitive market and rapidly changing customer requirements. The automation implemented thus far did not justify premium prices from the customers anymore. Customers were able to receive the same services that ABC was able to provide using this automation, at competitive prices from other providers in the market. It was obvious to the management that a value added service had to be provided to keep the edge over the competition. Looking at the changing business landscape, one area that was identified as critical was a customer centric approach using automation. The results from the implementation of such a system were expected to be tremendous for the organization to counter the competitive pressure of rival organizations and maintain market leadership.

Keywords: customer centric information technology; package shipping; pricing; pricing systems

ORGANIZATION BACKGROUND

John has been the CIO of the ABC Parcel Services—a global leader in ground and air package shipping services—for over six months now. He joined ABC in 2000, after more than 20 years of leading information technology departments at various companies. In his short time with ABC, he realized that in spite of the opportunities in the market there were dangers that could drastically affect the profitability of the company. There were many adverse forces at large. Competition was innovatively using information technology to address market and changing customer demands. He knew that if action was not taken soon ABC, an organization that had survived the period during the Second World War and the Great Depression of 1930s, may not survive the information technology era of 1990s. ABC needed to enhance its ability to address its customer’s rapidly changing needs. Based on his experience, John realized that this could be achieved by changing customer facing processes enhanced by implementing solutions that utilized information technology as a competitive advantage.
John was aware about the price optimization systems being used in the Airline and Hotel industry. These customer centric price optimization systems have worked successfully in achieving profits despite cut throat competition in these industries. Based on this, he wondered if a balance between ABC’s customer requirements and the need to maximize revenue for ABC could be achieved by utilizing a similar customer centric price optimization system and its corresponding processes. (Bhaskar, 2002; Feldman, 2002)

From his readings, John knew that pricing is the ultimate marketing lever (Clemons & Weber, 1994; Feldman 2002; Shipley & Jobber, 2001; Monroe, 2001; Wyner 2002). Pricing has tremendous ramifications and is recognized by the management in many industries to permeate nearly every strategic area of an organization such as the marketing process (Wyner, 2002), the competitive strategy (Clemons & Weber, 1994) and the corporate performance (Shipley & Jobber, 2000) yet it is least understood as a process (Monroe 2001; Shipley & Jobber, 2001; Wyner 2002). Developing and executing a pricing strategy effectively calls for an understanding of the strategic rationale behind prices, having a knowledgeable team of personnel who can reach sound pricing decision through various model building strategies (Feldman 2002), having suitable technology tools to support pricing decisions (Clemons & Weber, 1994; Sung & Lee 2000) and having a continuous motivation to execute the strategy over time (Wyner 2002). This is only possible by strategic use of information technology. Information technology makes it possible to maintain detailed and accurate information about customers’ preferences, costs of servicing different groups of customers, competitive environment and substitutes for the products or services. Due to the availability of extensive data about the market, customers and competitive environment, customized sales profiles can be performed on the individual households and the purchasers. By capturing marketing information from the individual customer transactions and maintaining and using historical information, a firm can know who its most profitable customers are and target their marketing efforts to develop a favorable pricing treatment for these special customers (Peppers & Rogers, 1993). However, John was aware that the evidence from a number of quarters and industries indicated that pricing technologies, on their own, will not generate the benefits expected. Reports from Gartner Group and Meta Group highlight that (Johnson, 2004):

- Through 2006, more than 50 percent of all pricing implementations will be viewed as failures from a customer’s point of view
- Fifty-five to 75 percent of all pricing projects fail to meet their objectives
- The majority of business implementing pricing systems will underestimate the costs of pricing projects by as much as 40-75 percent.

To implement a successful pricing strategy, knowledge of organization background is essential (Bannan, 2004; Greenberg, 2002; Johnson, 2004; McKenzie, 2001). John was well aware of the organizational background of the company that he served. As a world’s leading package delivery company, ABC’s planes, trucks, employees, on an average, delivered 1.3 million packages each business day to nearly eight million customers in over two hundred countries and territories. Over 340,000 employees, 149,000 delivery vehicles, and five hundred planes supported this operation. The company had a very humble beginning. In the early 20th century, the company provided private messenger and delivery services such as the transportation of letters, hard baggage and trays of food. In the 1920s, the company narrowed its focus to package delivery for retailers. In the next three decades, the company pioneered the concept of consolidated delivery, combining packages for a particular neighborhood within one delivery vehicle and developed the first-ever mechanical sorter and conveyor belt system. Gradual innovation and expansion continued until the 1950s when ABC Parcel Services realized that its growth would be limited.
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