# A Guide to Better Postal Services Procurement

# INTRODUCTION

The NAO has published a report aimed at improving the procurement of postal services in the public sector which identifies annual potential savings across the public sector of £31 million. In addition to the main report, a good practice guide, based on public and private sector practices has been produced, highlighting six key areas of good practice.

This leaflet drawing on both of these, is a guide to help your organisation save money and improve the quality of the postal services you procure.

A full Good Practice Guide, the main NAO Report and this guide are available at **http://www.nao.org.uk/publications**
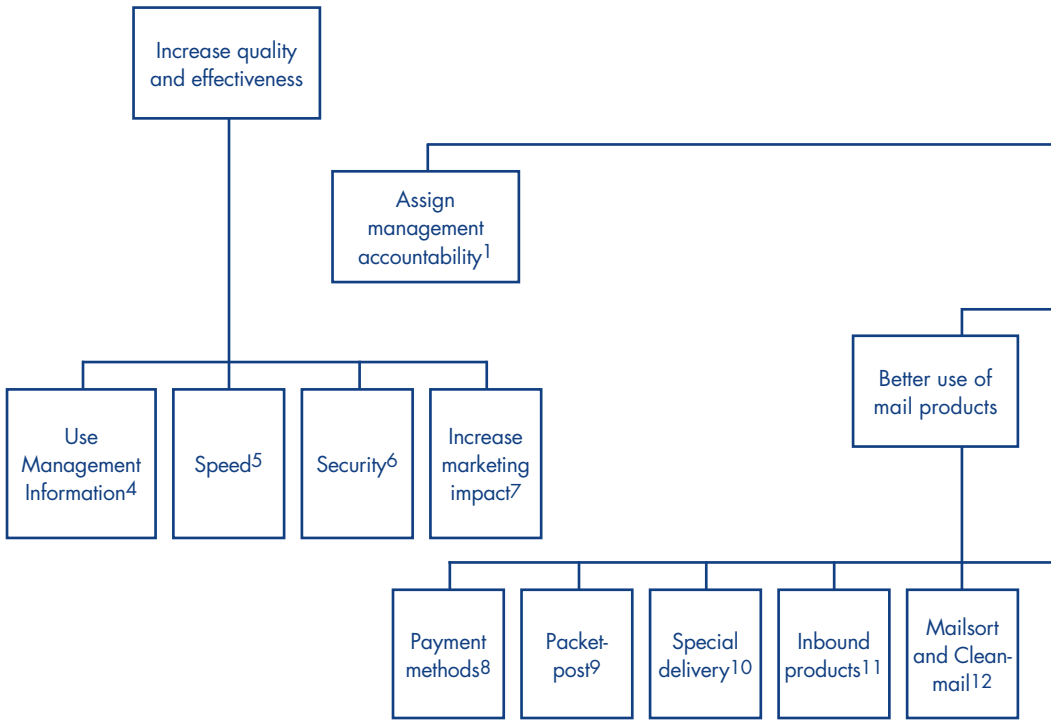
# CONTENTS

This booklet contains a summary efficiency improvement tree, six key actions to implement good practice, and a selection of useful reference sources.

# A EFFICIENCY IMPROVEMENT TREE

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                    ┌──────────────────┐
                    │ Increase quality │
                    │ and effectiveness│
                    └──────────────────┘
                              │
                    ┌──────────────────┐
                    │ Assign           │
                    │ management       │
                    │ accountability[1]│
                    └──────────────────┘
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| Use Management Information[4] | Speed[5] | Security[6] | Increase marketing impact[7] | | Better use of mail products |
|---|---|---|---|---|---|

| Payment methods[8] | Packet-post[9] | Special delivery[10] | Inbound products[11] | Mailsort and Clean-mail[12] |
|---|---|---|---|---|

1   Assign responsibility for postal efficiency;
    Put in place a financial management structure to encourage efficiency;
    Develop and recruit postal skills and experience;
    Communicate good practice.

2   Active contract management;
    Aggregate with other departments;
    Centralise inbound and outbound activities.

3   Develop strategies across the department and across multiple departments;
    Review processes;
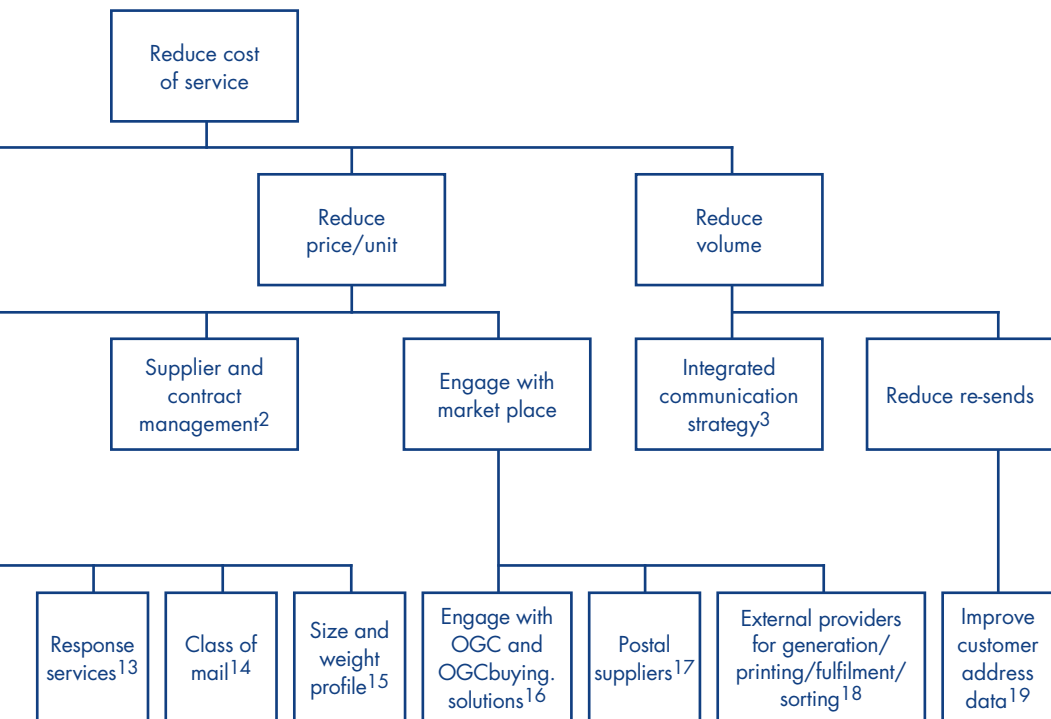    Use lower-cost communication methods for customer and intra-office mail.

4   Leverage existing financial and postal and printing operations systems and supplier information to gather performance data;
    Benchmark postal services performance.

5   Guaranteed date of delivery.

6   Assess use of high security products;
    Improve security design of mail piece (e.g. use of disguised mail).

7   Customer targeting;
    Improve communication design of mail piece;
    Consider use of COI for marketing strategy advice.

8   Use of eDocketing to improve invoicing;
    Assess use of Postage Paid

## Flowchart

**Reduce cost of service**

- **Reduce price/unit**
  - **Supplier and contract management[2]**
    - Response services[13]
    - Class of mail[14]
    - Size and weight profile[15]
  - **Engage with market place**
    - Engage with OGC and OGCbuying. solutions[16]
    - Postal suppliers[17]
    - External providers for generation/ printing/fulfilment/ sorting[18]
- **Reduce volume**
  - **Integrated communication strategy[3]**
  - **Reduce re-sends**
    - Improve customer address data[19]

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Impressions compared with franking machines.

9   Use of Packetpost where volume makes it appropriate.

10  Reduce use of special delivery.

11  Inbound sortation process changes.

12  Improve customer address data, software or mechanical mailsort implementation, manual sorting.

13  Reduce free reply services.

14  Move down to Second Class, Mailsort 3.

15  Audit mail profile to assess impact of Pricing in Proportion.

16  Leverage OGCbuying. solutions knowledge and tools for good practice.

17  Leverage OGC.bs framework agreements to achieve benefits from competitive tendering; Negotiate with 'End to End' and 'DSA' suppliers

to find best product to fit business requirements; Leverage supplier knowledge (e.g. to perform a mail audit); Encourage innovation in product development.

18  Mail as a managed service/solution; Consider use of Central Office of Information.

19  Compare address data with Royal Mail Postcode Address File; Align customer data across internal systems.

# B SELECT THE APPROPRIATE MAIL PRODUCTS

**Key questions for organisations to ask:**

1  *Do you use 'work share' products for outbound mail? These can offer discounts of 5-46%. Work share products can be done by:*

   ■ Software sorting, so printed in post code order

   ■ Mechanical sorting machines, to sort into post code groups after printing

   ■ Outsourcing the sorting

   ■ Manual sortation

2  *Could you use 'Cleanmail' to reduce mail cost? This product has basic address labelling requirements to get discounts*

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**Example:** DVLA estimates savings of £3 million a year from a mix of software and mechanical sorting and now sorts over 90% of mail.

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3  *Are there specific deadlines for mail?*

   Do customers expect or need the mail by a certain date? Savings could be made by using a longer delivery service (e.g. two-day, 2nd class, Mailsort 3)

4  *Have you reviewed payments methods recently?*

   Has the department considered the cost savings of Postage Paid Impressions over franking machines?

   ■ Postage Paid Impressions is a pre-printed alternative to postage stamps or franking machines

   ■ Savings due to reduced equipment/maintenance costs

   ■ But there is a minimum threshold for use (£5,000 per year)

5   *Do you use special delivery?*
    Could this usage be reduced?

6   *Is any sensitive data sent in
    the post?*
    Has the use of disguised mail
    been assessed?

7   *Higher priced mail products may
    represent better value overall.
    Have these been considered?*
    For example, secure delivery
    could help reduce fraud and theft.

8   *How do you process your
    inbound mail?*
    Could this be outsourced? Have
    you assessed supplier inbound
    mail products?

9   *Do you offer free reply services?*
    Is this cost-effective? Does the
    take-up justify the costs?

10  *What is the size, weight and
    formatting of your post? Have you
    considered the impact of Pricing
    in Proportion – Royal Mail's
    pricing model from Autumn 2006?*
    Size **and** weight will affect cost of
    mail. What mail items could be
    resized? – e.g. C4 sized
    envelope to DL sized. Costs
    may rise dramatically if this
    issue is not addressed!

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**Example:** HM Revenue and
Customs is looking to save
£3 million a year by changing
the size of New Tax Credit
correspondence size.

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## Example savings of pricing in proportion

| Format and size | Weight | Second class price pre 'Pricing in Proportion' | Second class price after 'Pricing in Proportion | Price increase |
|---|---|---|---|---|
| Large letter, 225 x 160 (mm) | 370g | £1.14 | £0.72 | -37% |
| Large letter, 220 x 220 (mm) | 72g | £0.35 | £0.35 | nil |
| Large letter, 220 x 220 (mm) | 26g | £0.21 | £0.35 | +67% |

*Source: Postcomm*

# **C** IMPROVE THE ACCURACY AND MANAGEMENT OF CUSTOMER ADDRESS DATA

*Are outbound addresses and customer information checked before mail is sent? Either when the information is input, through regular address cleansing, or before production?*

Example of how addresses are checked in a direct mailing campaign before mail is sent:

1   Remove records with incorrect or incomplete addresses.

2   Eliminate records that do not match the Royal Mail's Postcode Address File.

3   Apply the Mailing Preference Service – removes those who have opted out of receiving direct mail.

4   Take out 'deceased' files.

5   Apply the Royal Mail Change of Address File to remove out-of-date address information.

6   Apply private sector lists of customers for updated addresses.

7   Check across the organisation to avoid multiple mailshots.

8   Check for duplicates within mail batch.

*Can the organisation's percentage of undeliverable mail be reduced? Does the organisation use 'undeliverable' information to update address data?*

Updating your system with 'undeliverable' information from suppliers/customers could:

- Save printing/stationary costs
- Save costs of processing of undeliverable mail and checking of updated addresses
- Save postage costs
- Improve customer satisfaction with your service.

*Has the organisation looked at using external data sources to check address information and improve customer targeting?*

**Example:** Tesco was able to significantly reduce return mail costs by using Royal Mail undeliverable information for its Tesco Clubcard mailings.

# D USE PROCUREMENT AND SUPPLIER ENGAGEMENT GOOD PRACTICES

**Does the organisation have a clear understanding of:**

- The business requirements of post?

- The communication objectives for post?

- What the range of supplier products are?

- Where economies of scale could be used?

**Has the organisation considered:**

- The use of alternative suppliers through the OGCbuying.solutions' framework agreements?

- Outsourcing of mail production, sortation or processing?

- Closer, more active contract management?

- Working with other public sector organisations to increase purchasing power and use economies of scale?

**Key Example:** Airedale NHS Trust outsourced the print, production, and dispatch of outpatient communications to Optecon to get productive time, production, postal costs, and physical space savings as well as higher quality communications.

**Key Example:** A large local authority engaged Royal Mail to review their postal services. Royal Mail and the authority were able to identify potential annual savings of £50,000.

**Key Example:** Hull and East Yorkshire Hospitals Trust switched from Royal Mail to UK Mail to reduce postal costs.

# E INCREASE THE AVAILABILITY AND USE OF MANAGEMENT INFORMATION

**Collect data on spend and volume:**

■ Break down into mail product, type of mailing, source of mail, location of mail generation, average cost per unit, percentage of 'work share' used, use of first class/second class/Mailsort 3, address data quality

■ Engage with suppliers to obtain information

■ Use internal purchasing and finance systems.

**Use management information to focus on:**

■ Identifying and analysing spend levels

■ Delivery performance

■ New improvement targets

■ Stopping fraud.

**Benchmark postal services performance:**

■ Compare against public sector peers

■ Compare against industry.

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**Key Example:** HM Revenue and Customs used industry best practice figures to target savings of £4 million a year from improved customer address data.

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| Public and private benchmarks (2004-05) | | | | | | |
|---|---|---|---|---|---|---|
| **Indicator** | **A large government department** | **An Agency with high mailing needs** | **A large government department** | **An Agency with high mailing needs** | **Private sector - Financial services** | **Private sector - Utilities** |
| Average cost per item[1] | 27.8p | 21.7p | 24.1p | 21.5p | 22.0p | 20.4p |
| Percentage of 'work-shared' mail | 56% | 93% | 60% | 88% | 73% | 81% |
| **Percentage of mail sent by:** | | | | | | |
| First Class | 41% | 1% | 2% | 20% | N/A | N/A |
| Second Class | 58.5% | 99% | 87% | 49% | N/A | N/A |
| Mailsort 3 | 0.5% | 0% | 11% | 31% | N/A | N/A |

NOTE

1  A more complete breakdown of public sector breakdowns can be seen in our main report (http://www.nao.org.uk/publications)

# F DOES THE DEPARTMENT HAVE AN INTEGRATED COMMUNICATIONS STRATEGY?

Organisations need to:

- Understand customer needs

- Understand the organisation's communication objectives and policies

- Develop the communication strategy, balancing cost and benefit of communication channels

- Coordination between communications and procurement teams to understand advantages and commercial issues with the use of postal products

- Develop strategies across departments for joint mailings

- Challenge the demand for inbound and outbound mail

    - Is the mail piece necessary?

    - Is it the appropriate class and product?

    - How is mail sent – most efficient size and weight?

- Assessing post within a communication, production and delivery value chain (see figure opposite)

> **Key Example:** The DWP's Pension Service in response to a customer survey is now accepting pension applications over the phone, reducing inbound post by 60% and gaining productive time savings.

### The postal value chain

Communication Strategy

**Outbound Communications**

Start

Need for communications

Internally or externally driven

Choose communications method

Contact strategy:
- Face to face
- Web
- Telephone/ SMS/fax
- Correspondence

Generate electronic correspondence

Apply address data rules

Choose mail or courier product

| Management | Procurement |
|---|---|

**Inbound Communications**

```
                                                                    ┌──────────┐
                                                                    │  Start   │
                                                                    └────┬─────┘
                                                                         │
┌──────────────┐   Stationery    ┌──────────────┐              ┌──────────────┐
│ Printing and │   management    │ Delivery to  │              │  Customer    │
│ mail         │◄──────          │ local        │              │ communications│
│ production   │                 │ delivery office│            │              │
└──────┬───────┘                 └──────┬───────┘              └──────┬───────┘
       │                                │                             │
┌──────▼───────┐                        │                      ┌──────▼───────┐
│ Sorting by   │                ┌───────┴───────┐              │ Mail product │
│ post code    │                │               │              │ choice       │
└──────┬───────┘                ▼               ▼              └──────┬───────┘
       │                 ┌───────────┐   ┌───────────┐                │
┌──────▼───────┐         │ Delivery  │   │ Undeliver-│          Mail room
│ Pick-up of   │         │ to        │   │ able      │          operations
│ mail from    │         │ addressee │   │           │                │
│ customer     │         └───────────┘   └─────┬─────┘          ┌──────▼───────┐
└──────┬───────┘                               │                │ Receipt and  │
┌──────▼───────┐                               └───────────────►│ process      │
│ Supplier     │                                                └──────────────┘
│ passes mail  │
│ through their│
│ sorting      │
│ offices      │
└──────────────┘
```

Management Information – collection and monitoring

*Source: National Audit Office*

## G DEVELOP CAPABLE AND EFFECTIVE MANAGEMENT STRUCTURES

*What management structures are in place?*

- Is there a senior manager with clear accountability for postal initiatives and monitoring postal use?

- Are there incentives for all business units to be efficient in postal service use?

- Is there clear communication of procurement policies?

- Is there a strong relationship between postal teams and other areas of the department to review communication requirements? Such as,

  - Supplier account managers working together

  - Anti-fraud and post teams working together

  - Call centre and post teams engaging to enable effective call centre usage

  - Post and publications working together to enable benefits on mail pricing schemes

## H REFERENCE SOURCES

*NAO – Good practice guide, main report, and this guide*
**http://www.nao.org.uk/publications/index.htm**

*OGCbuying.solutions*
**http://www.ogcbuyingsolutions.gov.uk**

*Royal Mail – Pricing in Proportion*
**http://www.royalmail.com/pricinginproportion**

*Postcomm*
**http://www.postcomm.gov.uk/**