

PERFORMANCE AUDIT OF THE USPS WELCOME KIT PROGRAM

September 20, 1999

NICHOLAS F. BARRANCA
VICE PRESIDENT, OPERATIONS PLANNING

SUBJECT: Audit of the USPS Welcome Kit Program
(Audit Report Number DS-AR-99-002)

This report presents the results of our review of the United States Postal Service National Change of Address – Welcome Kit Program (Project Number 99PA002DS000). Grant Thornton LLP was engaged to conduct the audit on the behalf of the Office of Inspector General. This is the second of two reports responding to a congressional request to assess the industry implications of including advertisements in the Welcome Kits.

The audit revealed that including advertisements in the Welcome Kits does not impact the advertising industry. The audit disclosed that although it appears that the one mailer has access to information from the USPS that is not available to other bulk mailers, other bulk mailers (i.e., licensees) have access to the same information for the purpose of updating existing address lists. Further, the audit disclosed that there was hard evidence that two of the three objectives of the Welcome Kit program, to reduce costs and increase revenues, were being met. However, there was no evidence to support a conclusion that customer satisfaction had improved. We recommended that USPS management include questions related to the Welcome Kit program in their customer satisfaction surveys. Management agreed to the recommendation.

We appreciate the cooperation and courtesies provided by your staff during the review. If you have any questions or need additional information, please contact me at (703) 248-2300.

Richard F. Chambers
Assistant Inspector General
for Performance

Attachment

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A. Purpose and Background

The purpose of this review was to independently assess the methodology used for implementing and operating the Welcome Kit program.

Each year the Postal Service (USPS) touches the lives of more than 40 million customers who file an official change of address notice. The USPS estimates that approximately 17 percent of the nation's population moves each year. These moves resulted in approximately 2.7 billion pieces of forwarded mail and 43.5 million change-of-address cards in 1997.¹

The USPS receives a change of address notice from the patron and subsequently sends out a customer notification letter to the new address. Prior to the summer of 1995, the USPS sent out all of the customer notification letters. Subsequently, Targeted Marketing Solutions, Inc. submitted an unsolicited proposal to the USPS to embark on a strategic alliance between the USPS and Targeted Marketing Solutions, Inc. This strategic alliance would provide for sending out customer notification letters to individuals (not business entities) in the form of a Welcome Kit. It was proposed that move-related advertising included in the Welcome Kits would cover costs and any net profits would be split 50/50.

Based on an in-depth legal review and cost analysis by postal management, it was determined that the strategic alliance agreement was a sound business decision that produced significant savings for the USPS. The agreement includes the caveat that the Welcome Kit is limited to one mailing and no further use of the changed address list is authorized. Targeted Marketing Solutions, Inc. instituted controls to preclude illegal use.

B. Approach Used

The scope of this review was to evaluate the *intent* of the strategic alliance, the *methodology for selecting* advertising, and any *industry implications* of including advertising in the Welcome Kit. In determining the purpose and methodology, we requested copies of the strategic alliance agreement, any correspondence from or to industry groups, and any legal determinations related to the purpose or operations of this agreement. The audit was conducted between January and May 1999. We conducted interviews with USPS management, reviewed relevant USPS files and correspondence, and performed industry research. This audit was performed in accordance with Generally Accepted Government Audit Standards.

¹ Comprehensive Statement of Postal Operations 1997, Pg. 52

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B.1. Intent of Strategic Alliance and Welcome Kit Program

The reason the USPS established a strategic alliance agreement with Targeted Marketing Solutions, Inc. (now Imagitas) for Welcome Kits and other move related services, was to combine the core competencies of both parties. Whereas the USPS was very sophisticated in recording requests for changes of address, Targeted Marketing Solutions, Inc. was sophisticated in bulk mail operations and soliciting advertising. Unlike standard postal procurements, an alliance agreement allows the flexibility necessary to expand the relationship as new opportunities arise.

The Welcome Kit program is intended to meet both practical and emotional needs of movers by providing local government office and move-related advertising information, and to enhance USPS public relations. All advertising must fall into pre-defined categories related to moving activities. Advertisers participating in the program generate revenue. The USPS and the strategic alliance split the net profit 50/50.

In summary the Welcome Kit program is intended to generate revenues from direct advertising, reduce costs by eliminating the need for the USPS to print and distribute change of address customer notification letters, and better serve moving customers by providing them with helpful information related to moving. Success is measured by the ability to improve customer satisfaction, decrease costs and generate new revenue.

B.2. Methodology for Selecting Advertising

The strategic alliance agreement established principles for selecting advertisers consistent with the objective of maximizing customer value. The advertising fair solicitation policy written into the contract clearly spells out the process for fair treatment of potential advertisers. Solicitation is requested from companies offering services in pre-defined categories and having national or substantial regional distribution. If multiple advertisers bid within the same category, selection is made based on “best value” after allowing each company five business days, from the tie breaking notice, to provide a revised agreement at a value greater than previous agreements.

Each solicitation is evaluated for greatest value, the determination of which is objective and simple: the highest financial amount. Greatest value is determined solely by Imagitas since the final agreement is between the strategic alliance and the advertiser. This is to ensure there is no direct or implied endorsement of advertisers by the USPS. However, the USPS has a right to review and audit to ensure that determinations and fair solicitation practices are in accordance with the terms of the strategic alliance agreement.

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Once contracts are established, a draft of the advertisement is provided to the USPS for approval. The USPS reviews the advertisements for content, graphics and completeness. If the advertisement is approved, the USPS sends an approval notification back to the Imagitas with the advertisement. However, if the advertisement is not approved, the USPS notifies Imagitas of required changes. Unapproved advertisements are either removed from the advertising schedule or resubmitted with required changes.

All advertisements must be truthful, safe, show efficacy and financial responsibility. Further, advertiser warrants that they will not use the names or logos of the USPS in advertisements or other promotional or information material for the advertised product or service without the express written consent of the USPS.

B.3. Determining Industry Implications

In determining industry implications, we first determined that the relevant industry is the bulk mailing industry rather than the advertising industry. The Welcome Kit program does not affect the advertising industry in that advertisers' normal practices are not limited, restricted, or changed as a result of the Welcome Kit program. This determination is also based on the fact that the bulk mail industry has voiced concerns about the Welcome Kit program.

The Welcome Kit is limited to one mailing and no further use of the changed address list is authorized. Also, very stringent and randomly tested controls are in place to prevent unauthorized use, resulting in only one mailing opportunity to each mover. Imagitas does not directly receive nor maintain the changed address listing for any other use, precluding them from obtaining a market advantage. Further, inclusion in the Welcome Kit does not and can not imply any USPS endorsement.

The licensee program provides an avenue for bulk mailers to have access to USPS changed address information. Licensees can update their existing address lists with the changed address information made available through the National Change of Address licensee program. Once licensees update their address lists, they are not limited to one mailing, as in the case with the Welcome Kit.

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C. Summary

The intent of the program was threefold: increase customer satisfaction, reduce costs and increase revenues. There is hard evidence that two of the three intents have been met.

- Recently audited strategic alliance accounting records indicate that through December 31, 1997 there were net profits of over \$1.5 million.²
- USPS no longer has to process, print, or mail customer notification letters, which results in significant cost savings to the USPS. It was estimated to cost the USPS over \$6 million to perform these functions.
- As to increased customer satisfaction, the Welcome Kit is not part of the USPS customer survey questionnaires, but there is nothing to suggest that customers are dissatisfied with having additional information included in their notification letters.

Therefore, the intent of the Welcome Kit program is reasonable and compared with private industry, emulates good business objectives. Additionally, correspondence from the USPS, Office of General Counsel clearly shows that relevant laws and regulations were considered before the strategic alliance agreement was awarded.

The methodology of selecting advertising is sound, fair and reasonable. Advertisers are notified in advance of the selection criteria. To protect against improper advertising, both Imagitas and the USPS review advertisements. The ability of the USPS to review advertisements, and randomly test the selection process, provides comfort that the contract controls ensure fairness.

The USPS National Change of Address management conducts random tests of controls protecting against unauthorized use of the changed address listings, through seeding and unannounced reviews. They have found no problems. Also, an audit of the strategic alliance is conducted annually by an independent public accounting firm. In the April 17, 1998 report of independent auditors, the report stated that the program was operating in compliance with the contract terms regarding financial operations and advertising contract award process.

Regarding concerns expressed by the bulk mailing industry about changed addresses being available to one mailer (Imagitas) and not to all, thereby creating a market advantage, we conclude that this is mitigated as follows. Even though Imagitas, as part of the strategic alliance, appears to have access to information from the USPS that is not available to other bulk mailers, other bulk mailers (if licensees) have access to the same information for the purpose of

² Consolidated Statement of Revenues and Costs, Report of Independent Auditors, Ernst & Young, dated April 17, 1998

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updating existing address lists. The equalizing difference is that Imagitas can only use the complete list once for the customer notification letter Welcome Kit mailing and can not reuse the list for repeat notices or mailings, while licensees can use their updated listings as many times as desired.

Another concern expressed by bulk mailers addressed the separation between competitive and non-competitive postal products, and stated a need for prohibiting cross-subsidizing both competitive and non-competitive products and services. However, our review disclosed that relative to the Welcome Kit program, there is no cross-subsidization from any non-competitive mail revenue, since they are operating at a net profit.

Another bulk mail association stated “The USPS should not get into businesses that are unrelated or marginally related to its mission of delivering mail...” Yet the USPS was initially required to bear the entire cost of sending out customer notification letters, as it was an inherent part of the USPS mission. Consequently, the inclusion of advertising to reduce costs and potentially create revenue is not a change in mission, but just good business.

Finally, the Welcome Kit program is just an enhancement to the customer notification letter mailings. The customer notification letters still need to be mailed, and adding advertising to benefit the customer does not change the nature of the effort.

D. Recommendation

We recommend that the USPS management include questions related to the Welcome Kit program in their customer satisfaction surveys. This will allow the USPS to demonstrate that this program meets customer needs and/or enhances the USPS public relations.

E. Summary of Management’s Comments

The Vice President, Operations Planning agreed with the recommendation contained in this report. Management stated that including specific questions related to customer satisfaction with the Welcome Kit, in the survey, would provide tangible evidence of the Welcome Kit’s success. Management’s verbatim responses are contained in the Appendix.

F. Evaluation of Management’s Comments

Management comments and corrective actions taken or planned are responsive to the recommendation offered in this report.

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NICHOLAS F. BARRANCA
Vice President, Operating Programs



August 30, 1999

RICHARD F. CHAMBERS

SUBJECT: USPS Welcome Kit program (DS-AR-99-DRAFT)

Thank you for the opportunity to respond to your draft report of the performance audit of the USPS Welcome Kit program (DS-AR-99-DRAFT).

We are very pleased with the report's findings, particularly with the results indicating that the Welcome Kit program is reasonable and, compared with private industry, emulates good business objectives. The report also acknowledges that relevant laws and regulations were considered before entering into the strategic alliance agreement that resulted in the Welcome Kit.

Additionally, we agree with your recommendation to include the Welcome Kit as part of the USPS customer survey questionnaires. Including in the survey specific questions related to customer satisfaction with the Welcome Kit will provide tangible evidence of the Welcome Kit's success. It will also provide feedback that will help us identify areas needing improvement. We will coordinate the addition of these questions with our marketing department.

Again, thank you for the opportunity to respond to your audit report. If you would like to discuss any of these comments, please contact Audrey Conley at 800-331-5746.

A handwritten signature in black ink, appearing to read "Nick Barranca".

Nicholas F. Barranca

cc: Michael L. Murphy

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