

**COMMISSION
ON REFORM
AND EFFICIENCY**

**C
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**CENTRAL MAIL
BENCHMARKING
PROJECT**

JULY 1992

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**COMMISSION ON REFORM
AND EFFICIENCY**

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EXECUTIVE SUMMARY

The Commission on Reform and Efficiency (CORE) was created by Gov. Arne Carlson and the State Legislature in 1991 to improve the management of Minnesota state government. In January 1992, CORE staff began a benchmarking pilot project for the Department of Administration's Central Mail facility. The project was to test the usefulness of the benchmarking technique in a government environment and to determine its usefulness to other CORE projects. Technical assistance was provided to CORE by a consultant from the Xerox Corp.

Benchmarking defined

The Xerox Corp., nationally recognized for its successful use of benchmarking as a quality improvement tool, defines benchmarking as "the continuous process of measuring products, services and practices against the toughest competitors or those organizations recognized as leaders." Benchmarking identifies gaps between an organization's performance and that of the best in the industry.

The practice to be benchmarked for the CORE project was the internal postage

billing system of the Central Mail Unit of Administration's Print Communications Division. Central Mail is the primary mail handler for Twin Cities area units of state government. The facility handles more than 30 million pieces of mail annually. According to the facility manager, Central Mail has faced increasing mail volumes without receiving commensurate increases in legislative appropriation or staff positions. The manager was looking for ways to focus more existing resources on mail processing.

To find the "best" organizations for benchmarking purposes, the project team sent a preliminary questionnaire to 13 public and private organizations with centralized mail facilities. From these, five were selected for site visits, along with a sixth operation in the Minnesota Department of Human Services.

Recommendations

After visiting benchmark sites, the project team identified performance gaps between the benchmark billing processes and Central Mail's, and developed recommendations to close the gaps. The following recommendations are detailed in the full report:

1. Measure and monitor the process
2. Upgrade equipment
3. Bar code mail slips
4. Eliminate mail slip return
5. Eliminate postage-due acknowledgment slip
6. Transfer postage stamp sales to Central Stores
7. Directly debit user agency accounts
8. Improve cash flow in other ways
9. Implement a "Just In Time Postage" program as soon as practicable
10. Examine the strategic implications of the MAXIS mailing facility
11. Continue centralized mailing
12. Eliminate non-value-added activities
13. Improve the customer service survey and other tools
14. Improve space
15. Pursue demand-leveling mechanisms

Benchmarking in the public sector

This study concluded that benchmarking can be very useful in the public sector. The project team found, however, that there are aspects of benchmarking unique to the public sector that should be considered by prospective users. Advice on the application of benchmarking to the public sector, a bibliography of helpful resources for the practitioner, and copies of the tools used in this pilot project are provided.

INTRODUCTION

The Commission on Reform and Efficiency (CORE) was created by Gov. Arne Carlson and the 1991 Legislature to lead a comprehensive effort to improve the management of Minnesota state government. The 22 commission members appointed by the governor and legislature represent state employee unions, the legislature, private business, education, and local government. The commission is staffed by the Management Analysis Division of the Department of Administration.

CORE's goal is to build on the strengths of state government to create systems that work better for everyone, with enhanced services for customers, full value to taxpayers, and an improved work environment for employees. As part of its mission, the commission is examining the structure and functions of government and will recommend changes in organization and program design.

In January 1992, a project team was formed to test benchmarking in Minnesota state government. Project team members were Therese Blaine, Anne Kelly, and Elizabeth Mairs, advised by Linda Hennem, a CORE team leader.

The concept and goals of benchmarking relate directly to the philosophy and princi-

ples guiding the CORE project. As stated in the CORE Work Plan for Long-term Redesign, CORE "will recommend alternative strategies for delivering government services, including a major restructuring of state government, to streamline service delivery, reduce costs and improve accountability." The outcomes of benchmarking also conform to the commission's vision for a state government that is mission-driven, oriented toward quality outcomes, efficient, responsive to clients, and respectful of stakeholders.

The CORE benchmarking project was designed to serve as a pilot project for the Department of Administration and a learning experience for the staff members involved. Throughout the project, CORE staff received guidance and assistance from Jack Rittenhouse, quality manager from the Xerox Corp. Mr. Rittenhouse briefed the department's executive team on the process and potential outcomes of a benchmarking project. Following this consultation, the executive team selected Central Mail, a unit within the Department of Administration's Print Communications Division, as the subject of the pilot because it is a relatively small, self-contained operation with a reputation for being well managed.

BENCHMARKING THEORY

The Xerox Corp., nationally recognized for its successful use of benchmarking as a quality improvement tool, defines benchmarking as "the continuous process of measuring products, services and practices against the toughest competitors or those organizations recognized as leaders." Benchmarking is based on the theory that an organization will achieve superior performance if it continuously seeks to enhance its own operations by applying the "best of the best" processes.

Benchmarking is an active way to effect organizational change. An organization using benchmarking as a continuous improvement tool should be able to sustain a keen awareness of *what* it is doing, *how* it is doing it, and *how well* it is doing it. The benchmarking process includes steps that require an organization to carefully document its systems and to identify and measure those processes that add value to the end product or service. Once an organization has identified its in-process measures, located the barriers to productivity, and assessed the root causes of those barriers, it is ready to measure its processes against those of industry leaders.

The benchmarking process has four phases: Planning, analysis, integration, and action.

Planning

The planning phase of a benchmarking project addresses three fundamental questions: What is to be benchmarked? Who is to be the benchmark? How will data be collected?

What is to be benchmarked? When an organization is deciding what to benchmark, it will often choose an area causing problems. In addition, it should look for a process or product in the organization that is important to the organization's goals and is critical to meeting customer requirements. An organization can benchmark in any of three areas: products, services, and processes (or practices).

Once it has chosen a product, service, or process to be benchmarked, the organization must thoroughly document the sequence of process steps in order to fully understand the area of focus. Flowcharting is a graphic tool that can help illustrate the interrelationships of a process and reveal where measurements are appropriate. It is also important to determine the unit of measurement to be used.

Who is to be the benchmark? An organization should seek out businesses or agencies that set the standard for a functional

activity. Benchmarking partners may come from one of four groups: internal operations; external direct product competitors; external functionally best operations or industry leaders; or others with similar generic processes. When selecting prospective benchmarks, the organization should also consider the ease of data collection and the potential for discovering innovative practices.

How will data be collected? The approach to gathering data will vary, according to Robert C. Camp, based on the cost of obtaining the data, the amount and accuracy of the data, and the time required to collect the data (Camp, P. 75). Although surveys and site visits are time consuming, they are also excellent ways of obtaining primary data. Other options include using such secondary sources as specialized networks and clearinghouses, seeking experts on the subject, and reviewing source materials such as journals and trade publications.

Analysis

The analysis phase of a benchmarking project involves examining comparative data to locate gaps in performance and to assess whether those gaps are positive or negative. Camp defines the competitive gap as “a measure of the difference between the internal organization’s performance and that of the best in the industry.” It is the negative performance gap that points out undesirable performance and provides the basis for improvement opportunities (Camp, P. 121). When a negative gap is identified, internal processes should undergo a major redesign.

A change effort based on comparative data should result in improved performance.

A second step in the analysis phase consists of projecting the future performance levels of an organization based on the information obtained from the industry’s best. This step is accomplished by plotting the organization’s historical trends and the current performance gap.

Integration

Once the gap is charted and its causes are understood, efforts should focus on developing goals aimed at closing the performance gap and improving productivity. The organization should develop a strategic action plan that addresses:

- a step-by-step approach
- resource requirements
- implementation responsibilities
- expected results
- task definition and timeline
- performance measures

Action

The final phase of a benchmarking project is the implementation of specific actions. Monitoring of progress and measurement of results are critical to the success of this phase.

CENTRAL MAIL

Central Mail, the primary mail handler for the Twin Cities area units of Minnesota state government, handles more than 30 million pieces of mail and spends \$9.5 million on postage a year. The unit collects interoffice and federal mail from 190 stops at 58 buildings. It has the equivalent of 16 full-time employees.

The unit's primary services, which operate with a legislative appropriation from the general fund, include metering federal mail, sorting incoming federal and postage-due mail, handling all interoffice mail, selling postage stamps and postcards, and dispersing bulk permit mail. The Fiscal Year 1992 general fund operating budget for Central Mail totaled \$450,000.

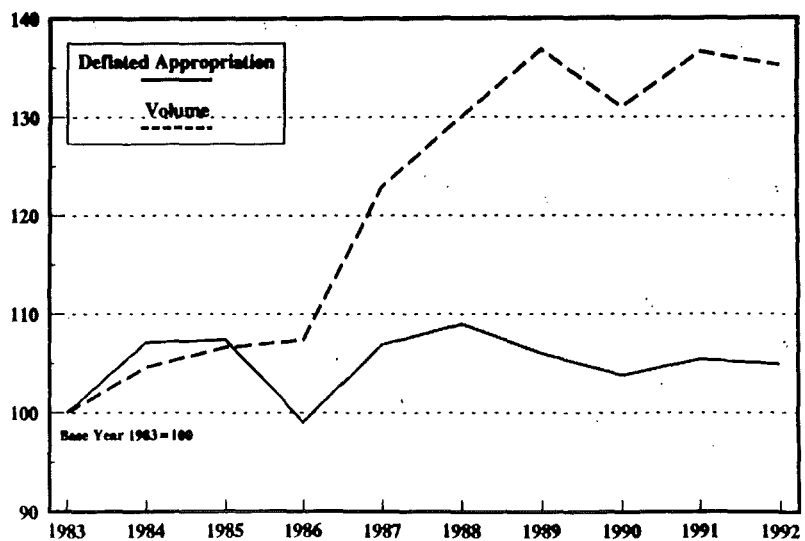
Central Mail also runs an inserting and addressing business, which operates on a revolving fund account, meaning that the unit must charge user fees to generate the income needed to cover its costs. Estimated operating costs for the revolving fund business were \$331,000 in Fiscal Year 1992.

The chief client for the benchmarking project was Mike Perry, Central Mail manager. Mr. Perry made clear his concern about the unit's ability to process outgoing mail on time, adding that the unit has faced increasing mail volumes without receiving commensurate increases in the unit's general fund appropriation or in positions (Figure 1). As a result, overtime hours have increased and mail sometimes sits in the mail room overnight (Figure 2 on the next page).

Because Mr. Perry said he did not expect a significant increase in his next biennial bud-

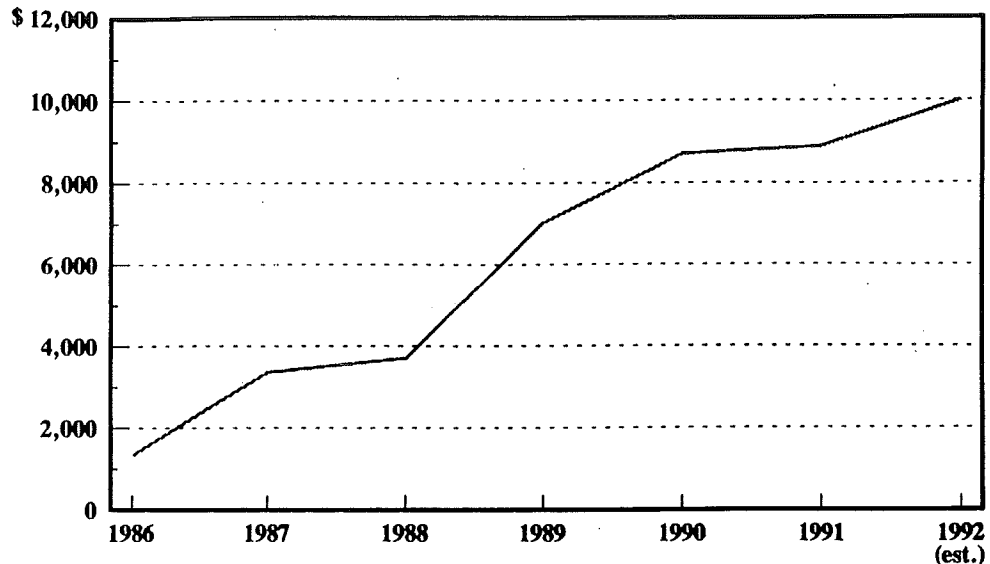
Fig. 1. Real* funding vs. volume growth, FYs 83-92

* General fund appropriation deflated by increases in salaries and delivery costs



get appropriation, he suggested that the project team review Central Mail's internal operations to find ways to streamline ancillary processes so that more staff resources could be dedicated to the unit's primary function of processing mail.

Fig. 2. Overtime and emergency cost growth, FYs 86-92



Mr. Perry also said he believed that the existing billing process was archaic and that his customers would prefer a simpler one.

Project criteria

The project team developed a set of criteria to apply to determine if billing would be a valuable process to benchmark. These criteria included the potential for cost savings, for greater customer satisfaction, and for greater delivery speed; the possible impact on fiscal processes and on other organizations; and the prospective pain level. A brief application of these criteria to Central Mail's billing process demonstrated that the system was indeed a major barrier to efficient and effective delivery of Central Mail services and therefore a valuable candidate for benchmarking.

The project team then defined the project goal: to enhance Central Mail's ability to process mail efficiently and effectively by streamlining the unit's billing process. This goal would be achieved by flowcharting and analyzing Central Mail's billing system, by comparing it with similar systems in other organizations, and by applying the best practices of other organizations to Central Mail's system.

BENCHMARKING AT CENTRAL MAIL

Once Central Mail was selected as the subject of the study, the project team applied the four usual benchmarking phases of planning, analysis, integration, and action.

Planning

The project team met with Mike Perry, the unit manager, and Mike Proulx, the unit's mail handling supervisor, to discuss project goals and benchmarking, the unit's business and its goals. After discussing the benchmarking selection criteria, the group decided that an examination of the unit's billing process was most likely to benefit Central Mail and its users. At this time, Jim Klunder, who handles the unit's billing, was added to the group.

The first step in data collection was to visit Central Mail to document the current billing process. The team created flow charts (Appendix A) to depict the processes for permit and metered mail and for postage-due mail. Later, the team talked with the individual in charge of accounts receivable for the Department of Administration and charted the billing process at that level.

Looking at the flow charts, the team identified steps that appeared to add no value to the outcome. Candidates for elimination included logging, reconciling, and sorting activities. For each decision point, the team looked for in-process measurements (including error rates and time required). The flow charts also illustrated the potential for what benchmarkers call "stockout" situations (for example, running out of stamps) and "work-arounds" (backup processes to accommodate weaknesses within the system).

Where the error rates appeared to be high, the team probed for root causes. In one instance, the team traced the root cause of problematic mail slips back to customers who incompletely or illegibly recorded cost center codes.

The second step in data collection involved finding prospective benchmark organizations. To determine the comparability of other operations, the team designed and mailed a pre-screening survey (Appendix B) to 13 organizations likely to have a centralized mail operation. From the nine returned surveys (Appendix C), the team selected the five with operations most comparable to Central Mail's. Those organizations were the State of Wisconsin, Madison; University of Minnesota, Minneapolis; Ramsey County;

City of Minneapolis; and Hennepin County. The project team added a sixth organization — the Minnesota Department of Human Services' MAXIS facility, which also handles large volumes of mail.

In advance of each site visit, the project team sent the benchmark operation a list of topics to be covered during the visit and a request that managers provide their process measurements (Appendices D and E).

As a third step, the team designed and conducted a telephone survey of agency fiscal and mail room staffs to determine the problems and needs of the users of the Central Mail billing system. The questions (Appendix F) were designed to determine the impact of Central Mail's billing at the agency level and to gauge reactions to some of the site visit findings that had the potential for application to Central Mail's operations. This investigation revealed that agency fiscal staff were dissatisfied with the time and effort required of them once they receive Central Mail's billing output.

Analysis

Central Mail staff and the project team met to synthesize the data and to determine the focus of the recommendations. The group looked at processes that seemed to work well for the benchmark operations and their customers, and tried to match those with the needs identified in the customer survey. One other goal that drove the formulation of recommendations was to eliminate non-value-added steps, cutting duplicative and "checking" actions.

The group was unable to accomplish the second step of the analysis phase — projecting future performance levels — because quantitative data necessary to the measurement of performance gaps was unavailable. The group instead focused on analyzing the processes involved and adopting steps from benchmark organizations that would improve Central Mail's operations.

Integration

Once the problems had been identified, the project team brainstormed solutions. The specific recommendations that follow address both the unit's problem of handling increasing volumes of mail with limited resources and the specific problems of Central Mail and state agencies using the billing system. The team also identified measurements that would enable Central Mail to continuously monitor its improvement.

Action

Implementation of many of the recommendations relies on Central Mail receiving additional equipment. Most of the process changes and continuous monitoring must take place within the unit or at the customer agency level.

RECOMMENDATIONS

The CORE team worked with Mike Perry and Jim Klunder to develop the following recommendations. In addition to suggesting improvements to the specific steps within the billing process, the recommendations also address financial and strategic concerns.

1. Measure and monitor the process

As part of its participation in this project, Central Mail generated process documentation and measurements that can serve as a base line for future study. The proposed automation of the billing process (Recommendation No. 2) should provide a data base with more information to use in assessing the performance of Central Mail. The unit has begun a valuable self-examination that in the future should include customer-driven process and performance measurements. Some of these should be error rates (scanning/equipment, billing), customer satisfaction, and percent of days in which all mail is processed and out the door by U.S. Postal Service pickup time. Central Mail should also continue to keep track of monthly volumes and staff overtime.

2. Upgrade equipment

Many of the 30 million pieces of mail Central Mail processes annually are passed piece by piece through one of seven meters. When a bundle of mail requires more than \$75 in postage (approximately 10 percent of all mail transactions), a meter operator manually records the mail slip information and beginning and ending meter readings on the slip and in a log. Mail that arrives in bundles requiring less than \$75 in postage is separated from the slip and run through the meter. Later, all mail slips are collected and the cost center codes and total postal charges are entered directly into the computerized billing system. In both cases, this process takes considerable time and is subject to mathematical and data entry errors.

To reduce the amount of time and error in this process, each meter should be fitted with hardware that could read bar codes. Meter operators would wand a reader to a barcoded mail slip and then run mail through the meter. The postage charge would be automatically assigned to the cost center represented by the bar code. The available technology also connects each meter to the main office computer, which allows online entry of billing data. This technology would eliminate several non-

value-added steps in Central Mail's billing process, including two separate manual log entries and a computer entry.

Each mail site the project team visited uses electronic rather than manual data entry systems at the meter. Most had digital or keyboard entry of the cost center account code at the meter, and one had a wand and bar code system. The application of barcoding technology to mail metering equipment is available and is compatible with most meters used by Central Mail.

Research indicates that Central Mail can be equipped with the barcode-reading hardware and software for all seven mail meters for \$60,000. If this new technology is installed, two existing meters would need to be replaced three years ahead of schedule. The new machines could be leased at a total cost of \$450 a month; the old machines (which each have \$1,000-a-year service contracts) would be scrapped.

The project team believes that overtime cost savings and general efficiencies at Central Mail and the agencies would justify the additional equipment expense. The simple payback period for this investment, accounting only for overtime savings, is approximately 10 years. There is a net present value of negative \$21,000 (going out 10 years at a 6 percent discount rate) when assuming a 5 percent growth rate in overtime expenses and elimination of only 50 percent of overtime costs. Overtime costs, however, have grown at an annual compound rate of 33 percent since 1986, and approximately 10 percent annually from FY 1990 through 1992. Consequently, the

payback period decreases to 7.5 years and the net present value rises to \$4,000, assuming a 10 percent growth in overtime expenses and the elimination of 60 percent of overtime costs.

In addition to generating these quantifiable cost savings, adding the new equipment would free up employee time at Central Mail and at the agencies. Individuals at the agencies who would benefit include fiscal, mail room, and support staffs involved in the billing process.

Central Mail would also be able to provide better service to its customers by more frequently distributing all federal mail on the same day. Currently, some mail delivery is delayed overnight as frequently as two to three days a week. This benefit is not quantifiable, but should not be overlooked.

3. Bar code mail slips

Because tracking of mail costs promotes accountability and is a condition of federal funding, the state cannot operate as some corporations do, with a central postage budget. The mail slip is an important tool within this tracking and chargeback system, and should be altered to better meet the needs of Central Mail and its users.

Currently, agency fiscal staff reconcile Central Mail invoices and mail slips to find errors, including:

- slips without division or sequence numbers
 - slips with illegible handwriting
-

- slips that are not on the invoice, or charges for which there is no slip
- discrepancies between the amount on the slip and that on the invoice

Overwhelmingly (estimates range from 20:1 to 50:1), errors (missing numbers, illegible handwriting) are attributable to those filling out the slips rather than to Central Mail data enterers. Installing an electronically readable system would greatly reduce every one of these types of errors. Central Mail has earned the customer agencies' confidence in the accuracy of its data. Most frustration and energy seem to be focused on rework for errors generated by agency users.

A bar code on each mail slip would eliminate some of the human errors associated with filling out a slip, which in turn would reduce the amount of time meter operators and fiscal personnel in the agencies spend tracking down the source of mail and reconciling postal charges. The Print Communications Division has the technology to create a unique bar code for each cost center used by the State of Minnesota. These bar codes can be designed on a computer and reprinted on labels at copy machines. The labels could be attached to a redesigned mail slip.

The Wisconsin mail facility has experienced some scanning problems with faded ink on labels. It is investigating software that would print the entire slip on an agency's laser printer. The facility handles scanning errors by manually entering the digits at the meter. Another potential liability to developing barcoded mail slips is the extra training that mail handlers and clerks would need to process mail in the agencies.

4. Eliminate mail slip return

Responses from the customer survey indicated that an automated system would make it unnecessary for Central Mail to return mail slips to their agencies of origin. Currently, Central Mail manually sorts and returns to the agencies more than 3,000 mail slips with each of the twice-monthly billing statements. At the department level, mail slips are further sorted and reconciled with the charges to individual cost centers before being filed.

The data indicates that Central Mail's internal reconciliation processes catch most billing errors, making negligible the percentage of billing errors passed down to individual cost centers. Moreover, the installation of barcoding equipment should further reduce the number of billing errors passed along to the agencies. If the barcoding technology is not installed, however, it will be necessary to continue to return slips to agencies with monthly billing reports, because agencies will continue to need a means of tracking and reconciling billing errors due mainly to improperly completed mail slips.

5. Eliminate postage-due acknowledgment slip

Currently, when the U.S. Postal Service delivers postage-due mail to Central Mail, mail handlers sort the mail, tally postage charges, and fill out and attach a two-part acknowledgment slip to each agency's bundle. In addition to writing amounts on the acknowledgment slips, mail handlers manually enter postage-due charges into a log,

and later into the computer. Central Mail also tracks the return of signed copies of the acknowledgment form. This time-intensive process is for the most part unnecessary.

This process would be significantly streamlined if Central Mail is equipped with new computer technology. Billing data pertaining to postage due could be entered into a computer as mail is sorted, thus eliminating two manual operations. However, even before any new equipment is installed, the acknowledgment slip should be eliminated.

Agencies that prefer either a more detailed breakdown of postage-due charges or direct mail delivery could set up a postage-due account with the U. S. Postal Service, thereby diverting such mail from being processed by Central Mail.

6. Transfer postage stamp sales to Central Stores

None of the six benchmark sites sold stamps or postcards to their customers. Although Central Mail's customers appreciate the convenience, selling stamps requires time and tasks incompatible with the efficient running of a mail room. Providing this service requires additional steps (managing cash and inventory, obtaining receipt of delivery) already employed by Central Stores through its office supplies ordering and delivery services. UWStores sells stamps to State of Wisconsin agencies.

Removing this task from Central Mail would free Plant Management's mail carriers from making special trips and obtaining signatures

for stamp deliveries. It would also remove some of the processing and billing workload from office staff at Central Mail.

7. Directly debit user agency accounts

Central Mail faces a difficult cash flow cycle. The Postal Service demands payment in advance for postage, yet Central Mail bills its users only after affixing postage, and only twice a month. Typically, Central Mail bills more than \$300,000 each cycle. The funds for postage are held in a "flow through" account, which is replenished as agencies pay their postage bills. Even when agencies pay promptly (within five to seven days), Central Mail faces a lag of more than two weeks between the purchase of postage and its reimbursement. As a result, the unit frequently scrambles to obtain funds to write the next check to the Postal Service.

Central Mail's sterling reputation for accuracy and customer service makes it an ideal candidate for direct debit authority. Some of the benchmark organizations do not bill users, instead directly debiting their accounts for postage. The Department of Finance usually denies requests for the authority to directly debit, due to control issues and agency resistance. Agencies are concerned about another agency "writing checks" on their account. With direct debit authority, Central Mail would be able to shorten its cash flow cycle. In addition, a direct debit system would reduce the amount of time spent by the Department of Administration accounts receivable staff to collect outstanding amounts from agencies.

Two factors should be considered before approving direct debits: First, would eliminating the invoicing process provide an incentive for Central Mail to be less careful in its own billing and error reconciliation process? The benchmark organizations did find that customers paid less attention to the after-the-fact reports, even though some billing discrepancies were discovered.

The second factor to consider is: What would be the impact of direct debiting on agency cash flow? The current billing system allows agencies to spend for postage and not pay the bill until months later. Central Mail's customer service philosophy means that only rarely has the unit used its one sanction against scofflaws — holding mail. A direct debit system would eliminate the float that some large agencies use. In addition, a direct debit system would prevent the occasional practice used by some agencies of "banking" end-of-year savings by depositing funds into their postage account in anticipation of the next fiscal year's postage needs.

It would be unlikely that agencies would experience cost increases as a result of direct billing of postage. In fact, they would probably see staff time freed up because agency accounting staff would no longer enter the payment transactions. Instead, transactions would be entered either at the Finance Department or, with special computer system clearances, at the Department of Administration.

8. Improve cash flow in other ways

Reducing the accounts receivable lag time to zero would still not remove Central Mail's need for a cushion to cover cash flow needs during the 15-day period between billings. The following alternatives could be implemented alone or in conjunction with direct debiting.

Alternative 1: Charge an overhead fee

Because Central Mail is financed from the general fund, it has no authority to charge back its overhead costs to user agencies. Even though it operates an internal service unit subject to the fluctuations of use by customers, Central Mail must fund its operations using an annual appropriation.

The primary disadvantage of a fixed appropriation is that Central Mail has been unable to keep up with the latest equipment and technology. Despite this limitation, Central Mail has done very well in processing outgoing mail in a timely manner. However, it is not likely it will be able to achieve further efficiencies without equipment improvements.

Most of the benchmark organizations assess an overhead charge. These charges vary, but average 15 percent of postage costs, and are generally billed monthly. Part of this assessment could be used as a cushion to help Central Mail meet its cash flow needs.

Each organization uses anticipated volumes and costs to set an overhead rate, which is reviewed and approved by a finance agency. Organizations using such an arrangement have generally been able to include amounts

in their overhead rates to buy new equipment and training. Public agencies have found, however, that, even when allowed to set an overhead rate, they have difficulty getting permission to hire additional staff. Elected officials are reluctant to add "overhead" positions although warranted by additional volumes and although sufficient funds are available through the overhead charge.

Legislation would be required for Central Mail to charge an overhead fee or to operate a revolving account.

Alternative 2: Create a postage appropriation To avoid the cash flow problems created by an insufficient cash cushion and no direct debit of postage costs, some organizations use a general fund appropriation to cover the estimated postage costs for the year. Billing proceeds normally to user agencies, but when those payments are made, they are returned to the general fund. Any temporary shortages due to late payments are absorbed by the general fund.

If postage use rises above the level anticipated, the central mail facility approaches the elected officials in mid-year for a supplemental appropriation. Because user agencies will always be billed for their postage, and those funds returned to the general fund, the supplemental appropriation does not represent a new, unfinanced cost. For benchmark agencies that use this system, the supplemental appropriations have always been approved. Although both operating and postage costs are in the general fund, they are kept in separate accounts.

A legislative change would be necessary for

Central Mail to have its postage costs appropriated. Any remaining balance in the current postage "flow through" account would be returned to the general fund.

9. Implement a "Just In Time Postage" program as soon as practicable

Pitney Bowes, which has a contract with the Minnesota Department of Human Services' new MAXIS project to mail entitlement checks, recently created a program called "Just In Time Postage." This program allows large mailers to set up an account (similar to a checking account) that the Postal Service can directly debit. Pitney Bowes transfers the funds from the mailer's account to the Postal Service account daily *after* the mail has gone out. This allows mailers to keep their money until it is actually spent by the Postal Service, and guarantees the Postal Service immediate access to those funds. Central Mail loses two to three days' interest by prepaying postage costs. In addition, newer electronic meters can be filled without physically taking the meters to the post office.

Human Services has asked the Department of Finance to allow it to use the "Just in Time Postage" program for MAXIS. The department projected approximately \$9,000 in annual interest savings (based on a 6 percent rate) by using the program. The same calculation would have Central Mail saving the state approximately \$2,740 a year by not prepaying postage. (The Central Mail projection is lower because the unit uses fewer meters and sets them for smaller

postage values at more frequent intervals.) An additional benefit with this program would be the gained production time when meters are no longer out of service while being reset at the post office.

Pitney Bowes is the only vendor approved by the U.S. Postal Service for this program. The rough estimate to equip Central Mail for this program is \$60,000. This is in addition to the \$55,000 estimate to equip the MAXIS project, because the two facilities are not close enough for dedicated cabling to enable equipment sharing.

The Department of Finance and the State Treasurer's Office are exploring creation of an automated clearinghouse account for the state. To participate in the Postal Service program, the state must segregate postage funds from other state funds, now kept in a single account with Norwest Bank. The Finance Department has serious concerns about how controls could be placed on such an account, especially if other vendors are allowed access. These issues may take some time to resolve. As the state of the art evolves, and if equipment costs come down, it will be important for the state to capture as much in interest earnings as possible.

10. Examine the strategic implications of the MAXIS mailing facility

Pitney Bowes owns and operates a state-of-the-art mailing facility dedicated to the Human Services MAXIS project. Using sophisticated automation, this facility processes and mails income maintenance checks

and food stamps to recipients around the state. Due to the cyclical nature of these types of mailings, the facility has excess capacity at certain times of the month.

The MAXIS facility also has the equipment to read addresses and print bar codes on outgoing mail, qualifying it for Postal Service discounts. Central Mail contracts for this service from an outside vendor at a very competitive rate, but it may be advantageous for both Central Mail and Pitney Bowes to presort all state mail at the MAXIS facility.

Although it is currently handling only a few types of high-volume transactions, the MAXIS facility could be used for other types of mailing. Decisions about strategic use of these facilities are not within the authority of Central Mail. However, from cost, capacity, asset management and workflow standpoints, coordination or overall evaluation of the best ways to use both facilities is recommended. Perhaps this analysis could take place within the Department of Administration.

Because the MAXIS facility is set up to handle large jobs (which have a lower cost per unit), it is possible that Central Mail would be left running the small jobs, which have higher setup and administrative costs per unit. Although shifting some state mail from Central Mail to MAXIS would free up mail handler time, running exclusively small jobs would lower efficiency.

11. Continue centralized mailing

The state must constantly evaluate whether centralized or decentralized mailing is more cost-effective. Most of the benchmark organizations are centralized or trying to move in that direction. One exception is the University of Minnesota, which leases, fills, and operates more than 200 postage meters.

The main benefit of centralization is that overhead stays low while service levels remain high. Centralization generates the volume needed to make cost-effective equipment investments. Centralization of access to postage can also better control exposure to fraud or theft. The Postal Service offers discounts for bar coding and ZIP Code presorting that can best be maximized through a central mail facility.

Mailing technology is constantly changing; a future scenario could be imagined that would make decentralization feasible. However, at the present time, the greatest potential for efficiency is with a central facility.

12. Eliminate non-value-added activities

The current billing processes involve more than 20 steps (10 in the federal mail billing process alone) that do no more than record or reshuffle data. Logging, sorting, and reconciling activities that are part of the existing routine can be eliminated with no loss of data integrity. The new system would also eliminate additional reconciliations that take place at the agency level.

The U.S. Postal Service is in the process of placing a postal inspector at Central Mail to perform, among other tasks, on-site approval of bulk mailings, thereby eliminating one reconciliation of a Postal Service form.

The manual logs used to record agency charges could also be eliminated with online data entry from the meters.

13. Improve the customer service survey and other tools

An integral part of any well run operation is an understanding of the needs of the customer, and how well those needs are being met. Central Mail already maintains contact with its customers by conducting training sessions, offering facility tours, and holding forums to address customers' questions and concerns. Also, Central Mail, in conjunction with other sections of the Print Communications Division, annually surveys levels of satisfaction with mail handling in four areas: meeting deadlines, complaint handling, quality of work, and courteous service. Central Mail has consistently received high marks from this survey.

To gather more specific customer feedback, Central Mail should develop and administer a more thorough questionnaire. It should address broader areas of concern, including the mail slip/billing process, and additional needs for training or other services. Unfortunately, few of the benchmark facilities were able to provide the project team with customer surveys.

14. Improve space

The physical space occupied by the Central Mail unit should be expanded to accommodate the addition of new equipment and the continuous growth in mail activity.

Every site visited during this project was quieter and larger than the space occupied by Central Mail. The room occupied by Central Mail equipment and personnel is noisy, cramped, and uncomfortable. Meter operators often have to clear a space to process the mail. Such conditions can prevent work from being accomplished efficiently and also pose a safety hazard. Moreover, Mr. Perry, who manages 15 staff and an entire mailing operation, shares with two staff members a small office inadequately shielded from the noise.

15. Pursue demand-leveling mechanisms

One of the difficulties faced by Central Mail is the unpredictable flow of mail. There are definite "crunch times" when the mail room achieves a frenetic pace and all staff are deployed to process mail. The project team recommends a reevaluation of the mail pickup schedule, and creative incentives for agencies to mail early in the day. The needs of the agencies for frequent and convenient pickups should be considered, however, before making changes to solve Central Mail demand needs.

BENCHMARKING IN THE PUBLIC SECTOR

The project team's experience with this project has led to the following conclusions about benchmarking within the public sector.

Nothing is off limits

At first, government managers may react to benchmarking as a theory that sounds good but is not applicable to their unique services. It may be true that few others provide comparable services (regulation of insurance rates, for example, is unique to the Department of Commerce); however, the individual tasks are not unique (data collection, inspections, prosecution). The important step is to dissect the activity into discrete tasks for which there are counterparts.

Think big when choosing benchmarks

It is important to define broadly enough the processes being benchmarked so that a wide universe of comparable processes exists. When making its preliminary list of prospective benchmarks, the project team included not only other public-sector mail operations but also mail operations at private

companies and large-volume billing operations employed by Federal Express and US West.

Reduced to basic processes, the delivery of government services differs little from the delivery of services in the private sector, although the specific steps involved may be subject to different state and federal guidelines. Some state services have obvious private-sector counterparts, such as plant management and building security. Inventory maintenance is another process that would have benchmarks in both the public and private sectors.

The project team advises looking beyond the obvious to organizations in different industries. Although, for example, the Department of Human Services and Norwest Bank are organizations with different goals, they both are heavily involved in cash management and payment processing. The Department of Revenue, unique in its role as a tax collector, operates a telephone customer information system that could be benchmarked against those of mail order companies or mutual fund organizations.

Measurement data may be hard to find

Most public-sector entities are not actively measuring their processes. The absence of such data led the project team to focus on the process itself, and to recommend steps within the process that should be measured in the future.

Private-sector organizations, which indicated in their survey responses that they had large quantities of data, were excluded from further study because their account volumes and recording requirements were not comparable. The project team needed a billing process that charges back to hundreds of account numbers.

Although the other public entities involved in the study did not have in-process measurements, they were eager to participate and to share their processes. Most of the participants expressed interest in benchmarking and in the final recommendations.

Lacking competition in most arenas, many public-sector managers may not be motivated to strive for process efficiencies and have not adopted a focus on measurement. Focus on quality has grown, and now many entities are surveying customer satisfaction. As governments find funding harder to obtain, managers will be using process tools such as benchmarking to look for ways to contain costs with minimal disruption in services. The benchmarker voyaging into the public sector should anticipate a dearth of in-process measurements.

Benchmarking is a continuous process

In an environment where political and agency leadership periodically changes, state managers are responsible for maintaining continuity in program operations. Benchmarking is a tool that can be used to assess past performance and plan for future improvements in service delivery. Benchmarking should be applied repeatedly to the same process to ensure that the process continues to be as efficient as the industry best.

The process can serve as a catalyst for other changes

Engaging in benchmarking can prompt managers to accelerate change or envision other improvements to their operations. Some actions can be pursued prior to the end of the study. As a result of conversations and contacts made during the site visits, Mr. Perry sped up plans to place a postal inspector in the unit and acquired an additional postage meter. He is also pursuing making delivery service a revolving fund operation, and making a presort arrangement with the MAXIS facility, and he has created a temporary cash flow arrangement with the Department of Finance.

Benchmarking provides a good excuse for introspection

Operating in an environment of increasing demands and limited resources, most managers keep busy trying to handle day-to-day demands. The planning phase requires that the manager step back, examine the mission and goals of the organization, and document the process to be benchmarked. Managers can immediately identify non-value-added steps, or those that continue to be done because of tradition or history.

Benchmarking can provide positive feedback

In the process of documenting and measuring performance gaps, benchmarkers may determine that their organization is already at or near the top in some categories. For example, Central Mail processes a larger volume of mail with fewer staff than most of the operations the project team visited. Although benchmarking steps are focused on correcting negative performance gaps, they can also highlight areas that are already well managed.

The process is useful

Although benchmarking has been less common in the public sector, it is a process with universal benefits. Managers in any line of work should benefit from the exposure to new ways of operation resulting from conversations and site visits with others providing similar types of services.

There is help for novice benchmarkers

The work plan for this project is reproduced in Appendix G, and could serve as a guide to others interested in this process. A list of other sources is provided in the bibliography. Other private-sector organizations may be willing to form partnerships similar to that developed on this project with the Xerox Corp.

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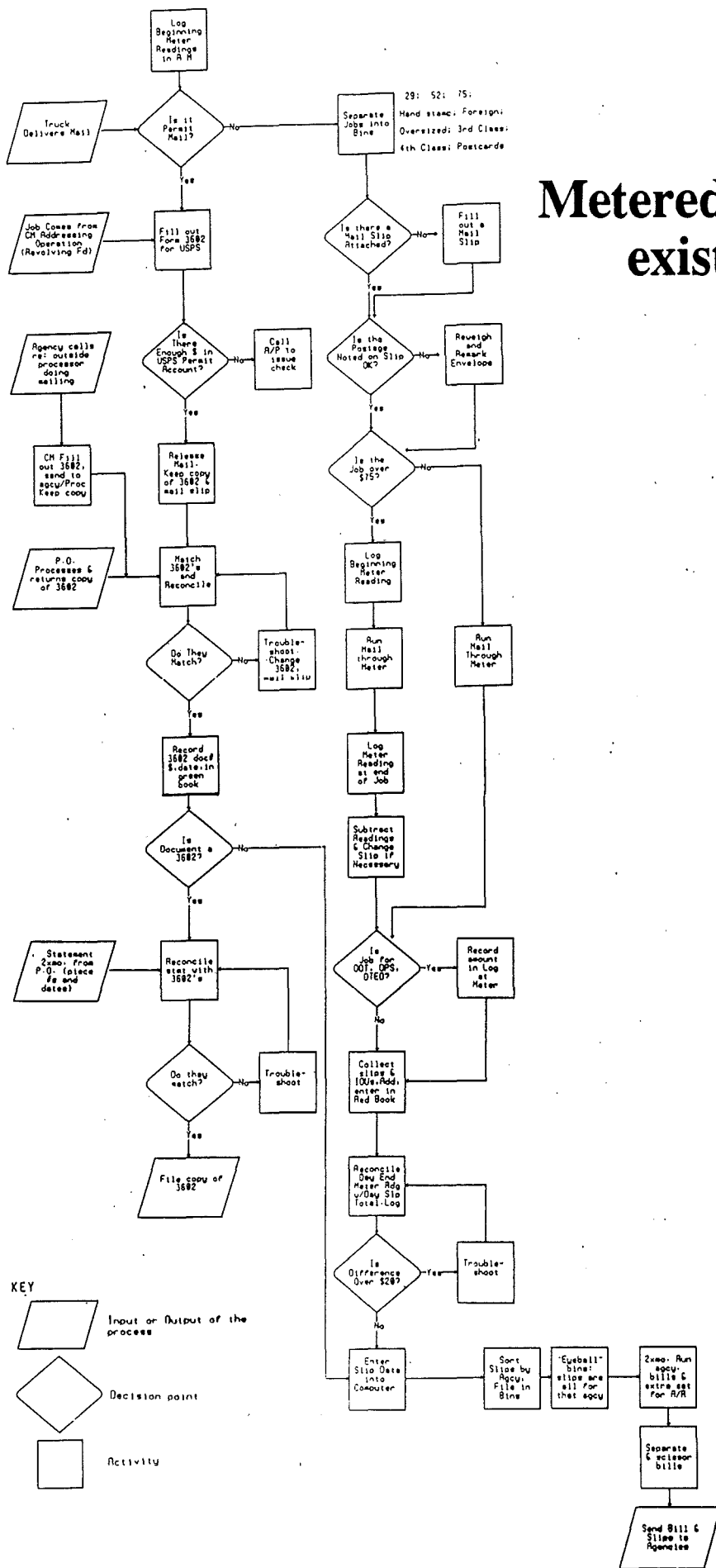
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APPENDICES

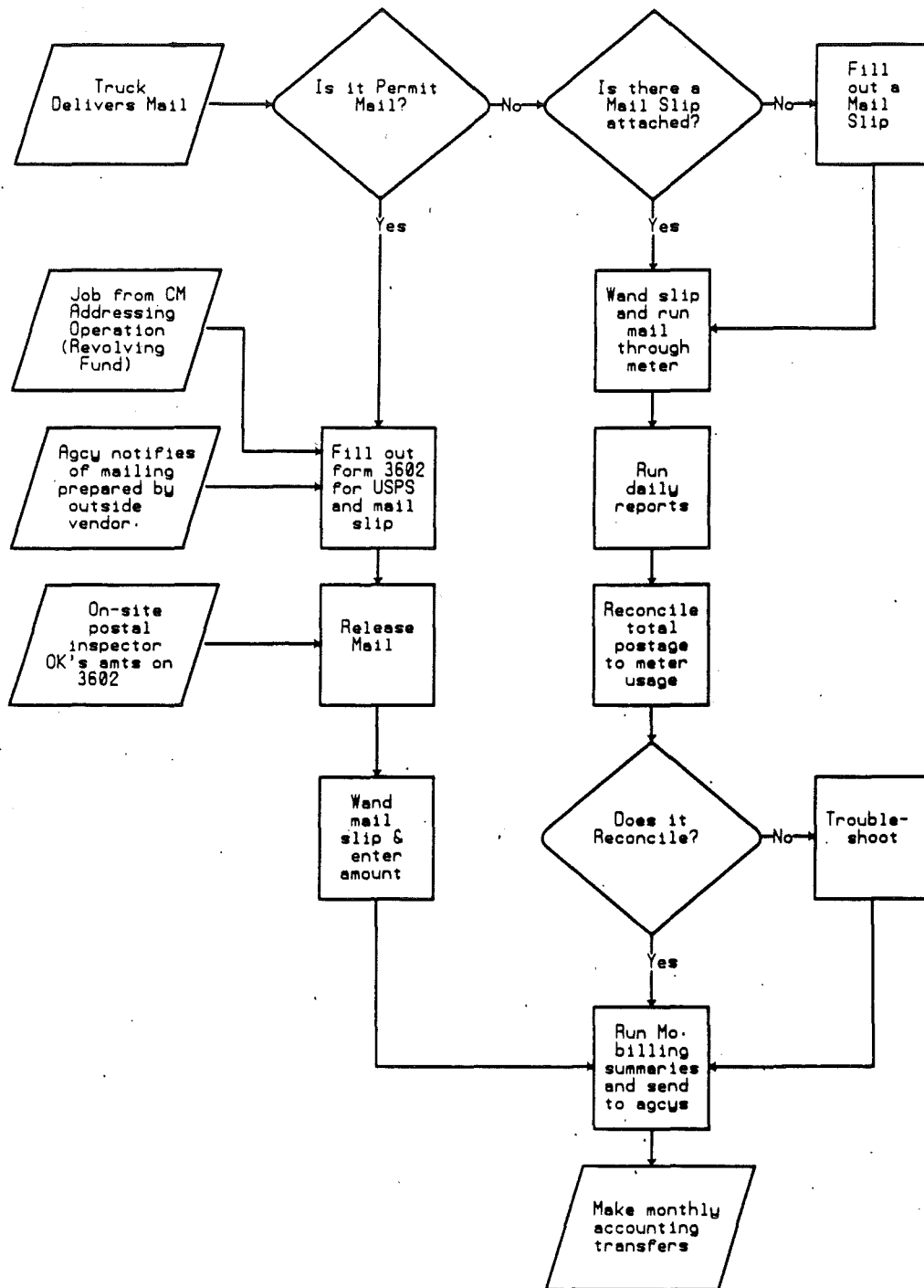
APPENDIX A

**Existing and
recommended processes**

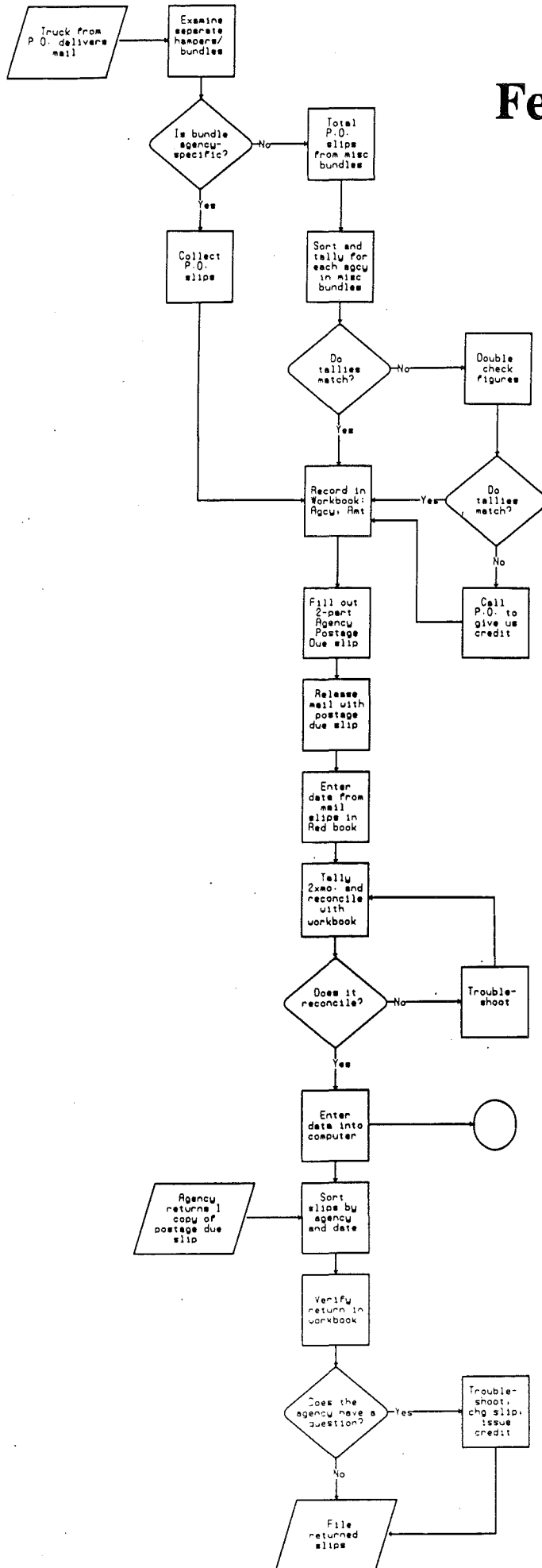
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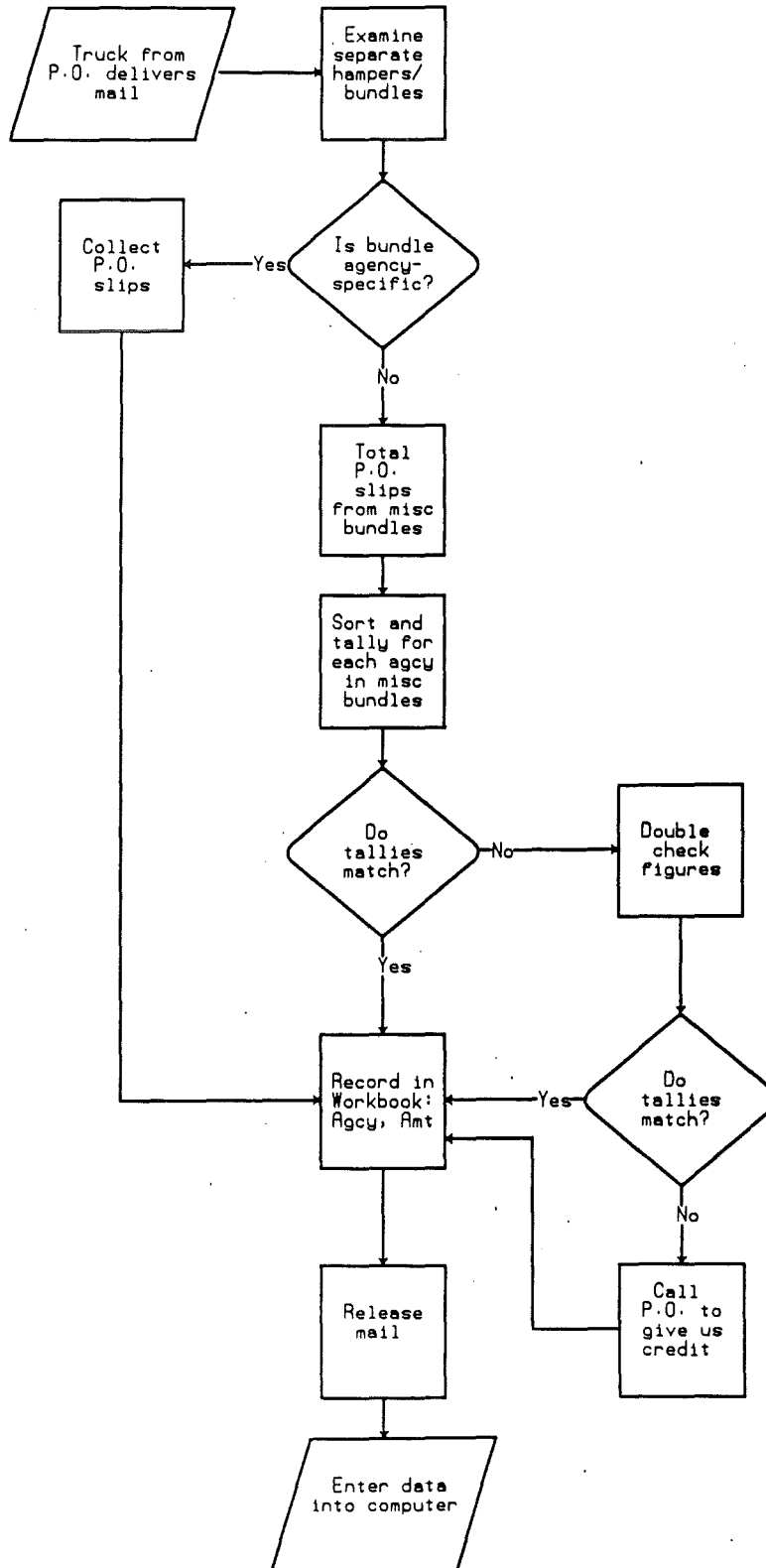
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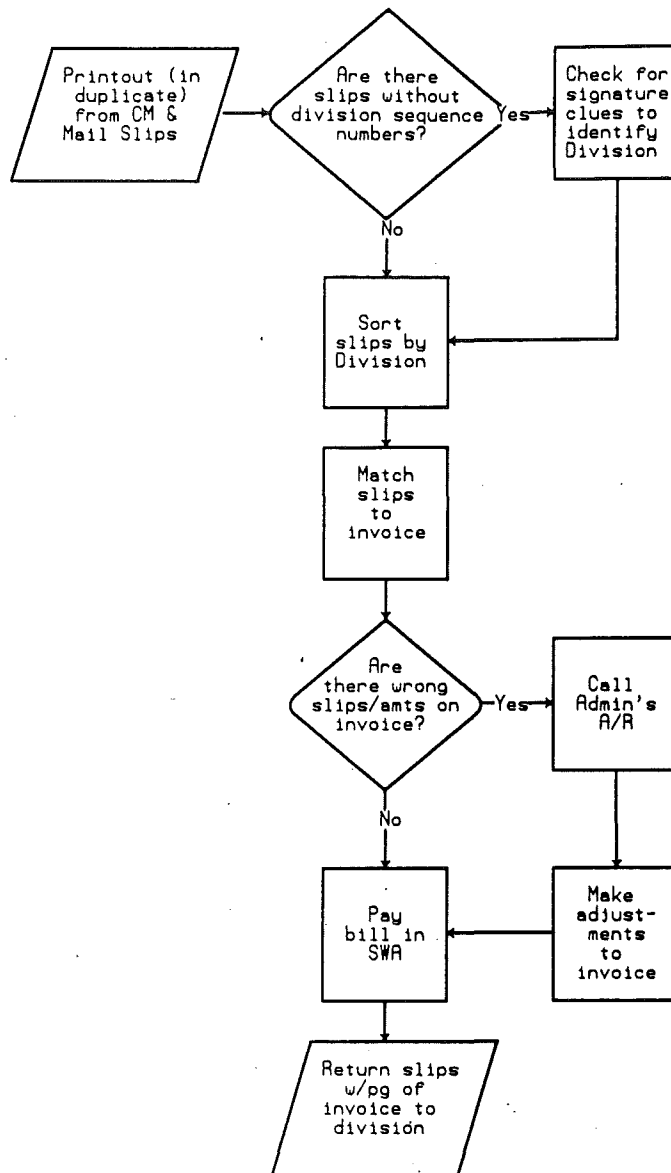
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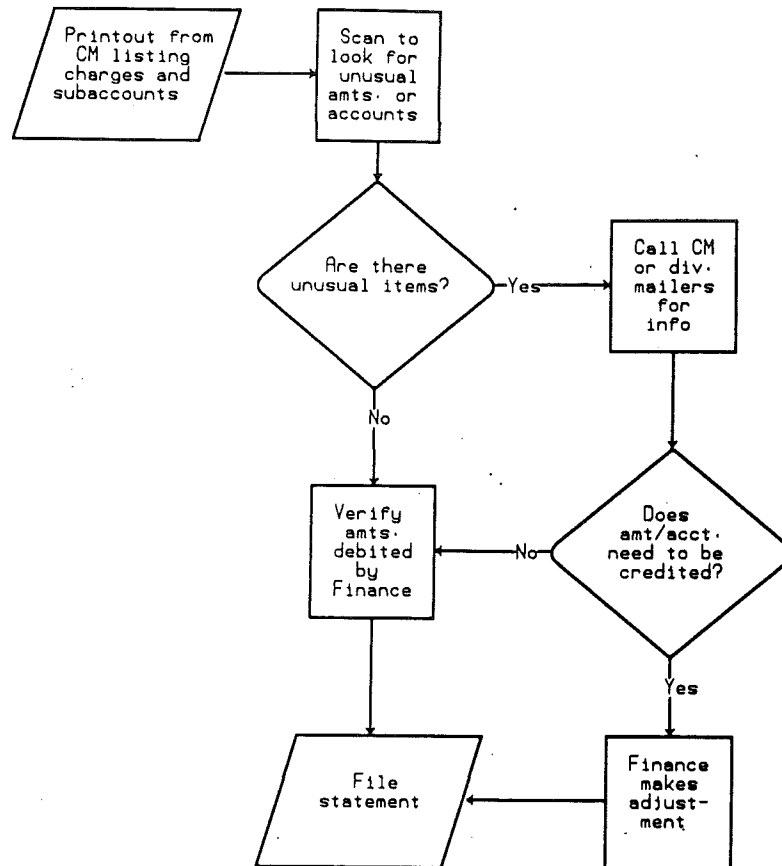
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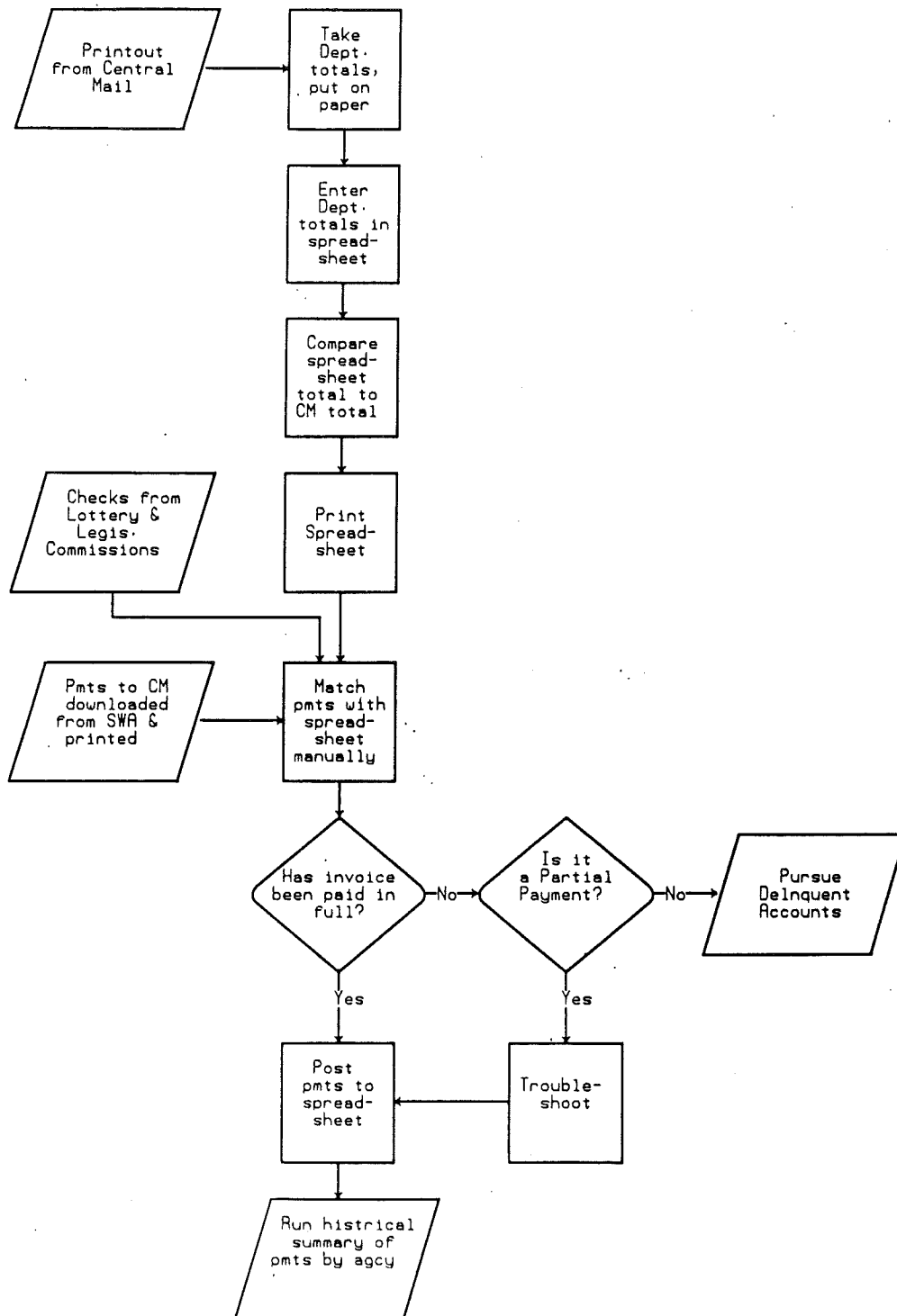
Agency-level existing billing process



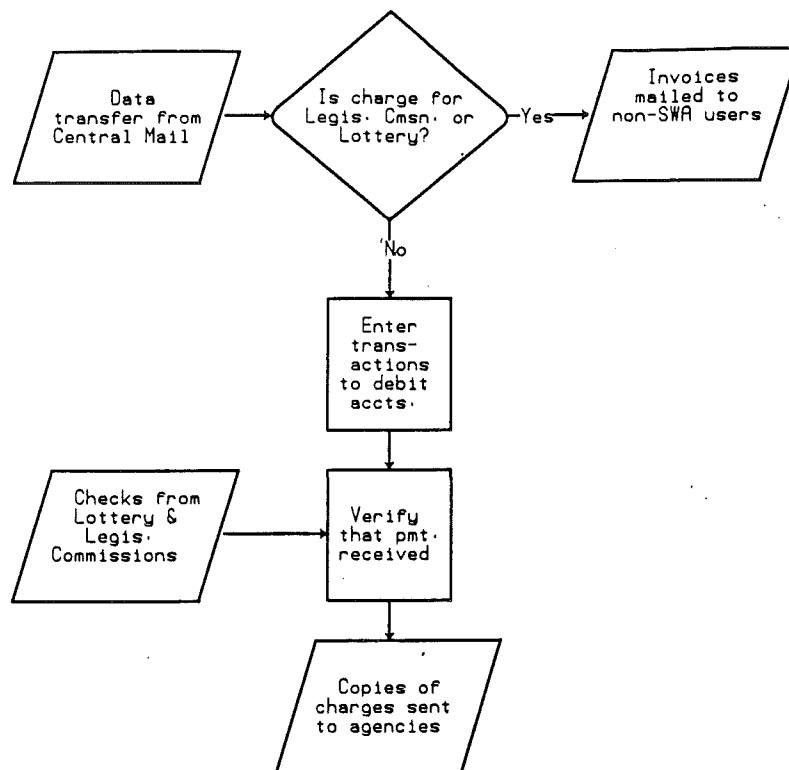
Agency-level recommended billing process



Accounts receivable existing process



Accounts receivable recommended process



APPENDIX B

**Central mail
questionnaire**

CORE

STATE OF MINNESOTA
COMMISSION ON REFORM AND EFFICIENCY

203 Administration Building, 50 Sherburne Ave., St. Paul MN 55155
(612) 296-7041 Fax (612) 297-1117

CENTRAL MAIL QUESTIONNAIRE

The following questions pertain to federal mail operations, not interoffice mail operations. We appreciate your returning this form by Friday, February 21. A self-addressed return envelope is attached for your convenience.

FEDERAL MAIL OPERATIONS

1. Do you run a centralized or decentralized mail operation?
2. Which of the following are included in your operations: postage due; meter mail; stamp/postcard sales; courier service; permit mail
3. What is your total federal mail volume per month in pieces?
4. What is your total federal mail volume per month in dollars?

FEDERAL MAIL BILLING

5. Do you bill back postage costs to the organizations/divisions/agencies that you serve?
Are labor/overhead costs charged back?
6. Do you have a manual or electronic billing system?
7. How many people are involved in your billing process for federal mail operations?
8. How many cost centers do you bill monthly?

DOCUMENTATION

9. Are your federal mail billing processes documented?
10. What are your key in-process measurements? (What do you measure to ensure you are aware of your exemplary or problem areas?)
11. Do you measure billing errors?
12. Do you survey customer satisfaction?
13. Would you be willing to share your documentation, measurements and/or allow a site visit?

Thank you for your time.

APPENDIX C

**Central mail
questionnaire responses**

CENTRAL MAIL QUESTIONNAIRE RESPONSES

	State of Minnesota	Madison, WI	U of M	Federal Reserve Bank	Bismark, ND	Ramsey County	City of Minneapolis	DMV - Salem, OR	3M	Hennepin County
1. Do you run a centralized or decentralized mail operation?	Centralized	Mostly, except for DOT	Partially centralized - outbound only	Centralized, but UPS, Federal Express, registered mail and page service handled by other department	Centralized for 60 divisions - larger departments have own mail rooms	Centralized	Centralized	Centralized	Yes with 4 main areas; billing, promotional; central mail services; international	Centralized
2. Included in operations: Postage Due, Meter Mail, Stamp/Post-card sales, Courier Service, Permit Mail	Postage due, meter mail, stamp and post card sales, permit mail.	Postage due, meter mail courier service, permit mail. 6 trucks and vans	Meter and permit mail; 1st, 2nd, 3rd classes, UPS and International	Postage due; meter mail; and courier service	Postage due; meter mail; stamps and postcards; permit for bulk mail; courier services (Express Mail, Fed Express, UPS Next Day Air)	Postage due; metered mail; permit mail	Meter mail; permit mail	Postage due; meter mail; permit mail	Meter mail; courier service; postage due and permit mail incoming only - outgoing is promotional	Postage due; meter mail; courier service; permit mail
3. What is total federal mail volume per month in pieces?	2,600,000	1,300,000	500,000	70,000	70,000	100,000	107,000	400,000	368,500 outgoing; 599,984 incoming	814,696
4. What is total federal mail volume per month in dollars?	\$800,000	\$400,000	\$90,000	\$28,000	\$27,000 average per month for 1991 \$9,500 postage stamps sales	\$35,000	\$24,000	\$120,000	\$120,000	\$162,466

	State of Minnesota	Madison, WI	U of M	Federal Reserve Bank	Bismark, ND	Ramsey County	City of Minneapolis	DMV - Salem, OR	3M	Hennepin County
5. Do you bill back postage costs?	Yes	Yes	Yes	Yes to division or department	Yes	Yes	Yes	No	Limited - only large volume out of central mail; Promotional has direct billing system	Yes
6. Are labor/overhead costs charged back?	No	Yes, metering and pre-sort charges.	Yes	No	No	Small service charge	Yes	No	No; promotional does recharge all costs	Yes
7. Manual or electronic billing system?	Manual	Electronic bar code directly charges acct	Electronic	Both	Electronic accounting system - prints out total of metered mail for month	Electronic	Manual	No	Central mail - manual to controller who is electronic; promo is both	Electronic
8. How many people involved in billing process for federal mail operations?	2	1-1/2 whole system; 1/2 FTE for mail	One	2-3	One	One	Three	No response	None	Done by I.S.
9. How many cost centers do you bill monthly?	230	Hundreds	200	75-80 activity codes	60 agencies on revolving fund	42	50	None	None	200

	State of Minnesota	Madison, WI	U of M	Federal Reserve Bank	Bismark, ND	Ramsey County	City of Minneapolis	DMV - Salem, OR	3M	Hennepin County
10. Are federal mail billing processes documented?	Yes	No	Yes	Yes	Yes - record agencies amount billed and date paid	Yes, somewhat	Yes	No response	Not formally	Yes - charge slips attached to mail; electronically deducted from budget and added to Central Mail income report
11. What are key in-process measurements?	Volume, billing errors	Auto pre-sort - 80% read rate	Not answered	N/A	Mail slip used with each mailing - total compared to monthly printout	Balance system daily; spot check mail daily	None	Volume and accuracy	Measure mis-sorts, misaddressed, volume, USPS delivery times to outside locations	Outgoing and incoming US mail; inter-office delivery and pick up; presorts and Zip + 4 codes
12. Do you measure billing errors?	Yes	Admin Service could. Has heard no complaints	Yes	No	Yes	No	No	No	N/A	No
13. Do you survey customer satisfaction?	Yes	New operation. Will do within next _____	Yes	No	No	Just started	Yes	Yes	Yes	Yes
14. Are you willing to share documentation, measurements or allow site visit?	Yes	Love to have us come and visit	Share documentation - No; Allow visit - Yes.	Would like specifics on what we need to look at	Yes	Yes	Yes	Yes	Definitely	Yes

APPENDIX D

**Questions for
central mail site visits**

QUESTIONS FOR CENTRAL MAIL SITE VISITS

PLACE _____

CONTACT _____

DATE OF VISIT _____

PROCESSES

- 1) How do you track mail?
 - Do you use mail slips?
 - Is your mail barcoded?
 - What is generated at the source and how does it work?
- 2) What are your in-process measures? (e.g., errors, time, volume)
- 3) Describe your reconciliation steps
 - What degree of variance do you tolerate?
 - Where are they done in the process?

BILLING

- 4) How does daily billing information get entered into your system? (cost centers, amounts)
- 5) Do you charge an overhead?
 - How much and how do you allocate it?
- 6) How do you manage cash flow issues pertaining to permit mail, regular mail meters?
- 7) Do you directly debit agency accounts for postage costs or do you bill?
 - How do you handle problems with accounts receivable?
- 8) How many full-time staff work on your billing processes?
 - Who is involved with billing at the agency, A/R level?
- 9) How do you account for your postage-due mail costs?

CUSTOMER FEEDBACK

- 10) How do you measure customer satisfaction?

APPENDIX E

Site visit information

- **City of Minneapolis**
 - **Hennepin County**
 - **State of Wisconsin**
 - **MAXIS/Department of Human Services/Pitney Bowes**
 - **Ramsey County**
 - **University of Minnesota**
-

SITE VISIT INFORMATION

PLACE	City of Minneapolis
CONTACT	B.J. Bjork
DATE OF VISIT	March 10, 1992

PROCESSES

- 1) How do you track mail?
 - Do you use mail slips? No. Individuals bring their mail down and place it into their department's box. Unless specifically noted on the mail, it is charged to the dept's first level accounting number. Some ask for billing to specific subaccounts.
 - Is your mail barcoded? No. They have a plan to have a vendor barcode outgoing mail, or may share a machine with Hennepin County.
 - What is generated at the source and how does it work? They use no mail slips.
- 2) What are your in-process measures? (e.g. errors, time, volume) None mentioned.
- 3) Describe your reconciliation steps. They do no reconciliations. The change in the meter reading would have to agree with the totals for the monthly billing, but that is all done on the same electronic system. The total of the day's transactions would also match the difference in daily meter readings. It was not clear to what extent they do any matching of these.
 - What degree of variance do you tolerate?
 - Where are they done in the process?

BILLING

- 4) How does daily billing information get entered into your system? (cost centers, amounts) Immediately prior to metering the mail, account # and class of mail are entered; the piece is placed on a scale, which automatically sets up the meter with the correct amount of postage. After pushing ENTER to signify the end of the job, the transaction summary is printed out of the entry unit. All of this data is accessible from the terminal (Pitney Bowes) in B.J.'s office, from which a monthly summary is generated. A hardcopy goes to the City Clerk's office, which writes up charge slips and sends them to Finance which does electronic debiting.

They have approximately 300-400 account codes.
- 5) Do you charge an overhead? Yes.
 - How much and how do you allocate it? 15% of the dollar volume. Department summaries show actual postage charges and loaded charges.
- 6) How do you manage cash flow issues pertaining to permit mail, regular mail meters? Not discussed.

- 7) Do you directly debit agency accounts for postage costs or do you bill? Direct debit.
 - How do you handle problems with accounts receivable? The Accounting department handles them.
- 8) How many full-time staff work on your billing processes?
 - Who is involved with billing at the agency, A/R level?
- 9) How do you account for your postage due mail costs? Post Office delivers incoming mail directly to the door of the department. At that time they collect any postage due.

CUSTOMER FEEDBACK

- 10) How do you measure customer satisfaction? They use a survey, a copy of which will be mailed to us.

OTHER

This operation handles only outgoing metered mail. Departments do their own bulk mail (using 1 permit), fill out their own 3602's which get sent to the City Clerk's office for reconciliation and bill back. The city does not do much bulk mailing.

They do not sell stamps.

The City of Minneapolis went to this system from a manual one, where they recorded acct #, begin and end meter readings on a log at the machine.

SITE VISIT INFORMATION

PLACE	Hennepin County
CONTACT	Don Garrison
DATE OF VISIT	3/9/92

1) How do you track mail?

- Do you use mail slips? Yes. Note lines for coding number to improve readability. They use only 8 numbers instead of 10 that Minnesota uses.
- Is your mail barcoded? No
- What is generated at the source and how does it work? Mail slips are filled out for each bundle. No copy is kept by the user. No calculation of postage made at source. They use over 273 cost centers. Total volume 8,711,060 pieces, \$3 Million/ year. They serve 57 locations. They process approximately 100 slips per day.

2) What are your in-process measures? (e.g. errors, time, volume) None mentioned

3) Describe your reconciliation steps

- What degree of variance do you tolerate? Variances are not measured between the source and the mail room. They are only concerned about reconciling between the amount of postage charged back to agencies and the amount of postage metered, to make sure there is no theft. There is no reconciliation done at the source. They did not experience a lot of complaints from departments. When something big is caught, they then review the daily totals and the slips on which the operator writes a beginning and ending total. Slips are filed in some order as an audit trail. How does the system work? "Trust Me". Does it take much time to enter data? "Very Little".
- Where are they done in the process? They may run a daily balance and reconcile from that.

BILLING

4) How does daily billing information get entered into your system? (cost centers, amounts) They use the Data Pak system on their Pitney Bowes 6100's which enters cost code information at the postage meter and feeds it daily to a tape which then goes into their mainframe accounting system. The agency is then automatically debited monthly.

5) Do you charge an overhead? Yes.

- How much and how do you allocate it? The rate is now at 17% and possibly going to 21-22% of postage charged. This does not show as a separate item on the postage billing, but is included in the postage charges. The rate is reviewed several times a year. The operation is self-supporting. Charges include the costs of 3 mini-vans and one step van used in delivery.

- 6) How do you manage cash flow issues pertaining to permit mail, regular mail meters? They keep a running total on a PC and reconcile with the Post Office Daily. When the accounts get low they order checks through Accounting. Checks range from \$10,000 (permit account) to \$200,000 (meters).
- 7) Do you directly debit agency accounts for postage costs or do you bill? Directly debit. They have been doing this since they moved into their building 15 years ago.
- How do you handle problems with accounts receivable? Manual billings are generated off the Data Pak system for City of Mpls. and other governmental clients. They have an accounts receivable aging piece of software they use to keep track of old accounts.
- 8) How many full-time staff work on your billing processes? 2 people work less than full-time on billing, approximately 1-1.5 hours a day. Another person estimated her hours at 5-6 hrs/day.
- Who is involved with billing at the agency, A/R level? Accounting only transfers money between accounts and provides checks for the post office. They handle A/R in-house.
- 9) How do you account for your postage due mail costs? They manually sort to cost centers, record amounts in a log book, tally and enter onto a PC which feeds to the daily tape totals. Average volume is small, about \$15/day. Annually they process \$5,000 in postage due and \$11,000 in business reply mail. Monday's postage due is normally sorted on Tuesday.

CUSTOMER FEEDBACK

- 10) How do you measure customer satisfaction? Annual survey in conjunction with other administrative services.

Other:

They pre-sort in-house at a cost of 2 1/2 cents per piece. Minnesota's cost for contracting out that service is 1 cent.

They do not sell stamps. Agencies are not allowed to use stamps unless it is after the mail room has closed. The post office is nearby so agencies can conveniently purchase their own stamps.

SITE VISIT INFORMATION

PLACE
CONTACT
DATE OF VISIT

State of Wisconsin
Carol Hemersbach
April 6, 1992

PROCESSES

- 1) How do you track mail?
 - Do you use mail slips? Yes, the slip has either a label or printed barcode on it which contains 10+ digits used in the state's accounting system. The card has space for name, phone, date, class, special instructions. This information is not always provided by the mailer, but the code is all that's needed.
 - Is your mail barcoded? They have a pre-sort machine which bar codes and sorts outgoing mail for the state, county and some school districts.
 - What is generated at the source and how does it work? Mailer attaches mail card with a rubber band to the bundle. Bundles are handled by meter operators, who wand the bar code, run the mail and then hit ENTER on the Data Pak system.
- 2) What are your in-process measures? (e.g. errors, time, volume)

Bar code reading errors occur approximately 360 per month--these show up as "bad records" on daily PC printouts and data are retrievable from printouts at the meter. Causes of errors are usually faded label ink, requiring manual keying of code; or customers giving them the wrong account number to bar code.
- 3) Describe your reconciliation steps

At the end of each day, they reconcile each meter reading with the Data Pak info on postage spent. They also enter data on bulk mail and UPS charges.

 - What degree of variance do you tolerate? zero
 - Where are they done in the process?

BILLING

- 4) How does daily billing information get entered into your system? (cost centers, amounts)

Account number is entered when the bar code on the mail slip is wanded. Operator keys in the postage on the meter. ENTER after running mail through meter completes the record. Every day the Data Pak is downloaded to the office PC to get information into the billing system. That info is downloaded to a diskette for further processing by the General Services Billing System. If the transaction was faulty and did not enter the Data Pak, there is a paper record at each meter of each transaction for backup.
- 5) Do you charge an overhead? Yes. The mail function is a Program Revenue account (Revolving Fund).
 - How much and how do you allocate it? 13.2% of postage cost. Billing reflects number of pieces, date, postage costs and service charges.

- They also charge a service charge for presorting. Bulk inserting & labeling is also available for a fee.
- 6) How do you manage cash flow issues pertaining to permit mail, regular mail meters? The organization was provided funds for a "cushion" to handle cash flow needs.
- 7) Do you directly debit agency accounts for postage costs or do you bill? Agencies receive a bill from General Services department and then authorize a transfer or write a check to the General Accounting Office. Ultimately they anticipate a direct debit accounting system.

Information is barcoded into the meters and the meter slips are reconciled to the daily totals on the machines. The reconciled barcoded totals translate into accounting sequence codes on the General Services Billing system. These General Service Codes then interface with a different sequence code for the Central Billing system. The General Services Billing office sends out a summary invoice to each department, accompanied by a breakdown of all charges submitted by individual bureaus. It is the responsibility of each department's accounting office to directly invoice internal cost centers. Individual cost centers do not receive any receipts which would allow them to reconcile specific charges.

- How do you handle problems with accounts receivable? There are few problems in accounts receivable, since the Mail department, by law, can spend money in anticipation of accounts receivable.
- 8) How many full-time staff work on your billing processes?
- Who is involved with billing at the agency, A/R level? One person is responsible for the accounting and billing for all services provided by the General Services department.
- 9) How do you account for your postage due mail costs? WI Mail unit handles about \$2,000/mo vs. \$9,000/mo at MN. Agencies which receive a lot of business reply mail have their own permit, so it is sorted and delivered directly by the post office. They keep a daily tally sheet which is compiled weekly and entered into the computer. They do not require the agency to sign an acknowledgement form upon receipt. With the exception of certified/registered, postage due mail is sorted during slack times.

CUSTOMER FEEDBACK

- 10) How do you measure customer satisfaction? Only through customer complaints. They plan to conduct an open house and send out a customer survey.

OTHER

UWStores (comparable to our Central Stores) sells postage stamps.

Large departments (DOT, Revenue) have their own inserters and meters.

After installing this system, the number of meters in the Madison area (UW and State of WI) dropped from 270 to 80. Use of the central mail facility is optional.

They created an implementation team to help prepare agencies for the shift to centralized service. Agencies appointed mail coordinators; 1,600 were trained on proper mailing procedures. They also used newsletters and brochures to educate.

The organization invested in a presorting/barcoding machine (Optical Character Reader) in early 1991. This required an investment of around \$500,000 and annual maintenance payments of \$40,000. MN looked into purchasing a machine, but the number of outside presort vendors is large enough in the Twin Cities (there's only 1 in Madison) that it remains cheaper to send our mail out.

The labor rates for entry level mail handlers (Clerk 1) in Wisconsin are around \$6-7/hr. vs. \$9 in Minnesota.

Their rule is that all mail goes out the day it is received. Any mail which has not been processed prior to the 6:00 p.m. pickup by the presort vendor is metered at \$.29 and dropped off at the post office.

They have 3 banks of 2 meters each. They are set up so that each bank handles one type of transaction only: full price; presorted on site; presorted by outside vendor. This break down is necessary in order for the computer system to tack on the appropriate service charge (in addition to the 13.2% overhead) to the job.

They run 180,000 - 200,000 pieces/wk on each of the meters. The size and amount of transactions are comparable to those of MN.

Their Program Revenue accounts are allowed to keep up to 10% of sales as a cushion or to reinvest in the business. They are allowed to depreciate the cost of equipment when calculating rates.

The entire bar coding system cost approximately \$87,000. This figure includes wands, Data Paks and whatever software is needed.

They do not return mail cards. They didn't seem too worried about the cost of making new labels, and were more concerned about how much time it would take to sort and return the cards, particularly if they had no name written on them. They are moving in the direction of laser printing the entire form, including the bar code, eliminating the need for the labeler.

SITE VISIT INFORMATION

PLACE	MAXIS/DHS/Pitney Bowes
CONTACT	Karen Miller
DATE OF VISIT	March 30, 1992

NO NEW RELEVANT INFORMATION WAS GAINED ON THE BILLING PROCESS, HOWEVER SEE INFORMATION BELOW UNDER "OTHER."

PROCESSES

- 1) How do you track mail?
 - Do you use mail slips? Yes.
 - Is your mail barcoded? No.

BILLING

- 4) How does daily billing information get entered into your system? (cost centers, amounts)

Operator keys the account number into the Data Pak at the meter, runs the job then hits ENTER. That data is then stored in the central computer data base.

- 5) Do you charge an overhead? Yes.

OTHER:

The MAXIS Facility is only fully utilized at the beginning and end of each month. The facility is managed under a contract to Pitney Bowes, which hires all the staff which are full-time. They have excess capacity at certain times of the month and would be open to doing functions that Central Mail now sends to an outside vendor, such as bar-coding.

SITE VISIT INFORMATION

PLACE	Ramsey County
CONTACT	Carol Ryan
DATE OF VISIT	March 26, 1992

PROCESSES

- 1) How do you track mail?
 - Do you use mail slips? Yes
 - Is your mail barcoded? No
 - What is generated at the source and how does it work? Mail slips completed by department clerks accompany the mail. Information from the slips is entered into the meters and the slips are stored in a filing box.
- 2) What are your in-process measures? (e.g. errors, time, volume)

They process 2-3,000 pieces of mail a day. \$204,000 for Human Services, \$186,000 for other departments. About 100,000 pieces a month.
- 3) Describe your reconciliation steps
They do not reconcile the mail slips (which only list numbers of pieces, not postage amounts) but they keep the slips for reference for the rare question. As far as she knows agencies do not keep copies of mail slips.

BILLING

- 4) How does daily billing information get entered into your system? (cost centers, amounts).

They use two Pitney Bowes A-300 and add the two tapes together manually to get the total they enter manually into the Computer. They run monthly totals. The invoices are sent out monthly.
- 5) Do you charge an overhead? Yes.
 - How much and how do you allocate it?

It is 2 cents per piece of mail. Total \$15,000.
- 6) How do you manage cash flow issues pertaining to permit mail, regular mail meters?

They do not have a cash flow problem because they receive a direct appropriation based on the previous years' postage. If they start to run out at the end of the year they go back to the County Board for a supplemental appropriation. When agencies pay their postage bill the money is directly deposited into the general fund. When the meters get low they walk over to the post office to get them filled. They walk to the post office to fill permit accounts.
- 7) Do you directly debit agency accounts for postage costs or do you bill?

Bill. Only messenger service is debit billed. It's hard to get debit billing approved.

 - How do you handle problems with accounts receivable?

Most customers pay on time.

8) How many full-time staff work on your billing processes?
Sending out the bills takes one person 2 hrs/month.
She has a total of 4.5 FTE's for all functions; inter-office, federal and billing.

- Who is involved with billing at the agency, A/R level?
They handle it in the mail room.

9) How do you account for your postage due mail costs?
The agencies each have their own petty cash. They only handle incoming mail for Administrative Services Dept. The other mail is delivered directly to offices.

CUSTOMER FEEDBACK

10) How do you measure customer satisfaction?
They are going to be included in a survey that will be going out soon.

Other:

They do mail pickups 7 times a day.
All staff is cross-trained.
No stamp sales.

They have been extremely pleased with their automated system and encountered very few transitional difficulties in teaching staff to use the new machines.

SITE VISIT INFORMATION

PLACE	University of Minnesota
CONTACT	Neil Grass
DATE OF VISIT	March 10, 1992

PROCESSES

1) How do you track mail?

- Do you use mail slips? Yes, however, the typical information that would be available on a mail slip is incorporated into the job ticket. Because the mailing at this location is combined with addressing, labeling, folding and inserting services, the ticket lists information pertinent to all aspects of any particular job.
- Is your mail barcoded? No.
- What is generated at the source and how does it work? The job ticket is a two part NCR form. It requests the following information from the client: fund, department and budget numbers (total of 11 digits); name of the customer, a title of the job, an address, a name and phone number of a contact person; the date the job was sent; and a brief description of the instructions for the job.

When the ticket arrives, the basic information regarding the job is immediately entered into the computer. The copy of the job ticket follows the job throughout the Addressing and Mailing services division until the job is completed. At each stage of the job, the mailroom worker writes relevant information onto the job sheet. No dollar totals are written on the job ticket. Then when the job is completed, all information is entered into the computer files and total dollar figures are derived by multiplying items by a rate structure written into the computer program.

On average the accounting system deals with 200 cost centers, although there are 1000 possibilities.

They bill \$80,000 to \$100,000 worth of postage per month and \$40,000 worth of labor.

M&A uses 4 Pitney Bowes meter machines.

2) What are your in-process measures? (e.g. errors, time, volume)

The total volume of the U of M's U.S. mail is difficult to estimate since the university has approximately 200 mail meters located around the campus. The M&A service processes a small percentage of the entire university's mail volume. This facility meters 20-30,000 pieces/week, and monthly sends 500,000 pieces of combined meter and bulk mail. They estimate spending \$450,000 annually on bulk mail.

M&A proposed a centralized mail system for 1st class mail which was denied.

3) Describe your reconciliation steps

Job tickets are traced by number and copies are reconciled to each other at the end of the process.

A new scale allows in house inspection by a U.S. Postal Service clerk. This speeds up delivery of outgoing bulk mail because mistakes are discovered and reconciled immediately.

Each meter has a ledger where information regarding the date/job/dept/flat/class/rate/pieces/cost are entered. This information is also written on the job ticket. Both sets of information, that from the job ticket and the ledger are entered into the computer system. The ledger information is entered weekly.

- What degree of variance do you tolerate?

BILLING

- 4) How does daily billing information get entered into your system? (cost centers, amounts)
This information comes from the weekly input of the ledger data and from the job tickets once the job is completed. The ledger also accounts for 500,000 pieces/month of permit mail.
- 5) Do you charge an overhead? Yes. \$6/1000 pieces is charged to set up the meter. The overhead charge per piece of metered mail is \$.30. Additional services, e.g. inserting and labeling have different overhead rates.
- 6) How do you manage cash flow issues pertaining to permit mail, regular mail meters?
\$3000 balance in permit scale meter.
- 7) Do you directly debit agency accounts for postage costs or do you bill?

Once the job is closed, information is sent to Support Services which processes the transactions. Direct debiting is not possible now, however, the U of M has just purchased a new accounting system, and direct debit will eventually become possible.

- How do you handle problems with accounts receivable?

Monthly charges to individual cost centers appear on general ledgers. Customers do not receive an invoice for each job. The invoices go directly to each department's accounting office. Thus, the information on the GL appears just as "mailing/addressing services." Often, people call the Mailing and Addressing office to request information about the nature of the charge. The accountant at M&A cited approximately five inquiries per month.

8) How many full-time staff work on your billing processes? One person handles all the M&A Services accounting, data entry, billing and general office work. One person spends 3 hours per day on the billing for the Mail and Addressing services.

- Who is involved with billing at the agency, A/R level?
Department Account reps

9) How do you account for your postage due mail costs?

Postage due mail goes directly from the post office to the departments.

Not all permit mail goes through the UofMN M&A office. Individual departments have accounts with the postoffice and deal with them directly. The M&A Service handles 500,000 pieces of outgoing non-profit, permit mail monthly.

Billing for permit mail is handled in the same manner as billing for all other services provided by the M&A Service.

CUSTOMER FEEDBACK

10) How do you measure customer satisfaction? They send out a survey.

APPENDIX F

**Telephone survey of selected
Central Mail customers**

CENTRAL MAIL PHONE SURVEY OF SELECTED CUSTOMERS
Billing and Mail Slip Information

This is _____ from CORE, calling for some information regarding a project we are working on with Central Mail. CORE is exploring ways to streamline the billing process so that it is easier to administer and for people to obtain the information they need.

One of the areas which we have been examining is the use of the mail slip, both as it goes out of the agency (attached to mail) and when it is returned with the semi-monthly summary of charges. To help us focus any changes, we would like to know what you like and don't like, use and don't use within the current system.

I have just a few questions to ask you, and should only take 5 minutes of your time. Before we start, do you have any questions?

Agency Fiscal Staff & Business Managers

1. What is your involvement in the chargeback process for postage?
2. Of the information available to you (acct#, transaction amt., daily totals, paper slips) what do you use and how? Any further reconciliations (error frequency)?
3. Is there other information you wish you had?
4. Do you use the mail slip itself? Do you retain it, throw it or pass it on?
5. Who uses the information which you then generate?
6. Do you use/retain postage due acknowledgment slips? How are they used? Reconciliation-error rate?
7. Do you have any other comments or suggestions regarding Central Mail or the billing process?
8. Could you provide me with the names of individuals who fill out the slips, so that I can ask them a few questions?

Support Staff/Mail Room Employees

1. Do you yourself fill out mail slips? If not, who does?
2. Do you have any comments about the format, information requested and the overall ease of use of the slips? Are instructions clear? Did you receive adequate training?
3. One suggestion we received was to offer stamp sales through Central Stores. What is your opinion of that? Why?
4. Do you have any other comments or suggestions regarding Central Mail or the billing process?

APPENDIX G

**Work plan for
Central Mail
benchmarking project**

Work Plan for Central Mail Benchmarking Project

I. Overview

The CORE benchmarking project with the Department of Administration's Central Mail function is designed to serve as a pilot project for the agency and a learning experience for the staff members involved. It will examine, contrast, and reengineer the process in use for billing federal postage costs back to the agencies. The analytical methods employed follow the philosophy of Total Quality Management.

Benchmarking is defined by Xerox Corporation as "the continuous process of measuring our products, services, and practices against our toughest competitors or those organizations recognized as leaders." The process involves researching customer requirements, developing in-process measures, comparing performance to that of other organizations, and addressing methods to close the gaps.

This project fits within the scope of CORE, because one of its products is a more efficient, easier to use system for billing mail costs. It also introduces to staff an additional analytical tool which can be used in other projects.

II. Central Mail

Central Mail is a division within the Department of Administration. In fiscal year 1991 alone, it handled over 31 million pieces of mail and spent \$9.5 million on postage. The unit collects both interoffice and outgoing mail from 190 stops at 58 buildings in the metro area. Currently, postage costs are billed back to users through a system which is based on the mail slip, which contains the sequence numbers to be charged. Although the generation of monthly bills is automated, much of the existing billing system requires multiple sorts and reconciliations of mail slips.

III. Process Steps

1. Initial meeting with client agency

January, 1992

TASKS:

- A. Introduce them to the concept of benchmarking, the goals of the project, and what is expected of them. Address any questions.
- B. Outline the processes involved. List each item or output for which the unit is responsible. Don't get into too much detail at this step.
- C. Establish criteria for selection of a specific project or area to address. Choose specific project either through a criteria weighing process, or through consensus. This discussion is important for getting buy in from the unit.
- D. Create a Statement of Purpose for the exercise. A statement of the desired output clarifies and defines the topic.
- E. Once the project area is chosen, brainstorm who and why to benchmark. Examine similar industries (competitors, other agencies); similar processes in other industries; contact associations, external experts, library resources.

- F. Determine relevant measurements for the process being studied. Ascertain what is being measured currently, what else might be applicable to the process and its critical steps. Measure customer satisfaction.

ACTION:

- A. Assign unit managers to gather data on relevant measures for the past two years. In this case, estimates will suffice.
- B. Set up the next meeting, allowing time for collection of measurement data.

MILESTONES:

- A. The affected managers understand the purpose of the exercise, what is expected of them, and are excited about the possibilities.
- B. The group has chosen a process which is important, which is measurable and which is comparable with ones within outside organizations.
- C. The group has identified in-process measurements and potential benchmark organizations.

(The entire first meeting discussion took 2 hours.)

2. Data Collection

February-March, 1992

During this phase, the project will document the processes in place at the affected agency and examine those in use by the potential benchmarks. As part of this process, staff may also be involved in library research, analysis of new technologies, and customer surveying.

TASKS:

- A. Take a tour of the agency, documenting each step in the process which is being studied. Ask lots of questions about what is being done, but resist the urge to re-engineer and suggest solutions at this point. Look for measurable points in the process.
- B. Draft flow chart diagrams to illustrate the process. Discuss and refine these with the managers, identifying key in-process measures. These measures should be of things which are critical to running the business or producing the output, and ones which impact the final output. Include error rates associated with action steps and decision points. Target areas for root cause analysis. Look for measures which would provide opportunities to improve the inputs, or target troublemakers. Also look for "stock out" situations and "work-around" processes.
- C. NOT in the presence of the managers, examine each step in the process and designate it as Value Added or No Value Added. This is a judgment based on the current process, and can point out steps for potential elimination in future stages of the project.

ACTION:

- A. Review flow charts with client.
- B. Correct errors and resubmit to client.

MILESTONES:

- A. All involved understand the structure and flow of the existing processes.
- B. Team members have identified key process activities or decisions on which to focus the search for benchmarks.

3. Site Visits

February - March, 1992

This phase, actually a portion of the data collection phase, involves prescreening potential benchmarks, touring their facilities, and obtaining process documentation and in-process measurements.

TASKS:

- A. Develop prescreening questionnaire to send to potential benchmarks. It should be short and determine vital aspects of the process which need to be similar for comparison. Briefly describe the Central Mail process and ask for their response. Be sure to clearly define what is being measured. To determine whether the question is necessary, ask "Would a certain answer to this question automatically exclude the organization?" Include the following questions:
 - Is your process documented?
 - What are your key in-process measurements? What do you measure to discover problem areas or to ensure that you are doing okay?
 - Would you be willing to share documentation, measurements and/or allow us to visit your facility?
 - Do you measure billing errors?
 - Do you survey customer satisfaction?
- B. Call people at the organizations in advance to ascertain their receptivity to filling out a questionnaire and participating in the study.
- C. Screen the returned questionnaires to narrow the list of potential benchmarks. Call to arrange site visits. Keep the "non-comparable" surveys, because they may be able to provide information in other areas, and also because they may want to receive a copy of the findings.

Develop a second list of more-detailed questions to cover during the visits. Mail out the questions, along with the flow charts, prior to the visit.
- D. Visit the facilities, covering the areas on the second questionnaire. Ask for copies of process documentation and customer survey tools. Try to obtain data for their process measures.

ACTION:

- A. Divide among team members (depending on who knows contact people) the task of preliminary contact with organizations on the list.
- B. Designate one individual as the team contact for those who are sent the survey, and responsible for following up, scheduling visits and sending thank you notes.
- C. Rotate the duty of notetaker at each of the site visits. One individual should also take the responsibility for making sure that all of the questions are addressed during the visit.

MILESTONES:

- A. The group will have visited at least 3-5 facilities using systems which were initially deemed comparable to the operation being studied.
- B. The team will have a better understanding of alternative processes which achieve the same ends.
- C. The team will have investigated "state of the art" technology in the area.

4. Data Analysis and "Gap" Determination

April, 1992

During this phase, the team will look at the data which has been gathered, determine which measures to focus on, and highlight any areas of weakness in the existing process.

TASKS:

- A. Ensure that adequate data has been collected to compare processes and to identify the "Best" in this area.
- B. Compare measurements to determine whether current gaps are positive, negative or at parity. Highlight for praise those areas for which the department is determined to be The Benchmark.
- C. Compile the data into a report format to be sent to participants in the study.

ACTION:

- A. Discuss data with department managers, and possible options for future actions.
- B. Send report of results to interested participants.

MILESTONES:

- A. This step marks the completion of the "benchmarking" exercise. Focus turns back in to the agency, and the resources available to "close the gaps."

- B. All members of the team understand and agree on the measurement of current and projected gaps.

5. Recommendations

May-June, 1992

Based on the findings of the analysis, the team will recommend redesigning the work processes in order to achieve measurable goals. We will produce a report summarizing the steps involved in this project, and our findings.

TASKS:

- A. Graph historical data and project future work loads, productivity trends in order to project the size of future gaps.
- B. Develop strategic and tactical recommendations to narrow the projected gaps.
- C. Estimate long term cost savings.
- D. Develop functional action plans, including:
 - 1. Implementation responsibility
 - 2. Detailed approach
 - 3. Expected results
 - 4. Resource requirements
 - 5. Task definition and timeline
 - 6. Measurements identified.

ACTION:

- A. Compile data and prepare draft of report.
- B. Review report draft with client.
- C. Publicize the report and its findings. This will be a positive CORE contribution to the agencies, and represent a pilot for a process from which others could obtain benefit.

MILESTONES:

- A. Individuals in the department understand the need for change and what is required to "close the gaps."
- B. CORE team understands and can replicate the benchmarking process in other areas.
- C. The report fits coherently within the scope of CORE, and promotes many of the same principles which are included in the Vision and philosophy of the Commission.

6. Implementation of Action Plans

begin June, 1992

Implementation will take place at the agency level, with minimal CORE involvement.

TASKS:

- A. Assist individuals involved in the process with understanding necessary changes to work flow.
- B. Monitor progress and process measures.
- C. Create a plan for periodic reassessment of benchmarks.