

## size-based pricing

# Sizing up the change

Postage is a significant cost for many fundraising departments within charities. Direct mail is still the dominant medium for recruiting new supporters and communicating with existing donors, and a typical medium-sized charity could easily have a postage spend of over £180 thousand if, for example, they mailed 40 thousand donors four times a year, and produced two cold recruitment mailings of 500 thousand.

Until now, it has been fairly simple to budget for these costs: as long as the mailpack was under 60g, the postage would be between 15p and 16p depending on the volume mailed.

This is now going to change. From 6 April next year, it is almost certain that mail will be priced on size and format as well as weight – termed ‘size-based pricing’ or sometimes ‘pricing in proportion’. The general effect of this is to raise prices for relatively light but large or unusually shaped postal items, and lower prices for relatively heavy postal items.

The argument is that Royal Mail’s historical approach (based on weight) does not reflect its cost structure, as different mail formats incur significantly different handling costs. For example, items that cannot be machine sorted, take up more space in mailbags and vans, or cannot be delivered through letterboxes, incur more costs than those items that can. Cost breaks occur when mail items cannot be handled by standard equipment, not when mail increases by a few grammes.

The changes are also intended to ensure there is sustainable and effective competition to Royal Mail as the postal market becomes fully open from 1st January 2006. If the pricing structure was left unchanged, competitors would be encouraged to attack the artificially high profit margins for heavier weight items, but would avoid competing for large but lighter items where current Royal Mail prices are significantly lower than their costs.

The first step is to review the overall impact of size based pricing on your

The expected introduction of size-based pricing next year could have a significant impact on direct marketing campaign budgets. Peter Frings explains what to expect from the new structure, and what can be done to avoid getting stung

mailing programmes over the year: either Royal Mail or your production house should be able to help with this. For many charities who stick to C5 sizes or smaller, there may well be no change.

But charities that send out lightweight C4 packs will suffer. A large number of welcome packs and supporter newsletter mailings tend to use this format. An eight-page A4 newsletter, plus a letter, sent out in polywrap or a C4 outer will weigh well below 60g. Mailing 60,000 of these packs after April 2006 will cost an extra £2,000 in postage at each mailing. One common solution is to keep the A4 format of the newsletter, but to ‘endorse’ it, folding it in half down to an A5 size.

Packs with enclosures, such as pens, will also fall foul of the new pricing system – even if the pack is only C5, including a pen will breach the thickness limit for a ‘letter’, putting the pack into the higher priced ‘large letter’ category.

Creative agencies are rightly concerned that the new pricing structure will restrict creativity and lead to greater standardisation of formats, with the C5 size becoming even more ubiquitous. Recipients may become less inclined to open direct mail if it always arrives in the same shape and size. But the format of a pack is not the critical variable when it comes to creating an effective mailing, and should never be an excuse for poor creativity. Agencies will have to make smaller envelopes and packs work harder. Small sizes can provide great impact and

there are many ways to stand out from the crowd, such as windows in unusual positions and sizes (or even multiple windows), unusual materials, printing in special or metallic inks as well as greater use of full colour.

Campaigns could also take advantage of the additional weight limits, and the fact that packs will no longer have to be of a uniform thickness. As heavier packs will now be significantly cheaper – especially those no larger than C5 – enclosing additional items and samples, or mounting tip-ons to the outside of envelopes, may become viable options.

Charities should also insist that their creative agency, when presenting concepts for a new pack, also presents postage costs as well as a budget production cost.

Life is going to get much more complicated for fundraisers using direct mail. As well as moving to size-based pricing, the introduction of full competition in the postal market means that there will no longer be a single universal tariff. After deregulation, new criteria such as the geographical spread, volume and timing of a mailing will also affect its cost. The mail market will become a media market as complex as TV or press, as Royal Mail and its new competitors offer up an increasingly bewildering array of options, incentives and discount schemes.

**Peter Frings is managing director of Target Direct Print**

Proposed size categories	Size limits	Max thickness <sup>2</sup>	weight bands
Letters	240 x 165mm	5mm	0 - 100 g
Large letters (flats)	353 x 250mm	25mm	0 - 100g, 101 - 250g, 251 - 500g, 501 - 750g
A3 Packets	420 x 297mm	25mm	0 - 100g, 101 - 250g, 251 - 750g
Packets	610 x 460mm	460mm	0 - 100g, 101 - 250g, 251 - 500g, 501 - 750g, 751 - 1000g