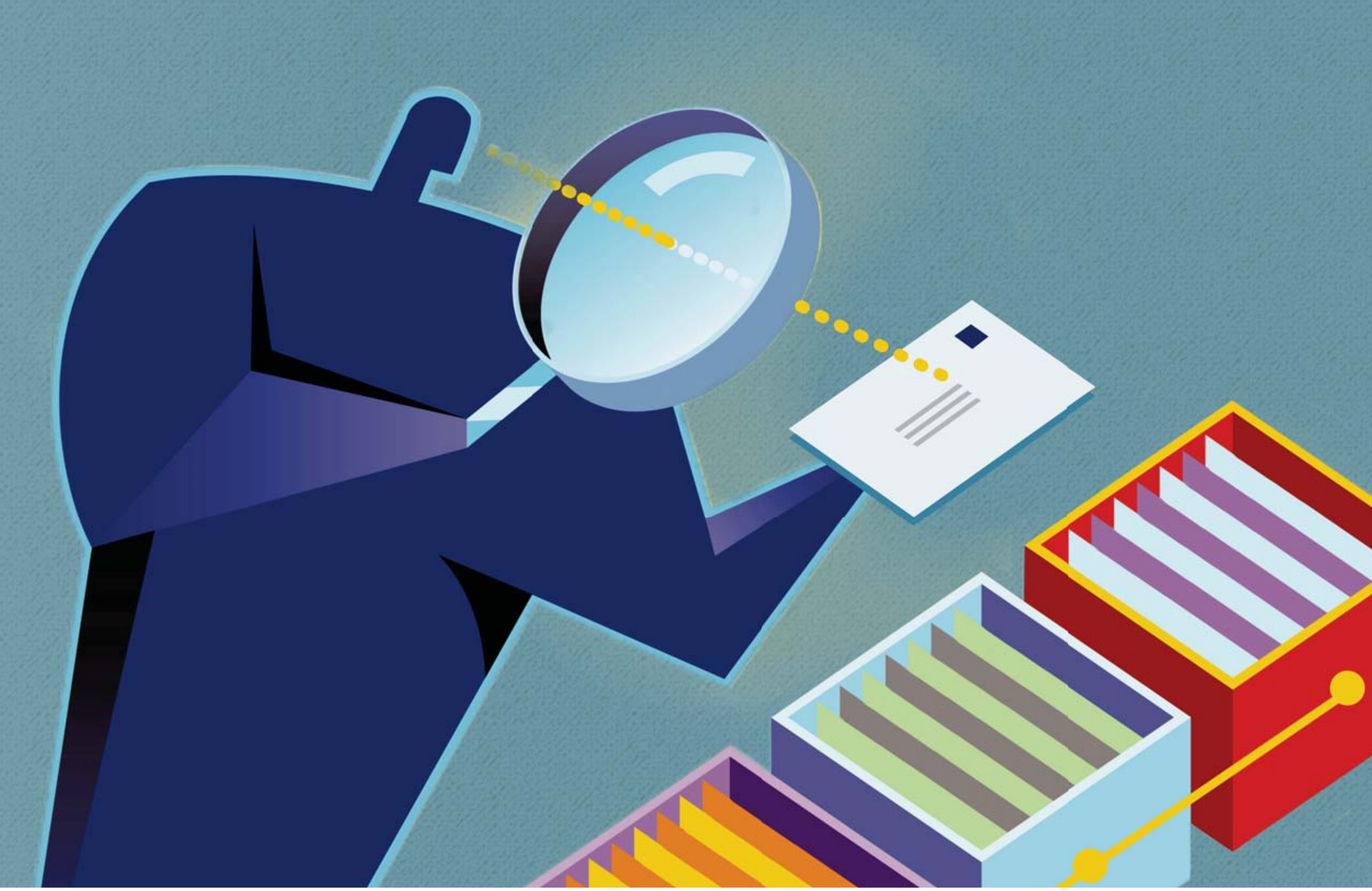

The Hidden Costs of Return Mail and Its Impact on Your Business

Identifying causes and identifying solutions

Pitney Bowes | trackmymail

Abstract

Return mail is often seen by many large volume mailers as a relatively minor problem that rarely warrants a focused effort to reduce costs or streamline processes. However, when its impact beyond postage and materials cost is seen, it is clear that return mail can be a significant profit drain and, if ignored, can lead to increased labor costs, damaged customer relationships, reduced cash flow and other problems.

Organizations that recognize the impact of return mail can employ several strategies to minimize its adverse effects. One of these is using mail tracking data available via the Intelligent Mail® barcode (IM™ BC) to access Postal Service™ address change services, as well as other applications that can enhance performance in several areas throughout an organization.

The Problem

Two and a half percent of all first class mail is returned.

What's the impact of this? It means that a typical large direct marketer sending 100 million pieces of first class mail will receive 2.5 million pieces of returned mail. And that profits could be reduced from 10 to 50 million dollars.

Return mail is a problem for virtually any business. It acts like a small tax throughout an organization, costing a little bit in a lot of areas. When all of the small "taxes" are added up, it can easily amount to millions of dollars in losses to organizations.

The financial impact of return mail goes beyond the cost of postage, envelopes and re-sending documents. Undeliverable invoices that are returned slow down cash flow, and those that fail to reach the consumer are never paid. Once a payment fails to be received beyond the due date, billing systems initiate late fees, irritating affected customers who in turn drive up customer service costs with complaint calls. Some customers who go through this experience will abandon their relationship with the organization, or insist on incentives to "make good." And it's highly likely they still won't be totally satisfied, even after the fees are waived.

If the mailed document is a check, the organization must cancel, re-authorize and re-issue the check, with some organizations reporting a cost of $25 per piece. If the document is a credit card, the costs can run much higher, with one organization quoting $75 per returned card.

Return mail can also be a potential sign for fraud. On average, mail takes 45 days to be returned. Unscrupulous individuals are well aware of this timeframe; there have been a number of schemes reported where people systematically take advantage of a firm's inability to detect a bad address over a length of time, and take possession of mail offers, especially those with monetary value. These individuals have approximately two to four months to use deception for their personal gain at the organization's expense.

Increased postage, paper usage and service costs, along with duplicate work, accelerated fraud, poor cash flow, loss of customers and a damaged business reputation are all very real outcomes from return mail. Despite these factors, return mail remains one of the most tolerated profit drains in organizations everywhere.

Our experience suggests the following cost drain benchmarks:

Type of Document	Mid Range of Impact per Piece	Impact at 100M/ year (average return rate)
Cards	$40	$100M
Checks	$25	$63M
Bills	$10	$25M
Notices	$3	$8M

Root Causes

There are a number of factors driving higher costs. The most important of these are **poor address quality** and the challenges of accurate data capture; and **database decay** resulting from people moving and undergoing lifestyle and life stage changes. These factors compound other problems such as handling, remailing and extended cycle time.

Let's look at each of these issues.

Poor Address Quality

It's human nature to make mistakes. When consumers are tasked with providing their address information on physical or web forms, it's inevitable that some mistakes will be made and incorrect data will be entered. When this information isn't checked at the entry stage, it affects all future correspondence, as well as the relationship with that customer, unless companies can have a dialog with the customer during order entry, or have them participate in an online correction process.

Companies have adopted a best practice of sending correspondence to a first-time customer, regardless of whether or not the address is known to be wrong. This practice will generate return mail, thereby identifying the problem and prompting eventual intervention, but also increasing costs.

Natural Database Decay

People move at the rate of 12 to 17% per year. Only 60% of movers inform the United States Postal Service® (USPS®) of the move in a timely manner. So, if organizations are sending one million bills or promotional mailers a month, they will receive 90,000 move notices per month. Worse, some 60,000 additional customers and prospects may have moved without providing notification.

Individuals getting married, newlyweds buying a first house, empty-nesters relocating to subdivisions with newly created streets, students moving to school, graduates finding jobs and moving back home—all of these issues create a natural decay in the quality of addresses. Assuming that customers are gained and lost, organizations will probably need to change one out of every five addresses. It's a difficult task to manage while maintaining continuity in communications and relationships.

Physical Handling and Remailing

An enterprise that mails one million pieces per month will process some 1,250 pieces of return mail per day. This mail is opened, assessed by a knowledgeable person or system, and forwarded to the appropriate party. If it is a bill, urgent steps are taken, usually manually, to locate the customer. Once the customer is found, after spending a fair amount of time and resources, and not always with 100% success, the entire bill or series of bills is re-manufactured and re-issued.

Sometimes mailers aren't even aware of whether or not return mail is even processed. For example, some large insurance companies have mail returned to their agent network. The company relies on the economic motivation of the individual agent to find and fix address problems. This process, however, offers no insight into the ongoing issues and can perpetuate a loop of poor quality.

Cycle Time

A piece of bad mail can be identified in the postal system as early as the point of entry, or as late as the postal delivery. When mailers manifest and package their mail to achieve the highest possible discounts, return mail has likely made its way to the intended destination before it is identified as undeliverable. Even then, the postal processes demand a certain diligence that takes several days to determine whether or not it can be delivered. Only after it's finally identified as undeliverable can return mail begin its journey back to the sender.

When return mail is handled by the USPS®, it's given one of the lowest priorities for handling. USPS® service objectives dictate that priority post and First-Class Mail® mail receive prime spots on trucks and planes. Then, Standard Mail® fills unused capacity. Finally, return mail fills any space that is left over. Capacity varies by day of the week and day of the month. The net result is that the return time can vary enormously—on average, around 45 days before it's received by the sender.

The long cycle time is a major source of financial drag on mailers. Re-billing is delayed and remedial actions are often put into motion. It's highly probable that a second bill has been sent, without knowledge that the first one ever reached its destination.

Addressing the Problem of Return Mail

So, how should one proceed? What steps can organizations take to address the corrosive impact of return mail?

High Level Assessment

Most organizations do not realize, nor even believe, that there is a $0.40 to $1.00 cost on every piece of mail sent and that the full impact is felt throughout the organization. Mail operation centers often have limited insight into the total costs and the lost opportunities that result from return mail.

Mail operators might argue that the cost of correction and re-mailing is approximately three cents per mail piece. As a result, they are not motivated to look further for impacts or solutions. Organizations should assess the issue with an analysis that takes an organization-wide perspective. The process analysis should include all impacted stakeholders, including finance, billing, customer support, marketing, and of course, mail operations.

Where to Begin?

With a financial impact analysis in hand, organizations can look at two general strategies.

The first strategy is the most obvious. Analysts should examine the primary and secondary root causes: address quality management and database decay. Teams should design a series of projects to establish new processes for managing and improving address quality. All forms of customer data capture should be re-examined and potentially re-engineered. Processes for managing client life changes should also be established.

A project of this nature impacts many processes throughout the company and is often a large undertaking. A review that tackles the root cause of data quality in a comprehensive manner may take years and require a multi-year payback period, but it could potentially eliminate up to 85% of return mail costs—a "return" that is certainly worthwhile.

The second strategy focuses on lessening the impact of return mail by reducing or eliminating physical handling and cycle time. This approach does not address the main causes, but speeds the organization's response to problems and reduces the costs of re-establishing customer relationships. One way is to eliminate the need to physically deal with mail that is returned. For legal or regulatory purposes, some organizations may wish to organize and archive return mail as it is received, which can be automated into a "no touch" process. Other organizations prefer to simply destroy the return mail, or have the post office do so.

In this approach, the cycle time to act can be reduced from 45 days to as little as five to seven days by virtualizing the flow of information. This virtualization simply means that the company can be proactive in its actions, and address problems before damage occurs. With the elimination of most physical handling, many of the benefits accrue to the mail operations cost center. Overall, a project of this type should show payback within one calendar year, and eliminate some 40 to 70% of return mail costs.

Decide to Act

The impact of return mail is real and substantial. Far too many organizations fail to realize its financial impact; few take the necessary steps to address it.

To assess and plan an approach to reduce the costs of return mail, it's important for an organization to seek a knowledgeable, process-oriented partner. This partner should possess deep knowledge of mail operations and workflows, and be aware of the latest available technologies.

One of the technologies that many enterprises are turning to today is the Intelligent Mail® barcode (IM™ BC). Tracking applications that utilize the IM™ BC, such as TrackMyMail from Pitney Bowes, enable users to efficiently maintain accurate mailing lists. These applications allow easy access to the Address Change Service (ACS™) from the Postal Service™ that returns information to mailers when a piece of mail is undeliverable. This information enables a host of benefits, which include:

- Removing undeliverable addresses for future mailings
- Updating addresses with new addresses provided by ACS™
- Meeting Move-Update compliance regulations
- Suspending services to an address when a customer has moved

In addition to making mailing list maintenance easier and faster, using data from the IM™ BC can yield benefits that impact other areas of an organization. Tracking data from the real-time mailstream view provided by applications like TrackMyMail can be applied to optimize performance and reduce costs in areas such as:

- Marketing
- Customer Care
- Operations
- Billing
- Finance
- Customer Experience Management

TrackMyMail Services from Pitney Bowes:

Making the IM™ BC Work to Your Advantage

If information is the oxygen of the modern age, TrackMyMail from Pitney Bowes is a source of fresh air. No other application offers the range of tools and support you need to maximize the full value of Intelligent Mail®. You get access to industry-leading solutions in customer data quality, data integration, business geographics, electronic content management and unrivaled know-how in postal data optimization – which enables you to use Intelligent Mail to improve the quality of decisions made throughout your organization.

With TrackMyMail you can speak with experts who can explain your options, and provide a detailed analysis outlining the specific ways you can play a role in this new mail-based data. We'll demonstrate how you can automate decisions with on-demand business analytics and leverage event-driven triggers to improve customer satisfaction, operational processes and cost efficiencies.

Take time now to learn how this new source of customer intelligence can improve performance throughout your organization. Visit www.trackmymail.com or call 1-888-444-9972.