



WHITE PAPER

RETURN MAIL CHALLENGES AND SOLUTIONS

HORIZONTECH, INC.
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RETURN MAIL CHALLENGES AND SOLUTIONS

Return mail has become a pervasive problem for corporations who need to communicate with their customers. The issue is particularly concentrated among high volume First-Class mailers in five business sectors: Finance; Insurance; Healthcare; Utilities (Energy, Telco and wireless providers); and Government. High volume communications sent via United States Postal Services® (USPS®) First-Class Mail® include: billing and other transactional statements; explanation of benefits (EOBs); and legal and regulatory notifications. Each type of organization has its own issues.

According to Horizontech estimates, Finance represents approximately 35% of all First-Class return mail, or more than 490 million pieces per year. One particular reason for the large volume of return mail within this industry is that return mail is managed at decentralized locations. Different departments have different standards for managing return mail, and the central organization does not get visibility to the enterprise problem. For example, one division of a high-end investment group cannot not make an address change without the client's approval, while another division can update an address just based on USPS NCOA^{Link®} or Address Correction Service (ACS®) data. This makes it difficult for the central procurement part of the organization to ensure that lines of business are meeting the requirements for USPS work-sharing discounts. Without centralized reporting and analysis of return mail, how can an organization meet compliance requirements in a Postal Inspection Service audit? The lack of consistent measurement capabilities also makes it difficult to find the root causes of the pre-mailing address issues that need to be corrected.

Horizontech estimates that Insurance and Healthcare together account for 20% of return mail, or more than 280 million mail pieces per year. In the Health Insurance and Healthcare arena, companies often have the unique problem of not being in control of address data when it is provided by employers or government agencies. This can make return mail management very expensive because sales representatives need to personally follow-up with their clients to update employee address files. All these issues can hamper insurance and health care companies' ability to meet USPS Move Update regulations and make them potential candidates for audits and penalties.

Horizontech also estimates that Energy, Telco and wireless providers comprise 21% of the return mail problem, or around 294 million pieces a year. These industries face many of the same issues as financial, insurance and healthcare companies. In addition, a big challenge today for these companies is keeping up with customer moves as they migrate to wireless services.

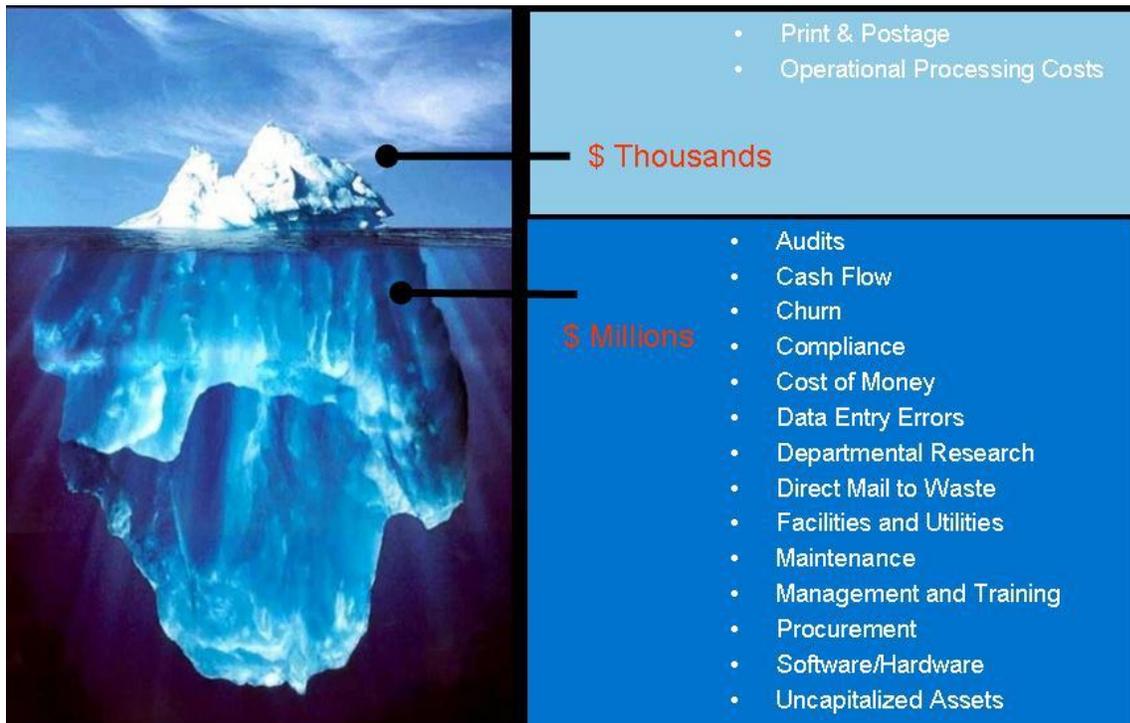
Government entities at the local, state, and federal level have similar issues stemming from mobile populations and decentralized approaches to managing databases and return mail. One might think that the government should have the most recent household data on the American public, yet counter to this view, 21% of the U.S. Census mailing was returned as undeliverable.

The Scope of the Problem

The challenge for the mailing industry is that approximately 1.9% of all First-Class Mail does not get delivered. While that number doesn't seem significant, it actually amounts to approximately 1.3 billion pieces of mail annually that is returned to the company where it originated as "Return to Sender/Return Mail." According to Horizontech's estimates, each piece of return mail costs a company an average of \$3

per piece in operational costs alone, including postage and printing, handling, research, remailing, and related processes. With 1.3 billion pieces of return mail overall, that's a whopping \$4.2 billion in operational costs the industry absorbs each year!

The *true total cost* of all this return mail is actually much higher. Below the surface, the total financial impact of return mail can exceed \$50 per mail piece. Many companies continue to struggle with profitability, layoffs and reduced access to working capital. That means that an estimated \$65 billion is absorbed or unrealized by businesses each year due to return mail. Included in this total is the lost value of the returned communications: delayed and missed payments, excess call center activity, and overall customer service costs. These costs can have a major impact on cash flow, labor costs, and customer retention.



According to Horizontech research, a centralized and automated approach to return mail management can reduce a company's operational costs by up to 70%. The other components of the total cost of return mail (missed payments, etc.) are 100% returned to the company's bottom line.

Postal Regulations Add Further Impact

In January 2010, the USPS increased enforcement of its Move Update requirement. By USPS mandate, organizations must now update First-Class Mail claiming discounts and Standard Mail™ with customer move information within 95 days prior to the mailing. If a company's mailings do not reflect current customer addresses, the USPS can fine the company in two ways:

1. *Prior to mailing*, USPS Mail acceptance units take a random sample of a company's mailing and process it on a machine called MERLIN® (Mail Evaluation Readability Lookup Instrument), which

determines if the mailing is eligible for postal discounts. If MERLIN detects a sufficient number of moves that a mailer did not update, the USPS rejects the mailing and a mailer can either rework the mailing or pay a \$0.07 per piece fee multiplied by the percent of the mail that fell below the threshold. In the industry, this is referred to as the PBV (Performance Based Verification) test.

2. *After* mailing, the Postal Inspection Service can also perform audits triggered by return mail to determine if mailers are generating undeliverable mail with stale move information. Return mail labeled "Forwarding Time Expired" signifies moves that are over 12 months old. The USPS can then fine the company:
 - The postage deficiency between what was claimed and what was actually earned. For a First-Class mailing, this would be the difference between full postage (\$0.44 per piece) and presort automation postage (typically \$0.357 per piece) on all pieces in the mailing.
 - If the mailer knowingly claimed discounts for mail that was non-compliant with Move Update, the USPS may:
 - Multiply the postage deficiency (noted above) by a factor of x2 or x3.
 - Fine \$11,000 per mailing (per falsely signed postage statement).
 - Multiply a company's fine by a number of years (because the Move Update regulation has been in place since 1997), if the mailer knowingly claimed discounts for mailings that were non-compliant with Move Update.

These fines can significantly impact a company's bottom line. Unfortunately, many mailers believe that they are fully compliant with the Move Update regulation only to find out later that only certain mailings met the requirements for postage discounts. Mailers should therefore consider the following questions before signing a postage statement:

1. Do we have visibility into all mailings in the organization claiming postage discounts?
2. How recently was a USPS-certified method of Move Update performed? Is that process documented? Where would we go to produce reports if the USPS were to audit our process?
3. How does our company handle moves that do not have a forwarding address? Are we required to send those pieces and if so, are we sending them at full postage?

The following examples demonstrate the potential financial impact of non-compliance with the Move Update regulation:

Per Mailing Fine – Mail Acceptance MERLIN Failure:

Performance Based Verification (PBV) Fee Assessment		
Pieces in Mailing	1,000,000	
MERLIN Sampling	1,000	Random Sample
Moves Detected	100	Denominator
Moves Updated	60	Numerator
Moves Not Updated	40	
PBV Score	60%	Fail
USPS Threshold	70%	Set By USPS
Delta From Threshold	10%	Apply Fee to % of Total Mailing
PBV Fee (Per Piece)	\$0.07	Set By USPS
Total Fee	\$7,000.00	PBV Fee for this mailing

Return Mail Audit Fine – Postal Inspection Service

Postal Inspector Move Update Fee Assessment		
"Forwarding Time Expired" Mail	TBD	No Public Threshold
Annual Mail Pieces	20,000,000	
Number of Mailings	260	Daily Mailing
Discounts Per Piece	\$0.083	Full Postage - 3 Digit
	3	Multiplication Factor (1-none, 3 max)
Discounts Claimed (Non-Compliant)	\$4,980,000	Mail Volume Times Discount
Fine per Non-Compliant Mailing	\$2,860,000	\$11,000 per Non-Compliant Mailing
Years Out of Compliance	3	Based on Severity of Audit
Total Potential Fine	\$23,520,000	Negotiated Fine

Technology: Addressing Tools

To begin to solve this First-Class return mail problem, there are address tools available from the USPS as well as databases available from many third-party sources. Companies and service providers also offer solutions that work with postal certified databases. The range of tools includes:

- **NCOA^{Link}** – The NCOA^{Link} product makes change of address information available to mailers to help reduce undeliverable mail pieces before mail enters the mailstream. The NCOA^{Link} process consists of computer software purchased, leased or developed by the licensee to access the NCOA^{Link} data.
- **CASS™/DPV** -- The USPS Coding Accuracy Support System along with the Delivery Point Validation process validates address deliverability and updates hygiene attributes.
- **LACS^{Link}** -- The Locatable Address Conversion System updates rural route conversions to city addresses and other address renaming and/or renumbering.
- **SUITE^{Link}** – This adds or updates suite numbers in business addresses.
- **MLOCR based solution (FASTforward®, or UMove system)** – These systems perform OCR scans of the mail pieces and uses data from the NCOA database to look for updates on movers to apply directly to the mail piece at the time of mailing.
- **Intelligent Mail® Barcode (IMb)** – The IMb provides a means to uniquely identify every mail piece in a mailing. When used with additional services like Address Change Service, adds the ability to more easily connect the mail piece back to a specific mailing and/or record within the customer database.
- **Address Change Service (ACS™)** – A USPS service that provides a post-mailing method of attaining electronic Change of Address (COA) and NIXIE information. There are several versions of ACS. To review all the options, visit www.USPS.gov. While ACS allows the mailers to receive information on return mail back in an electronic format, there may be additional charges for ACS records. In addition, not every company can use all the ACS options; those mailing confidential materials cannot allow the USPS to destroy the mail piece via a process that is not considered secure. A company will request that all critical documents such as physical credit card or service cancellation notices be returned, even if undeliverable.
- **Address Element Correction (AEC)** – A USPS service that corrects and standardizes address elements by focusing on address element deficiencies such as misspellings, non-standard abbreviations, incorrectly joined, improperly ordered or missing elements, and address lines containing data other than the actual address.
- **AECII®** - The next generation of AEC. AECII uses Delivery Force Knowledge™ to correct errors in addresses that are not correctible by existing programs. Delivery Force Knowledge leverages the

efforts of local delivery unit employees who review bad addresses and enter corrections into an AECII electronic process for return to the submitting customer.

- **Third-Party Data Sources** – Many businesses offer proprietary databases that use consumer and credit information to update addresses, though some have reported varying degrees of effectiveness with this method. Use of third-party data must be carefully determined based on the tested quality levels of the results. In many cases, use of third-party data should be limited only to when a piece of mail is undeliverable and when that information is verified, supported via USPS certified addressing tools and/or verified directly with the intended recipient.

Industry Technology Trends

As mailers continue to struggle with their bottom line, many are taking a closer look at what used to be considered a cost of doing business. Reality dictates that return mail and its related impact are a *significant* cost of doing business. To attack these costs, mailers are exploring the latest technology advancements for solutions. Actually, there are many solutions at different levels of deployment, and each have their own set of trade-offs, so mailers need to evaluate how the use of multiple solutions can be justified and deployed to augment and enhance their processes.

Full Service implementation of the Intelligent Mail barcode with ACS is a trend generating the most interest. Implementing the Full Service version of the IMb can require significant initial investment, but can yield financial benefits including additional postage discounts and discounted ACS services. Mailers may be able to leverage these discounts to justify implementation costs.

While this process may reduce the number of physical return mail pieces that a mailer needs to process, it can increase the total number of notices that still need to be verified, researched, analyzed and acted upon by the mailer. It is important not to get ACS confused with traditional NCOA^{Link}. Both are valid, certified methods of meeting the USPS's Move Update requirement. NCOA^{Link} includes permanent Change of Address information only. ACS also includes information on Temporary Changes of Address, NIXIE's, and permanent moves where matches were able to be made thanks to carrier knowledge. Independent tests run by software vendors have found a 10% - 20% difference between ACS and NCOA^{Link} data regarding permanent Changes of Address. If your company has strict policies regarding updating customer data, it is highly recommended that you review ACS data using other postal certified data sets, such as CASS/DPV and NCOA^{Link}.

The Intelligent Mail barcode and OneCode ACS have been around for several years. However, Full Service IMb and Full Service ACS are still relatively new and are experiencing operational issues that the USPS is working to correct, such as:

- The inability to return some ACS notices. This will cause a mailer to continue to send mail pieces to bad addresses that they otherwise could have suppressed or applied an update to.
- Failure by the USPS to detect and treat a mail piece as Full Service ACS, resulting in the manual handling of the mail piece (with correspondingly higher fees). In 2010, some mailers indicated that over 50% of these mail pieces were not being returned as Full Service ACS mail pieces. The root cause can be traced to factors such as piece production issues, physical damage from delivery processing and handling, USPS scanner issues, and even actions by the recipient.

Since some of these factors are outside the control of the mailer and the USPS. Many mailers are implementing not only the Full Service IMb with ACS but maintaining a back-up of Traditional ACS for the return mail piece at no additional charge.

Additionally, mailers are taking a much closer look at data that is provided by these tools and services to obtain more value from them, or ensure proper handling. Studies by Horizontech and the mailing community consistently show that 10% to 17% of the USPS reason codes indicating why a mail piece was not delivered are incorrect. Incorrectly suppressing mail to a valued client has the same financial impact as losing all contact with them (e.g. when they moved and did not notify a product or service provider of the move).

Maximizing the impact on a customer's bottom line means utilizing the right tools and services to obtain, confirm, and enhance the necessary information and take the appropriate action. It is important that you work with a technology solution provider to develop a roadmap from physical to virtual return mail. This also requires constantly reviewing the latest tools and services that are being developed and released.

The Ideal Approach

A truly effective solution to reducing operating costs and risking fines associated with First-Class return mail is to create a centralized, automated managed service. This approach integrates multiple technologies to convert physical mail into usable data, update addresses, and perform a variety of processing and post-processing functions to ultimately update addresses.

The ideal approach goes beyond products to processes that analyze the root causes of the return mail problem and work to eliminate it. The goal is to establish a timely, efficient, consistent process that can be managed with the centralized reporting needed for a USPS compliance audit.

To be effective, a managed return mail service should: automate integrated technologies; incorporate postal hygiene addressing tools and third party data; provide real-time reporting and auditing; and significantly reduce the volume and cost of return mail.

There are four steps in the process of operating a centralized, automated return mail service:

1. Document Capture and Conversion. Most companies lack the security, processes, and workflow required to efficiently process and track *physical* mail internally. The first step in the return mail process is to capture physical mail pieces and convert them to electronic format. This can be done with scanning or bar code capture, onsite or offsite, using company personnel or an outside service.

Once document capture is completed, the original mail pieces can either be shredded or staged for repurposing or secondary processing, such as remail, reprocessing, and address validation with customer follow-up if required. Data should be promptly reported to a host platform for updating and storage.

2. Address Management, Standardization, and Search. After an organization has established centralized document capture and converted physical return mail to digital files, their address database needs to be updated and validated using the tools (USPS certified and third-party) mentioned above. The ideal approach utilizes these tools with an integrated data platform that combines intelligent program logic with multiple data compilers and hundreds or thousands of active postal certified and third party databases.

Integrating these with mail and undeliverable mail data and secondary repurposing of customer communications can provide valuable output data and solutions.

The goal is to conduct a truly comprehensive search of consumer and business records, including everything from landline and cell phone data to voter registrations and magazine and newspaper subscriptions. These advanced search activities can significantly improve the likelihood of finding the last known or updated address, far beyond using only the commodity address quality and move update solutions.

3. Secondary Processing and Document Repurposing. The next part of the return mail management services operation involves setting up back-end business processes and data-driven events. These make it easier to re-mail or reissue mail to updated addresses and allow subsequent automated reprocessing of any addresses with on-going issues. It also is necessary to set up the secure destruction of physical return mail either onsite or offsite.

It is critical for mailers to historically track how many pieces of undeliverable mail originated from a single record. Companies suppress bad addresses but often find that the process was established based upon old logic that was not initiated by a postal expert. Too often, companies suppress customers that have an updated address.

Rebound processing can also be used to immediately access any re-mailed or reissued document, which is returned again as undeliverable. This can quickly provide automated suppression and customer data that can be used to feed call centers or trigger alternative methods of communication.

4. Reporting, Auditing, and Metrics. Finally, an effective return mail management service needs to include core reporting, metrics, and audit processes that return usable and reliable key data to update the host platform and provide management statistics. Tracking, analysis, and documentation should be established to validate the quality and metrics of the process. Per individual company compliance requirements, business applications that require an archival component should have all images indexed, archived and electronically stored to meet such requirements.

Following are two examples of how a centralized, automated return mail managed service can deliver significant results for large First-Class mailers.

Case Studies

Property and Casualty Insurer

A Midwestern property and casualty insurance carrier is licensed in 48 states and has been in business more than 100 years. The company had serious issues with First-Class returned mail containing invoices for premiums due, renewal offers, cancellation notices, and other critical customer communications. Return mail sent to both consumer and business customers came back daily to company headquarters for reprocessing.

The company tried to manage the problem with internal resources for capture, phone research, and address updates, but their mostly manual process was very inefficient, taking 30 days or more to locate a customer after numerous unsuccessful attempts. This caused extended service issues and delays and cash flow issues due to late or no payments, and lacked the reporting that could help management solve the problem.

Fortunately, the company saw this problem as an opportunity to improve their operations, financial performance and service to both customers and independent agents. They retained centralized, automated managed service expertise to handle the return mail issue. Using integrated technologies and consistent, well-designed processes, the return mail managed service vendor delivered:

- Immediate system implementation
- Accurate statistics and measurements
- Address Update rates above 50% for all returned mail
- Capture, search, and reissue of initial customer bills in three to five business days, versus one to three months
- Dramatic improvement in customer service, as address updates occurred in hours instead of months
- Updated phone information for more effective follow-up
- High success rate in locating customers who had moved with no forwarding address

Bottom line: the company's centralized, automated return mail approach delivered a better than 25:1 return on investment (ROI).

Financial Services Company

A financial services company manages billions of dollars in assets for many U.S. financial institutions. SEC regulations require them to mail Privacy Notices to each of their 450,000 customer accounts at least once a year. The company experienced a high rate of return mail for this as well as other mailings throughout the year. They thought their undeliverable-as-addressed (UAA) issue affected as much as 10% of their mailings, but had no actual data to support this premise.

The company attempted to manage their return mail process with internal resources for capture, phone research, and address updates. This approach was extremely inefficient, as it at times took 12 months or more to conclude an address update, if one could be successfully completed at all. There was a physical backlog of twelve months of UAA customer communications, and the company had no tracking or measurement tools in place to manage the problem.

The company turned to a centralized return mail managed service vendor for a solution to this problem. The automated technologies and repeatable processes yielded dramatic results:

- System implementation took just one week
- Accurate measurements and statistics were generated, revealing the actual UAA mail rate was 4.2%, not the 10% estimated
- Address Update rates of 71.1% for all returned mail
- Improved customer service as address updates were accomplished in hours instead of months or years
- Remailing of original documents after address updates eliminated the need for secondary handling or reprinting
- High success rate in locating customers who had moved with no forwarding address

This centralized, automated return mail system saved the company thousands of hours of labor and provided a new level of timely customer communications.

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About Horizontech, Inc.

Horizontech is a Global information technology and document solutions company, with web-based workflow systems and back-office support. Combining operating capabilities with multiple, proprietary technologies, Horizontech automates enterprise business functions including those that reduce and eliminate return mail, increase operational efficiencies, mitigate risks, and grow revenue.

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About Pitney Bowes

Celebrating its 90th year of innovation, Pitney Bowes provides software, hardware and services that integrate physical and digital communications channels. Long known for making its customers more productive, Pitney Bowes is increasingly helping other companies grow their business. Pitney Bowes is a \$5.6 billion company and employs 33,000 worldwide.