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# Intelligent Mail<sup>®</sup> ROI

Using Intelligent Mail services to reduce costs and increase mail effectiveness.

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# Return On Investment from Intelligent Mail

If you use the mail as a part of your business, you are going to use Intelligent Mail in the near future. Virtually all postal discounts will be tied to your using this new barcode, and the rules that accompany it, by May of 2011 at the very latest. These discounts are an essential part of any significant mailing operation. So, there is little doubt that you will use Intelligent Mail. The only real question is “When?”

Well, there will be toehr reasons to start using Intelligent Mail sooner. There will also be additional discounts for users of the new “Full Service” option being offered by the Postal Service, expected to take effect in late 2009, and while not projected to be as large as automation discounts, every discount can be important in helping to control costs..

With so much focus on postage discounts and compliance requirements, many of the benefits of Intelligent Mail have been forgotten. In many respects the benefits of the suite of services available, even today, to overshadow many of the postage savings being offered. Understanding and taking advantage of these benefits can be essential to an efficient mailing operation.

Our focus in this paper is quantifying those benefits and guiding mailers in steps to take advantage of them.

## Intelligent Mail – Background

Although there will be changes in May of 2009, Intelligent Mail has been available from the Postal Service since September, 2006. The technology is proven and has been used to route and track billions of pieces of mail. It works today.

“Intelligent Mail” really describes a suite of services enabled by a new barcode, the Intelligent Mail barcode (IMb). The IMb is a 65 bar barcode using bars of four different lengths/positions. Because of the four different bars the IMb may be referred to as a four-state barcode.

Intelligent Mail currently includes the following services:

- Mail routing – The IMb fulfills the function of the postnet barcode currently used on mail pieces, providing the ZIP<sup>®</sup>+4 and delivery point information;
- Confirm<sup>®</sup> – Confirm is a Postal Service program that follows mail as it travels through automated sorting equipment, returning scan data to subscribers that can be used to predict delivery. This functionality was

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- provided by adding a second barcode, the PLANET Code<sup>®</sup>, before the IMb was released in 2006;
  - OneCode ACS<sup>™</sup> – ACS is the acronym for Address Correction Service, a service from the Postal Service that returns information to the subscriber when a piece of mail is undeliverable or the reason for nondelivery along with a new address if available.

None of these services are completely new, but they are enhanced and often made more accessible through the use of the IMb.

The original purpose of Intelligent Mail was to add value to the mail by providing an added measure of control implied by these services. With the passage of the Postal Accountability and Enhancement Act (PAEA) the Postal Service was mandated to create a means of measuring service performance. Intelligent Mail was chosen as that means. As a result, the Postal Service has added new requirements and discounts designed to encourage adoption of the IMb. The original value of Intelligent Mail has been lost in the shuffle, but it still remains the best reason of all to begin using Intelligent Mail sooner rather than later.

## Two Flavors of Intelligent Mail

Set to take effect in May 2009, new Intelligent Mail regulations break Intelligent Mail into two categories – Basic and Full Service. There are a variety of resources that go into great detail as to the differences. Effectively, Full Service requires the mailer to provide a great deal more information. In return there are discounts and entry information may be provided – that is information on when the mail was inducted into the mail stream. In this paper we do not recommend one option over the other. Except as noted, all benefits illustrated here are available for users of either Basic or Full Service Intelligent Mail.

## The Benefits in a Nutshell

Intelligent Mail provides benefit by telling mailers when and if mail has been delivered, and providing information on undeliverable as addressed mail (UAA). Using this information, mailers can realize the following opportunities:

### Using delivery intelligence:

- Coordinate other activities related to the mail piece, whether it is a related marketing offer, or a collection call reinforcing the message of a mailed collection notice;
- Choose the most cost effective class of mail;
- Plan and time mailings more effectively;
- Anticipate and allocate resources for response more effectively;
- Respond to customer inquiries regarding a mailpiece

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- Reschedule actions based on a mail delivery date – e.g. power disconnects, policy cancellation
  - Provide a proof of mailing

#### **Using address intelligence:**

- Remove undeliverable addresses for future mailings
- Update addresses with new addresses supplied by ACS™
- Meet Move-Update compliance regulations
- Suspend services to an address when the customer has moved

All of these opportunities can improve mailing operations, and the effectiveness of mail. Many of them have specific cost benefits. Our objective in this paper is to show some specific examples where a significant return on investment has been found using Intelligent Mail data, and to provide tools to allow you to measure the available return for your own mailing efforts.

## **The Cost of Intelligent Mail**

When anyone talks about “return on investment”, there is obviously an investment, or cost, involved that needs to be returned. Adopting Intelligent Mail has costs associated with it. Some of the costs are required, simply to participate in Intelligent Mail and maintain postal discounts. Other costs are optional, and revolve around the additional benefits listed above.

#### **Required costs:**

- Equipment updates: Addressing equipment may need to be updated to accommodate the new barcode, the IMb.
- Software updates: Creating the IMb requires an encoding process, and may also require software updates to accommodate a new font and new barcode dimensions. The updates may be in the addressing/presorting software or document composition software. The cost can be nominal in some cases – for most small to medium mailers, the IMb capacity will be included as part of a routine update – or onerous for large or complex mailing operations where extensive legacy applications need to be modified.
- Process updates – Intelligent Mail preparation will require process changes in any mailing operation. There is, at a minimum, an additional encoding process, and there may be many more process updates required. Again, the cost will tend to vary with the size and complexity of the enterprise.
- Training – Both employees and customers will need to understand the new technology as well as its challenges and benefits. There is a cost associated with such training.

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The above costs are required to adopt Intelligent Mail in any enterprise. This is simply to maintain the status quo in terms of postal discounts. In order to take advantage of the greater benefits, the mailer will need to have a process for taking advantage of the data provided by the either Confirm or OneCode ACS, the two primary programs that make up Intelligent Mail.

### **Optional Costs:**

Mailers can either develop an in-house application, or use an outside service such as Trackmymail.com. Costs involved in an in-house operation are:

- Development/software costs – Mailers will need to either develop or acquire software required to process Confirm and/or ACS data as it is returned from the Postal Service
- USPS subscription fees – Some USPS programs, such as Confirm, may include subscription fees as high as \$23,500 in 2008. These fees are for raw data only, and do not include reporting analysis;
- Training and USPS issues – Participating directly in Intelligent Mail programs will require fairly extensive postal knowledge and staff training in order to be compliant. These are not simple programs.

Of course, many of these costs can be avoided by using a third-party provider such as Trackmymail.com. The cost effectiveness of any solution will vary with the size, complexity, and capabilities of the enterprise.

Our presumption here is that all mailers will need to cover the required costs. Postal discounts are essential to cost effective mailing, and these steps will be required to maintain those discounts, and possibly secure additional discounts proposed for Full Service Intelligent Mail.

Our focus is on the optional costs. While mailers will not be required to participate in Confirm and OneCode ACS to use Intelligent Mail, we believe most mailers will find that the return from those services more than justifies the additional investment.

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## Saving Money with Intelligent Mail

Intelligent Mail can save virtually any mailing operation money. Of course the higher the volumes, the greater the savings. For our purposes we'll be looking at mailing in three volumes: 1,000 pieces, 10,000 pieces, and 100,000 pieces. You can look at these as either per job volumes, or per day.

For the cost side, we'll use undiscounted trackmymail.com prices. For the purposes of this illustration this works out as:

1,000 pieces:	\$50.00 (\$50.00/1000)
10,000 pieces:	\$68.00 (\$6.80/1000)
100,000 pieces:	\$248.00 (\$2.48/1000)

These prices are for trackmymail processing only. You may have other start-up costs as listed in the previous section. Other services may have different price points, and volume users may qualify for different prices.

## Postage

Intelligent Mail can **directly** impact your postage in two ways:

- 1) **Automation Discounts:** In order to continue to receive automation discounts, mailers will need to adopt Intelligent Mail no later than May, 2011;

### Available savings:

Based on automation versus non-automated mailing, Standard Class letters, typical nationwide mailing densities, based on rates as of 1/1/2009:

1,000 pieces:	\$14.00 (\$.244 vs. \$.258/ea)	\$14.00/1000
10,000 pieces:	\$230.00 (\$.258 vs. \$.235/ea)	\$23.00/1000
100,000 pieces:	\$2,800.00 (\$.258 vs. \$.230/ea)	\$28.00/1000

These savings are based simply on today's automated rates vs. today's non-automated rates. The same rates can be obtained with a postnet barcode until May 2011. Correct use of the IMb will be all that is required after that point to receive these rates, using either basic or full service Intelligent Mail. Trackmymail services are not required.

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- 2) **Full Service Discounts:** Participants in Full Service Intelligent Mail will, beginning in late Fall, 2009, be eligible for an additional postage discount of \$.003 per piece (\$3.00/M).

**Available savings:**

1,000 pieces:	\$3.00	\$3.00/1000
10,000 pieces:	\$30.00	\$3.00/1000
100,000 pieces:	\$300.00	\$3.00/M

This discount is for participating in Full Service Intelligent Mail only, and meeting all of the attendant requirements. Trackmymail services are not required.

## Postage Savings through Tracking

Knowing when mail is delivered can be leveraged into additional postage savings in many cases. Many mailers with time critical events use First-Class mail to assure that their message is delivered in a timely predictable manner, allowing them to coordinate other marketing actions, or promote a time sensitive event.

Intelligent Mail may allow them to convert some or all of their mail to Standard Class. Savings for the portion converted:

1,000 pieces:	\$112.00	\$112.00/M
10,000 pieces:	\$1,050.00	\$105.00/M
100,000 pieces:	\$9,900.00	\$99.00/M

Obviously these are significant savings that may be applicable to a small portion or a mailing, such as local addresses or directly injected SCF drops. Mail tracking with Intelligent Mail enables you to evaluate these options.

## Labor Savings through Tracking

Most mailers have other actions that occur as a result of their mail – that's the point of most commercial mail. Direct marketers can expect responses to call centers or mailed in orders. Invoice mailers expect their invoices to be paid. Retail advertisers expect to draw customers into their stores. Even informational mail such as explanation of benefit (EOB) mailings and cancellation notices can be expected to generate inquiries to customer service.

Staffing for these responses is often a significant cost to organizations. Knowing when mail is being delivered allows you to staff and prepare appropriately.

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Particularly with Standard Class mail, the delivery date can vary a great deal. Using Intelligent Mail to determine the actual delivery date allows you to optimize your staffing. If the mail has not been delivered to the extent expected, staffing can be reduced. As importantly, if the mail delivers early call centers can be sure to have adequate staff to meet customer needs.

While it is more difficult to quantify in terms of savings per thousand, it is reasonable to expect that an organization driven largely by direct mail could reduce call center/response center labor costs by at least 5% through careful use of mail tracking. A direct marketer mailing 20 million pieces of marketing mail a year driving responses to a call center would expect to have call center labor expenses well in excess of \$2,500,000 a year. Even a 5% savings could reduce labor costs by more than \$125,000 with better scheduling based on actual delivery dates. The cost to track 20 million pieces could be expected to be less than \$20,000.

## Postage and Production Savings through Address Quality

Intelligent Mail allows mailers to identify not only when mail gets delivered, but *where* it was delivered. In many cases, if a piece of mail is forwarded or returned it can be identified using Intelligent Mail mail tracking. If the piece is rerouted, a new POSTNET<sup>®</sup> will indicate a new ZIP<sup>®</sup>+4 where the mail is now destined. In some cases a change in ZIP+4 may simply indicate a Postal Service refinement of the ZIP+4 originally on the piece. In other cases the piece may be “forwarded” to the ZIP+4 in the return address – a good indicator that the piece is being returned. Mailers can use this information to refine their mailing list. Even in the absence of ACS information, forwarded and returned information can be used to eliminate or at least identify defective addresses in a file.

Even in well maintained lists, forwarding and returned counts will typically average around 3% - 4%, as prospects move. Eliminating these wasted addresses from lists save not only postage, but printing and production costs as well. Based on an overall cost per piece of \$1.10 (postage, printing, mailing services), and a forwarded percentage of 3% the following savings can be expected from utilizing this data:

1,000 pieces:	\$33.00	\$33.00/1000
10,000 pieces:	\$330.00	\$33.00/1000
100,000 pieces:	\$3,300.00	\$33.00/1000

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These are typical rates. Of course the cost per piece may drop as quantities increase. Standard Class mail with no ancillary endorsement is generally discarded, so this is only effective with First-Class mail and endorsed Standard Class.

In addition to identifying forwarded and returned mail, Intelligent Mail makes the OneCode ACS service available, which will provide more detailed information, including the reason for non-delivery as well as the new address, where available. For lists that are mailed to regularly, this can also be used as a move update tool. In addition to postage and production savings listed above, using OneCode ACS can eliminate your need for NCOA™ processing to remain move-update compliant.

## Postage Savings on Proof of Mailing

Many organizations need to be able to demonstrate proof of mailing to meet statutory and corporate due diligence requirements. The methods for doing this can be prohibitively expensive. Single piece certificates from USPS cost \$1.10 each. Certified mail is even more - \$2.70 each. Additionally these methods are often labor intensive and difficult to administer.

In many cases, a less stringent standard may suffice. While Intelligent Mail does not provide proof of delivery, a scanned piece can provide proof of mailing. Intelligent Mail can prove that a piece of mail was placed in the mail stream. It is important to clarify with the appropriate authorities what standard of proof is required, but in cases where mail scans are deemed adequate, Intelligent Mail offers a dramatic savings.

## Improved Response Rates

Coordinating other marketing methods, better timing of mailings, improving the percentage delivered by eliminating bad addresses – all of these can work together to boost the response rate on a direct mailing, and all can be achieved through Intelligent Mail.

As an example, if an offer has an expected response rate of 0.5%, and a product priced at \$150, the value of response is \$750.00/1000 (5 responses per 1000 at \$150/ea). Simply eliminating 2% of the addresses that are bad could be expected to boost response by the same amount, adding \$15.00/1000 to the response value of a mailing. In many cases, the total value of a response is well beyond the initial value of the response when you factor in the lifetime value of a new customer. Boosting response by coordinating other marketing efforts or better timing can also enhance response, making the return on mail tracking more effective.

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## Reducing Collection Activities

Collection activities are expensive and will often generate ill will from customers. If a payment is in the mail, there is no need to generate this cost, and Intelligent Mail, using Origin Confirm, can identify payments that have been placed in the mail.

A typical live collection call today costs \$5.80. If a call center typically makes 1,000 collection calls a day at a cost of \$5.80/per call, a 5% reduction in calls can result in direct savings of \$290.00/day, as well as not generating ill will. Utilities that need to distribute door hangers prior to a service disconnect typically spend \$7.00 each to distribute them. Intelligent Mail can identify payments in the mail, and mailers can use that data to suppress collection activities to those customers.

## Putting It All Together

In challenging economic times, it is essential that business get the most from all of their resources, including their mailing programs. Intelligent Mail provides tools that can help resourceful mailers reduce costs without reducing the benefits they get from the mail.

As an example, let's look at a hypothetical but typical insurance company and how they might be able to save.

### **Our insurance company mails the following, monthly:**

- 300,000 pieces new customer acquisition direct mail at an average cost per piece of \$.90
- 50,000 invoices, average cost: \$1.10
- 8,000 late notices, average cost \$1.10
- 3,000 collections call at \$4.00/ea
- 1,000 cancellation notices, certificate of mailing, \$1.10/ea

### **Monthly savings they could expect to see with a comprehensive Intelligent Mail program:**

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| • Reduced wasted addresses on prospect mailings: @1%     | \$2,700 |
| • Reduced wasted addresses on invoices: @1%              | \$550   |
| • 3% reduction in late notices (from inbound tracking)   | \$264   |
| • 3% reduction in collections calls                      | \$360   |
| • Elimination of \$1.10 per piece certificate of mailing | \$1,100 |

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<b>Total savings:</b>	<b>\$4,974</b>
Typical cost of a tracking program like trackmyemail's	\$1,700
<b>Net savings:</b>	<b>\$3,274</b>

Of course this does not take into account the postage savings available simply for using Intelligent Mail.

This example does assume a mailer actively working to optimize their mailing operations. Intelligent Mail gives mailers tools to improve the operations...it's up to the mailer to use those tools.

## **What Are Your Intelligent Mail Opportunities?**

Look at some of the metrics on your mailing operations to determine how you can reduce costs and improve efficiency with Intelligent Mail:

- What is your total cost per mail piece? Be sure to include paper, printing, postage, lettershop costs, and design. These costs typically come in at \$1 - \$3.
- How much of your mailing is undeliverable as addressed? On a well maintained list, 2% - 4% is typical. If you can correct or eliminate those pieces at your typical cost per piece, how much can you save?
- What is your normal response rate? What is the dollar value of each response? What is your response in dollars per thousand pieces mailed? If you can improve response by 2%, what is the value of that? What is the lifetime value?
- What are your outbound and inbound telemarketing costs? What is the dollar value of a 5% reduction in telemarketing labor?
- What are your collection expenses? What is the dollar value of a 5% - 10% reduction in these expenses?

Of course respective costs and available benefits vary from organizations to organization. You need to look at yours to see how using a new technology can improve operations.

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## Implementing Intelligent Mail

If you use mail commercially in your business, you will be switching over to Intelligent Mail over the next two years. There will be costs associated with that transition that are unavoidable in order to maintain essential postal discounts.

The real decision you will need to make is how many capabilities of Intelligent Mail you should leverage for your operation based on the improvements they can provide, and how quickly you should do it. The benefits of Intelligent Mail are already working for some of the most sophisticated mailers today. Now is the time to set your course.