Volume One

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Prescott Report

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In this Issue…

Departments…

Editor's Note

At "press" time we are wondering whether "it" is over. Emerging market mutual funds have recovered to their levels pre-Lehman's bankruptcy. Ford sold more cares this July than it did in July 2008, and the first increase since November 2007. But, as for emerging markets, are we seeing real growth over there, or hungry money? As for Ford, the "clunker" factor takes the glow off the sales number. The program was modeled on Germany' offer of up to €4,500 on the purchase of a new car when trading in an old "gas guzzler". The Germans were disappointed because so much of the money produced sales of French, Italian, and Japanese cars, rather than German cars. The "clunker" program burned through $1 billion in about 6 weeks and it's unclear what was bought. After US officials look "under the hood", we suspect they'll find some similar news.

For our readers, we have a challenging quiz on the impact of the recession on consumer behavior. The interesting answers are attached.

In the environmental area, Chet Dalzell, Chair of a Board-level committee at the DMA, and a shrewd observer of the political environment looks at whether the US can bring anything new, or useful, to the upcoming negotiations on the environment in Copenhagen. This event could be a turning point to the world's discussions on global warming, although this observer is pessimistic. When the environment is the issue, countries are living in self-focused silos, like companies and the subject of address databases. This is subject of a special article UAA and list hygiene.

We take a look at the plans of the incredible Swiss Post, an amazing institution in a unique country through the words of its Chairman, Claude Béglé.

Richard Pordes, global fund-raising expert, brings a case study of using the US as a base from which to mail! On its face, that's counter-intuitive, but facts are facts.

Finally, look for an announcement of the new *Prescott Report site* in the next two weeks!

America Flirts with Climate Change Legislation – and the Polemics Begin

Will America Go Empty-Handed to Copenhagen?

By Chet Dalzell

The author, a public relations professional in the direct marketing field, is the current chairperson of the Marketing Communications & Public Outreach Strategy Working Group of the Direct Marketing Association Board-level Committee on the Environment and Social Responsibility. He is also a member of the USPS Greening the Mail Task Force. Chet can be reached at chet.dalzell@yahoo.com .

The U.S. House of Representatives managed to approve a climate change bill, as the country returns to the international conversation on greenhouse gas emissions, but the prospects for Senate passage is anyone's guess. Challenges are daunting, to say the least, based on the hyperbole domestically from both sides. Yet the stakes are high. In December, the world's nations will gather in Denmark to begin discussions over the renewal of the Kyoto Protocol, an international environmental agreement concluded in 1997 associated with the United Nations Framework on Climate Change. The United States helped negotiate the treaty, and signed it in 1998, but has never ratified it. The gathering slated for Copenhagen is an opportunity for the United States to re-enter negotiations – but what will the U.S. bring to the table? The presence of U.S. President Barack Obama may be welcomed, but will he be supported by a law passed by Congress that gives him some leverage – that says America stands with him?

For the United States to bring serious weight to Copenhagen this winter, at least to be an attractive party guest, it will need a meaningful law here at home for "fixing" global warming, and the wherewithal to carry this effort to a coordinated response on the world stage. This outcome, however, is in grave doubt. We certainly plan to be at the table in Denmark: but what will we have to offer? The world's climate watchers feel the need for the world's largest economy, and its historic role as the largest generator of greenhouse gases, to recognize that the issue of climate change exists – and that the U.S. has a pivotal role to play in helping to curb and reduce carbon and other greenhouse gas emissions. Yet the legislation that has made its way through the U.S. House has prompted a diatribe, mostly from Republicans in the minority but also from green interests, too.

Consider the attacks from both angles -- needless to say the polemics already have begun. The bill that emerged from the House is either a do-harm proposal that will inevitably let polluters pollute more and avoid the costs of doing so (as some environmentalists have described the outcome) or, from the political right, a massive national wealth transfer to the developing world (what, China hasn't purchased enough of our nation's massive debt yet?) where what's left of manufacturing in America will pack up and leave for browner shores – all in the name of a suspect science cooked up in Al Gore's brain.

Civilization can unite to change the environment for the better, in this humble author's view. By severely restricting chlorofluorocarbons (CFCs) in the 1980s, we have seen dividends in the repair of the polar regions' ozone layer, though we are still likely decades away from pre-CFC-era ozone levels. By extension, it seems easy to believe we can and must do the same on global warming.

Unfortunately, all of America still is far from buying the notion that the world is warming any faster than it might otherwise be in the flow and ebb of global ice ages. In a recent editorial, *The Wall Street Journal* pointed to concerted action on the environment as a global dupe – a King Canute –

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and we are foolish to believe that we can control nature to the point of "curing" rising oceans, warming polar regions and disappearing ice caps and glaciers. In other words, "it ain't worth a try" when global commerce is recalibrated to anything other than traditional capitalism.

Yet those currently in power – the Obama Administration, and Democrats in the House and Senate – do see this differently, more in line with prevailing European views. While no one wants to let Brazil, Russia, China, India (BRIC) and the developing world get away with decimating the environment and fixing it later (like we did), the give-and-take on a global climate registry for carbon and greenhouse gases – where polluters and non-polluters trade, purchase and sell credits tied to greenhouse gas emissions (sounds like capitalism to me) – is clearly less effective if the entire world (or a good chunk of it) doesn't buy into it and participate. It's been estimated that the four BRIC nations alone will produce more GHGs by 2030 than the entire 30 nations combined of the Organisation for Co-operation and Development combined.

Carbon emissions trading – or "cap and trade" – is where a central government or authority (in this case, the UN's Kyoto Protocol) sets a cap on total carbon dioxide emissions (beyond Kyoto, there are actually more greenhouse gases involved in trading than simply carbon – for example, the U.S. set up an emissions trading program to curb sulfur dioxide in 1990 in a continuing bid to curb acid rain). Manufacturers, utilities, oil companies, service providers, etc., are then permitted credits which allow them a set amount of emissions up to the cap. Companies buy and sell these credits in an open market. They sell credits if their conservation and efficiency efforts produce lower emissions, and purchase credits if their total emissions exceed allowances.

We can draw an analogy on fighting climate change to that of free trade. Just as the Doha world trade round is undermined by regional and bilateral trade pacts here and there, so, too, do we hurt chances for climate change success if the carbon reductions achieved happen only within certain national borders.

To be certain, the legislation that emerged from the House is a far cry from what President Obama first envisioned. Coal states had their turn with the bill. So did the rust belt. And so on and so on. The nearly $900 billion that would be raised for research and development and investment in renewable energy sources and a vibrant green-jobs economy – well that funding source disappeared when the legislation was rewritten to give away nearly all of the pollution credits, instead of selling them. Ouch! Still, many in the environmental and global cooperation movement are happy to have something – which always can be fixed later (again and again).

Plus, the President has a U.S. Supreme Court decision on his side that lets him carry what could be an awfully mean stick were legislation not to pass: the U.S. Environmental Protection Agency now has the authority to regulate, to a large extent, greenhouse gas emissions themselves. In the absence of an overarching law, the EPA might be let loose on polluters – and that might not be so lovely as a cap-and-trade bill or even a carbon tax. (A carbon tax is a direct tax levy on emissions – paid for by all emitters – and is offered by some policymakers as an alternative to "cap and trade.")

Direct marketers do have a stake in this. We buy paper for print communications, and some buy green IT (and others green power) for our data centers and digital communications. It's interesting that many of the world's postal services are busy calculating carbon costs associated with

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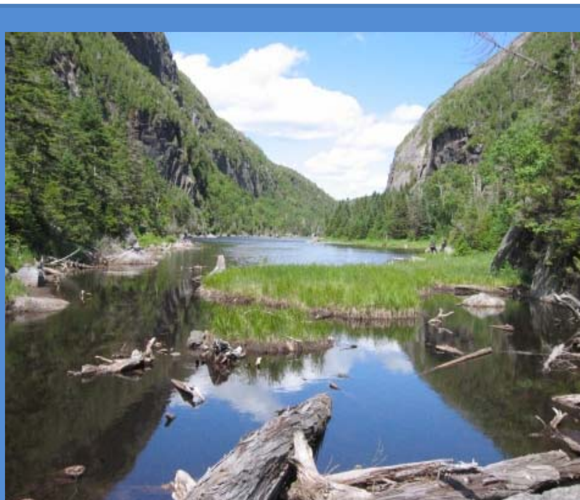
the lifecycle of mail. The U.S. Postal Service is even attributing such calculations to each class of mail. Could a carbon surcharge be in a future postal rate structure? It's conceivable – but the immediate aim of the USPS is the exact opposite: putting the carbon costs associated with the life of mail production, delivery and disposal in perspective – what can be measured can be managed – and providing the mailing community with scientific cover should any nefarious "do not mail" registries rear their ugly heads. Royal Mail now offers a "green rate" for Sustainable Mail™ that is designed to be environmentally preferable (use of post-consumer recycled and certified papers for sustainable forestry, et al), and there may be more of such rates to come from other posts. USPS is looking to set up a Green Seal Partnership program for mailers and vendors here in the United States. The (U.S.) Direct Marketing Association even has announced a public goal to reduce carbon emissions associated with data management and list hygiene practices – the first of its kind in our community. The DMA has been offering environmental resources to marketers for nearly 20 years now. Yet to date, the DMA has not taken an official position on U.S. cap-and-trade legislation.

Keep in mind, many Fortune 500s – direct marketing practitioners among them – are already calculating carbon emissions and trading carbon credits. It's simply the price to pay for enlightened global commerce.

So will America come to Copenhagen and the global negotiations empty handed? And is a flawed law, were it to pass the Senate and gain President Obama's signature, better or worse than no law at all? What alternative to a law might President Obama be able to offer? Well, when domestic issues go adrift, a President always can go global. Perhaps a grand bargain with China (the world's top two emitters of GHGs cutting a deal) is in the works? Or maybe a U.S.-backed Carbon Bank, akin to the World Bank or International Monetary Fund? The verdict is out so stay tuned – there are no easy answers here.



"The NOx Budget Trading Program has … reduced … NOx emissions in … Northeastern states over 60% below 2000 levels." EPA

"For the United States to bring serious weight to Copenhagen this winter, … it will need a meaningful law… at home for 'fixing' global warming… this outcome… is in grave doubt."

Recession Watch

Q: According to the most recent World Wealth Report by Merrill Lynch and Capgemini, the collective net worth of 'ultra high net worth individuals' (people with at least $30 million to invest) shrank by what percentage in 2008? 10%, 25%, 50%.

A: Their numbers shrank down to 'only' 78,000 people, or 25%. Their collective net wealth fell by 24%. In addition the number of 'high net worth' individuals with more than $1 million to invest decreased by 19.5% and their ranks thinned by a mere 15%. This declined wealth levels to the year 2005. The report projects that these wealth levels will recover and reach $48 trillion by 2013. Much of that growth will be driven by China, the fastest-growing economy, today and as projected. There are 364,000 millionaires in US dollar terms in China, the fourth largest population in the world.

Q: In the UK, one company reported a 161% increase in 2008 in this money-saving consumer tactic. What is it? Haggling? Coupons? Shopping only on weekdays?

A: Coupons, plain and simple. That sort of thing our mothers always did is back with a vengeance and with a new sophistication as retailers experiment with digital coupons and downloaded coupons. In fact, "coupons" as a search term has increased dramatically, and traffic to coupons sites has also. See next question. As for the "peak" in coupons, it was reached in December of last year as the American public began to realize they had to get converters for their television sets in order to be able to watch television following the conversion of all broadcasting to high definition. Why did they search "coupons"? Because the government announcement a give-away of coupons which could be redeemed for free converter units.

Q: What phrase, taught by anyone who grew up in New England, or was raised by someone who grew up in New England, epitomizes the "New Normal" for consumers behaviour? Hint: four phrases, three of 3 words and one of 2, all focused on self-denial. Second and fourth phrases end with a rhyme, the sound "out".

A: With regrets and apologies to Benjamin Franklin and Poor Richard's Almanac, it is something I believe I heard about twice a day growing up: "Use it up. Wear it out. Make it do. Do without." In fact, Americans are now becoming increasingly thrifty, as various surveys and market and consumer data is showing.

My childhood was spent in the aftermath of World War II, and "Victory Gardens" were the ingrained habit of the households of that town, for about 15 years after the end of the war. Today in the US, gardens are back. Those towns and cities with municipal group garden facilities have run out of space. In fact, *The New York Times* reported this week on the new phenomenon of young people, whom one would expect to spend their evenings looking for each other in night-spots, are increasingly spending time taking care of their gardens and chickens. One of America's largest seed companies, Burpee's, shows the extreme interest in this subject, with page views/visitor reaching as high as 11 in February, and time-on-site averaging 11 minutes. Its page rank hung

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around 25,000 in mid-March dropping below 100,000 in mid-June.

Coupons, always popular, have seen an enormous growth in uptake. Google reports that searches for "coupons" have increased 161% since October 2008. Alexa reports that www.coupons.com has seen traffic increase by 60.1% in the last three months.

Consumers still want their holidays, but they aren't travelling far. Visits to www.iloveny.com are up 19% in the last three months. Slightly farther away is Canada, whose national parks site, http://www.pc.gc.ca/, is down on page rank by 4% over the same period to a very high 536. Time on site has averaged 5 minutes a visit over the last several months, and the most frequent overseas visitors are the travel-loving Germans (5517) and Chinese (5787).

Q: European economic data quiz. Any good business intending to invest abroad needs to take a look at macro-indicators of the markets being researched. Here are four questions, based on four of the most important of these, and the same short question for each of them: which countries are in the best and worst shape? Remember, "Europe" now consists of 27 countries.

a. National Debt as percentage of Gross Domestic Product (measure of budget discipline)
b. Economic Growth
c. Unemployment
d. Inflation rate

A: a. Estonia, with a small population and thus limited access to credit sources, and also lesser demands on the tax base, comes out best with a deficit below 5% of GDP. At the other end of the scale, notoriously profligate and marginally ungovernable Italy shows a national debt approaching 106% of GDP.

b. No figures are available for Bulgaria, Cyprus, and Czech Republic. However, the best reporting economy is Poland with a projected 0.4% growth rate, followed by Sweden, which is projected to shrink "only" by 0.9%. The worst case is Slovakia, projecting a downturn of 11.4%.

c. The worst place to look for a job in Europe is Spain, with an unemployment rate of 16.5%. The collapse of the construction industry hit hard, especially with migrant laborers, who are probably undercounted in that number. If you have to be unemployed, the Netherlands would appear to be the best spot, with the figure standing at 2.9%. Second best is Austria at 4.3%.

d. Inflation is a difficult subject, since inflation above a certain point is "bad" and below "0", and thus deflation, is also unhealthy. In Europe, both maladies are seen, since the economies are separately managed entities. Some countries are in a deflationary situation, which may or may not be bad. In some cases, falling prices may help consumers, although the learning is that it hurts businesses. Generally the worst deflation has been seen in the real estate bubble countries, Ireland with inflation at -1.7% and Portugal and Spain at -0.9%. As for "the worst" in inflation, Romanians are suffering the most at 5.9%.

Comparable US figures:

e. National Debt as percentage of Gross Domestic Product +/- 70% (similar to France at 68.1%)
f. Economic Growth -5.7% (similar to Estonia at -6.1%)
g. Unemployment 9.7% (Between Hungary 8.9% and Ireland 10%)
h. Inflation rate -1.4% (Between Portugal -1.2% and Ireland -1.7%)

View from the Top, Part 3

This month we continue our review of the major presentations given by four senior executives of major postal systems at the Triangle World Mail and Express conference in Munich earlier this year. The title of the session was Views from the Bridge.

Claude Béglé, Chairman of the Board of Swiss Post, chairs an organization that has an international history and heritage, and his own matches it very well. Born in Switzerland, M. Béglé's international career began with assignments in Nepal, Lebanon and Zimbabwe, where he worked for the Swiss Ministry of Foreign Affairs and then for the International Red Cross. From there he joined the Nestlé Group, also a substantial Swiss "institution", and continued his international career for a further fourteen years, working in many different countries. As Managing Director of Philip Morris in Poland, he was responsible for one of the largest privatizations and foreign investments ever made in Eastern Europe, while continuing to run the operational business.

In 1997, he joined the postal and logistics sector and since then has held senior positions at TNT Express Worldwide, The Dutch Post Group, GeoPost International Management & Development GmbH and, at the same time, Chairman of DPD GmbH, a pan-European road transport franchise system, both subsidiaries of the French Group La Poste. He joined the German Post (DPWN) in 2005 and was responsible for DHL Express Germany and DHL Central Europe, with a revenue of over €5.6 billion and more than 33,000 employees. In May 2007 he was nominated Executive Vice President of DPWN. He has been Chairman of the Board of Swiss Post since May of this year.

His title – Leading a National Post in a Declining Market-has a refreshing sense of candor, which runs through his thoughts:

Swiss Post is a hybrid organism operating under strict regulation of several ministries, such as Transport and Finance, who are sometimes inconsistent in their legal interpretations. Swiss Post needs to respond to competition, maintain traditional services and develop new ones.

The traditional business of letter and parcel traffic is deteriorating and literally disappearing, being down by 65% since 2000. Moreover, gross revenues even in the finance sector have deteriorated.

In response, the Posts has reduced its physical office network from 4000 to 2380 contact points consisting of 2154 post offices and 226 agencies. There are in addition 1123 home delivery services agents, the customer-facing end of parcels and even grocery deliveries. This system must be reduced further without a loss of quality, which at 97%+ D+1 in a country with a complex geography is quite remarkable. The obvious strategic step is to reduce the number of post offices by closing or converting them to the "outsourced" postal offices, or "agencies", operated by independent contractors. However, by law these agencies can not handle cash, and many of the most money-losing prospects for conversion are in small and remote villages with large populations of older people who prefer to deal in cash and who have strong emotional attachments

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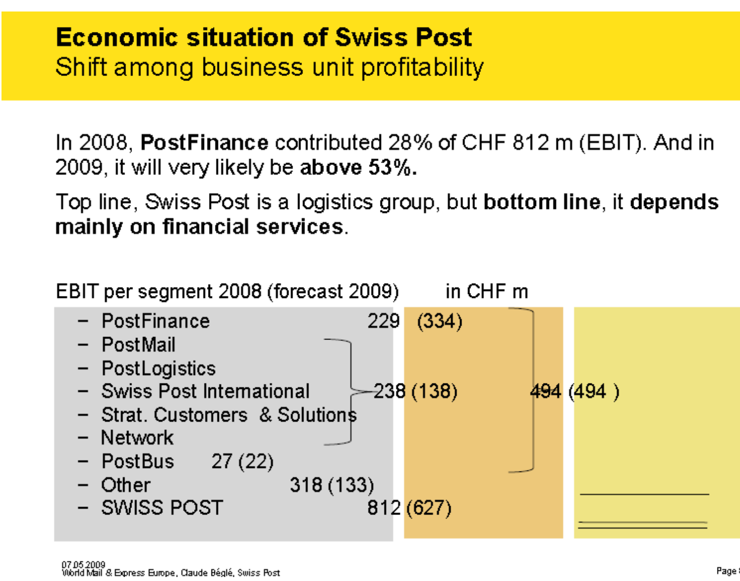
to their posts.

Thus, there is a classic social/demographic obstacle to office conversion, and so an independent assessment commission with binding decision authority has been formed to hold hearings on closings/conversions and make recommendations. Many operational changes are difficult to make for many Posts because of their legacy roles, and Swiss Post has faced them all. It is, for example, frustrated in its ability to consolidate sorting centers. It has closed 18 old ones and consolidated them into 3 state-of-the art facilities, but 6 additional unnecessary facilities are "protected".

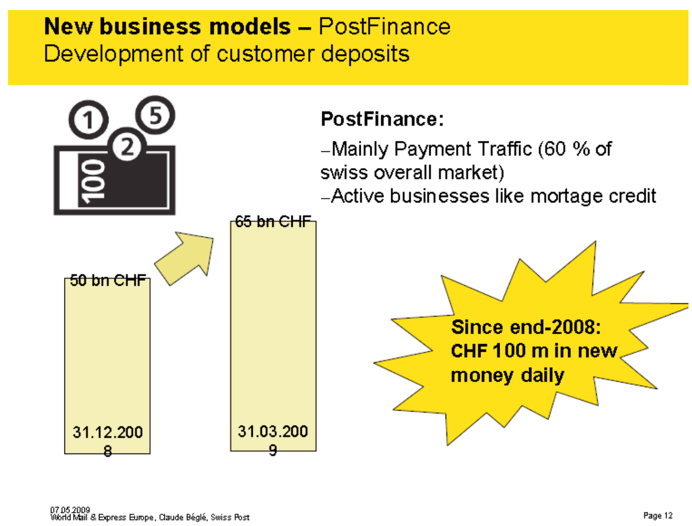
However, it does have some ability to experiment in its traditional business. For example, they have experimented in some municipalities with delivering to businesses in the morning and residences in late afternoon. (They are also "tinkering" with the traditional business of letters. Note the recent announcement of their obtaining a license from the US company EarthClassMail to provide mail recipients with delivery choices. They scan incoming envelopes and packages, and then give the recipient a choice to receive the item, have it redirected, destroyed, or opened/scanned and delivered digitally. *Editor*)

It should be remembered that Switzerland is a highly democratic country with substantial authority lying outside the authority of the central government, so it is quite possible that they will be a public vote on what kind of post they will have.



The accompanying graphic shows the remarkable financial changes occurring in Swiss Post, and the dramatic increase in the importance of financial services. In addition to the remarkable changes shown in that graphic, net profit has dropped from CHF909 m in 2007 to CHF630 projected for 2009, and from 9-10% of gross to about 6%.

The reasons for reductions in net profit and ebit are multi-fold. First, targeted profit for 2009 was reduced from 08 because of a one-time real estate sale profit of about CHF 300m. Second, the market has been opened for letters above 50 grams. Third, the regulator forced price reduction. At the same time, costs (especially labor) have increased faster than revenues, letter revenue has declined by 1.5% a year for some time, and surprisingly direct mail has fallen by 5%. As a consequence, 2009 projection is that Postfinance will contribute ¾ of their profit. Swiss Post, like Deutsche Post and La Poste (France), is really about finance.



Post Finance is not a small player. It has assets of CHF 65 billion. Every day it moves 60% of the payments made remotely in Switzerland and takes in deposits equal of CHF 100m daily. It is not a bank yet, but the Chairman is firmly of the view that the political issues of turning it into one must be faced. He noted that this would require national legislation and that the parliamentarians are often also directors of local cantonal banks who oppose making PostFin a "real" bank with a license. Not being one to take "no" for an answer, M. Béglé was

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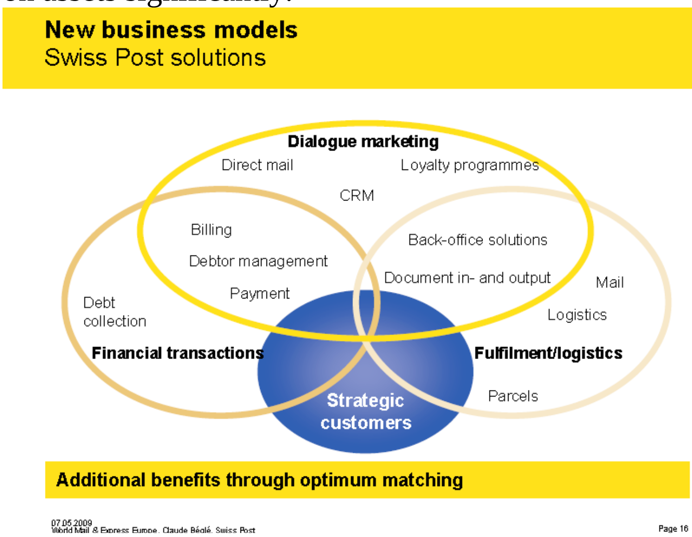
confident this would happen. He sees the "light bank" license giving it additional authority to make loans to SME's, mortgages, and credit for syndicated loans. Certainly with assets of the size it holds, which are otherwise relatively idle, this would increase the return on assets significantly.



Financial services are one of three legs of the vision for success, as we have seen with the presentations from Portugal, Germany and France. The other two are dialogue marketing and fulfillment logistics. In addition, there will necessarily be investment in supporting activities that aren't so visible, such providing back-office solutions to companies. For example, they have 100 employees in Viet Nam doing scanning.

The vision is to make Swiss Post a global brand outside postal service itself with those three inter-locking circles as the core, and no doubt with operations world-wide, as for example the back-office solutions operation which has 100 employees in Viet Nam doing scanning. In short, Mr. Béglé wants to make Swiss Post a global brand with growth outside postal service itself.

Keith Wiser has a substantial double-digit number of years behind him in becoming one of the world's most effective and creative direct marketers. He is also managing to walk around with his tongue in his cheek. On the copyright page of this book he gives thanks to his "Editor, and Proof Reader, Chris Kyparissis. If you do find any typos blame him. But what can you expect, he's Greek."

Underneath the copyright warning appears "that's the normal yafoo stuff at the front of a book, that nobody reads and everyone ignores. I'll personally be delighted if you think any of the content of my book is worth repeating. Just have the courtesy to mention my name."

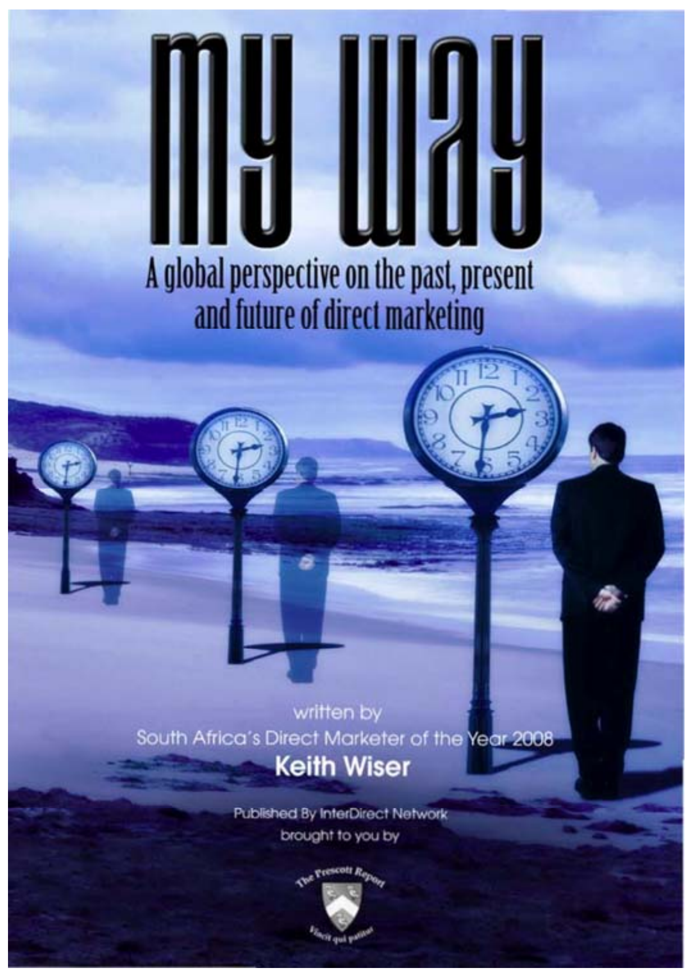
The thirteen very substantial chapters are titled with names of songs that set the theme for each. Some of my favorites:

Chapter 1 *The Times They Are A Changin'*

Chapter 3 *What's Goin' On*

Chapter 10 *Wait a Minute, Mr. Postman*

Download this great book for free at www.prescottreport.com/documentlibrary.html



Outsourcing Direct Mail Fundraising to the United States

Outsourcing Direct Mail Fundraising to the United States
by Richard Pordes,

Outsourcing is not always a process of exporting US jobs overseas. Here is an example of how, in the field of Global Direct Marketing, the USA is still the world's leader in creativity, credibility and pricing.

With the deteriorating economic situation in Japan and worldwide, the Japanese branch of the French international charity, Doctors Without Borders/MSF *(Medecins sans frontieres)* recently decided they would like to explore more cost-effective ways to acquire new donors for their ongoing direct mail fundraising program.

Japan is still a relatively unsaturated and unsophisticated direct response market for charities. Moreover, high domestic postage, printing and data rental costs have made it more difficult for Japanese and International Charities to recruit donors through the mail in Japan. So MSF Japan outsourced their donor acquisition campaigns to a US-based DM agency.

Instead of creating their new acquisition package in Japan, two Japanese advertising expats living in New York worked with an experienced American fundraising copywriter to create the package. Print services were obtained from a major US direct mail printer that generates its output on high-speed inline presses. A sheet of address stickers was included as an incentive premium to enhance response.

Since MSF's international co-ordination office is based in Geneva, Switzerland, it was decided that the appeals would be mailed from there. The test packages were flown first to Switzerland, where they were accepted and franked by Swiss Post. Swiss Post delivered the mail to Japan Post within two weeks, from where it was distributed through the regular mail stream. All this was done for approximately the same price as mailing a letter from Tokyo to Osaka using Japan Post.

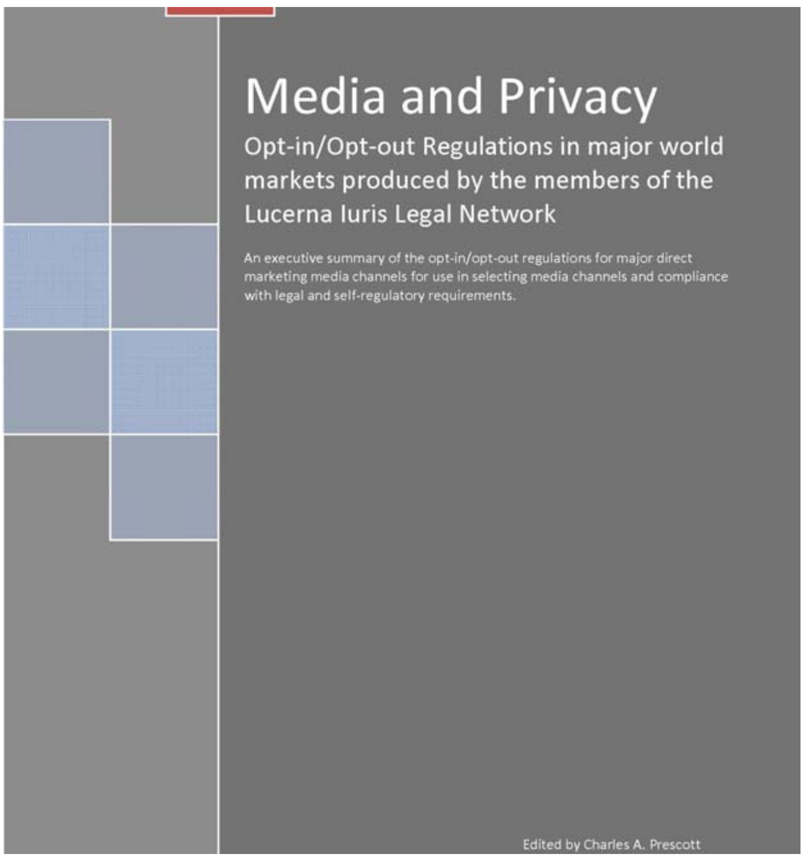
To our surprise, the international package not only beat the domestic control, but exceeded it's immediate Return on Investment by a substantial margin! Since the international package was more personalized, came from overseas and contained a sheet of address stickers, it must have had greater impact, and therefore succeeded in motivating Japanese donors to respond in substantially higher numbers. Both the response rate and the average gift were higher, while the unit cost of the package was comparable to the domestic control pack.

MSF now has a high-performing acquisition package, which it can produce in the USA, mail regularly from Switzerland and have distributed for them by Japan Post in a way that makes their acquisition program profitable once again. MSF Japan collects the donations and sends them to its operations centers in Europe for allocation to projects in developing countries.

Some observers might assume that this kind of mailing is not, strictly speaking, permissible under international postal regulations, as it could be construed as an A-B-A remailing. However since MSF International and MSF Japan are two separate legal entities, and this appeal is mailed from MSF International, it is actually a perfectly acceptable A-B mailing, with MSF Japan collecting the proceeds and passing them on to MSF projects in developing countries.

MSF's campaign shows that in a flat and shrinking world, international DM may be the wave of the future. With equal access for anyone anywhere to go to the Internet, it no longer matters from where an appeal is created and sent out. The things that will matter even more than before will be the three C's: credibility, cost and creativity!

The author is President, Richard M Pordes LLC, a Stamford, Connecticut-based international agency specializing in non-profit and for-profit cross-border direct marketing campaigns. He can be reached at Richard@PordesLLC.com



This work provides a "quick reference tool" to for preliminary decisions on direct marketing channel choices in new or unfamiliar markets. It focuses solely on the media having privacy implications. This Summary has been compiled as a result of the Lucerna Iuris network's experience that marketing planners and business development staff frequently need a "quick glance broad overview" of a market's legal restrictions on data and media use, and especially out of the marketer's need to understand, at least on a preliminary basis, where she may send email offers. This is a snapshot on the state of the regulation in this area taken from a very high level, without the granularity necessary for final decisions, but it's a great place for the layman to start.

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The core of this work has been provided by the colleagues of Lucerna Iuris, an international affiliation of distinguished lawyers from throughout the European Union (EU) and the United States. The Editor has based the additional information on countries outside the EU on his own research and the generosity of colleagues from numerous direct marketing associations and law firms world-wide. We believe this information is accurate as of June 1, 2009. Where there is no information, it is because we do not have an authoritative source of information there and we most definitely welcome contributions and participation from knowledgeable persons. Such contributions, as well as recommendations for improvement and corrections should be sent to Editor@prescottreport.com. Subsequent editions of this work will acknowledge all contributors.

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Or email Editor@PrescottReport.com and we shall mail you a copy.

Undeliverable As Addressed Mail – A Corporate Problem Buried in the Silo

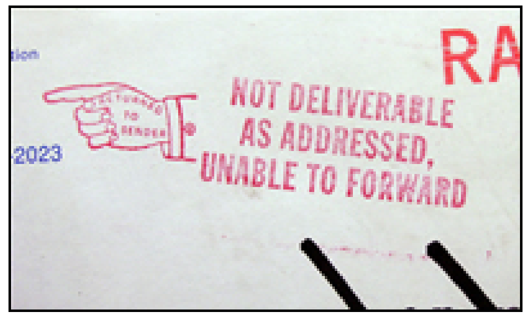
Charles Prescott, Chairman, Consultative Committee, UPU

According to Adam Collinson, a Solutions Design Consultant with Pitney Bowes Management Services, a substantial part of the problem of undeliverable as addressed mail is that no one owns the problem in a company. The silos of corporate responsibility and budgeting prevent its solution. The participants in a recent Experian QAS webinar on the same subject concurred on this conclusion. In conversations we have also held in the last four months with officials from the USPS, Royal Mail, Deutsche Post, and Canada Post, it has become clear that business mailers, especially in the United States, are in "siloed denial".

The size of the problem in the United States, and the ineffectiveness of solutions so far put forth, were brought clearly into focus recently by Adam. Combining postal knowledge with process improvement methodologies, Adam's job is to assist clients to maximize the effectiveness of their mailing programs and optimize their mailing dollars vis-à-vis the U.S. Postal Service. He agreed to speak with me about recent changes to the USPS regulation and practice in the new requirements regarding COA (Change of Address) update and ACS (Address Change Service).

To put the entire problem into perspective, the USPS calculates that 23.5% of the letters that pass through their system "have an issue." This is not that they are completely undeliverable, but some additional cost or effort must be undertaken to render them deliverable. Nevertheless, at the end of the day, from 2.5% to 3.0% of the mail is not deliverable.

In short, initiatives launched to date have not been successful. PMG Potter announced a goal in 2004 to reduce UAA by 50%. The Postal Service advocated and pushed using delivery point verification tools, and the address change services. What has happened is that their costs have been reduced, but the amount of UAA (undeliverable as addressed mail) continues to go up. In 2004, 9.7 billion pieces of mail were undeliverable, generating a cost of $1.8 billion. In 2008, 10 billion pieces were undeliverable, but could be managed at a cost of $1.6 billion.



The reason for this difference was that during this four-year period the type of mail was changing. First-class volumes decreased and standard mail volumes increased. First-class mail typically has higher quality addressing than Standard mail – i.e. less Undeliverable As Addressed. Undeliverable first-class mail, which is forwarded or returned, incurs a significant cost, but these volumes were dropping. At the same time, there have been increased volumes of undeliverable standard mail, which could be destroyed at a cost less than the cost of returning or forwarding.

Adam notes that within companies, corporate structures render this a "silo issue". That is to say that the interests of the corporate departments are not in alignment. For example, Marketing wants its messages delivered, but is typically focused more on the message than the delivery. But in many cases, Marketing is unwilling to spend the time and resources to fully qualify the delivery address, electing more of a spray and pray mentality because "this is how it has always been done" and "it is just a cost of doing business". The expense is for the most part not visible because Marketing does not get the undeliverables returned. They end up in the mailroom or disposed of

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by the USPS. (In the Editor's experience, in some companies they come back to the desk of the newest member of the Marketing department for whom it quickly becomes clear that cleaning up the database is not a task that puts one on the rapid advancement track.) Basically, as long as Marketing makes an acceptable ROI, it doesn't see a need to spend money on data hygiene rather than on greater mail volume.

At the same time, the other departments depending on the database as a common resource, such as Accounts Payable, Warehousing, Shipping, Executive don't have "postage" lines in their budgets of much significance, if at all.

According to Adam, it is not uncommon in American companies of some size to have 10 to 15% bad addresses in their databases. The mailroom has its own costs in receiving, processing, and disposing of undeliverable mail. Data entry, IT, and production all have a similar interest, but their goals are not aligned. Marketing may complain to customer service for data entry errors, customer service points justifiably to a failure to run and fully utilizes the results from Address Quality tools like NCOA (National Change of Address files) and the discussion rapidly degenerates into who was responsible and will pay to clean it up.

Finance may use address change service codes, which are sometimes unavailable to other departments, but is more inclined to suppress an address than to fix an existing one. Some departments look at the least possible cost of delivering a letter, which means a service that certainly does not forward to a new address or even return undeliverables, while others look at ROI and loyally run Move Update.

"What companies need are postal strategy groups that cross corporate (silo) lines," Adam concluded with no little frustration in his voice. Finding the root cause of addressing issues is often the easy part. But, the solutions often exist outside of the group (silo) that is most impacted by the issue. Getting the necessary groups on board to implement the right solution is often a much bigger effort. The result is often delays, the implementation of second choice or short term solutions, or worst of all, a one time data correction that does not impact the process that lead to the problem in the first place – dooming a repeat in the future.

I gained further insight into corporate philosophies by attending an online seminar run by Experian QAS on July 22. The seminar presented the experience of three different companies in implementing the Experian QAS program. These companies had very disparate businesses. One is a well-known consumer products company, primarily a gift business of food products, some of which are perishable. For this company, delivery is time critical. If it's returned undeliverable, it may well have to be junked and reshipped. The other company of substantial interest to me was a water quality equipment company, which sells to both industrial and municipal clients.

Experian's range of products is designed to provide as much accuracy as possible on order intake, and at database maintenance intervals. We are not here advertising Experian's products, but do acknowledge their assistance in helping us to show the severity of the

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problem.

Perhaps the most critical time in the establishment of a customer relationship is that moment when the customer service representative writes down or enters into the system a customer's name and address. Every single keystroke is critical, and any small error can cause disaster. A simple misspelling of a street name from Mel St to Elm St. or a minor mistyping that changes 118 2nd St. to 181 2nd St. can be extremely costly when you are delivering $200 worth of perishable fruit.

For our consumer products company, empowering the CSR's (customer service representatives) with nearly real-time DPV (delivery point verification) tools to assure greater address accuracy on order entry helped reduce mailing costs by 30 percent. Although not measured, it is doubtless that consumer satisfaction increased as more products got delivered promptly on the first try. Obviously, with fewer returns to process and correct, costs of warehousing, shipping and inventory were reduced, because orders did not need to be handled twice.

With respect to the b2b operation of the water quality equipment company, we learned about some very unique problems. A b2b company often has to accurately employ three addresses for any individual customer. There is a ship to address, such as a factory or job site, a bill to address in an office building, and the "market to" address of the responsible decision-maker.

Order intake can be a nightmare. An individual placing an order may not know which of those three addresses to use. Sometimes the "customer" is a contractor who has been told to use this vendor and he does not know any of the three addresses, or even care because he wants the parts delivered to his receiving dock. In other cases, a contractor who is building something for a municipality may only know the bidding office address, which might be miles from the location where the order must be shipped. Moreover, many of the ship to addresses that businesses employ, such as loading docks, are not deliverable within the USPS system.

This company needed all of this managed much more strictly. In order to make major headway, the responsible executive first established, over the course of one year, that data integrity was a "corporate priority." He had to enlist accounts payable, warehousing, shipping, and marketing. In short, he had to break down the silo walls.

By simply running a DPV program and de-duping the database, this company struck 20% of its addresses and reduced marketing expense by an astonishing 20%. Moreover, given that the addressing product in question verified addresses being entered by the CSR in real time, and employed auto fill, the company realized a reduction in keystrokes on address entry by 30 to 50%. This is significant given that every keystroke is a potential mistake. With greater accuracy, invoices got dispatched by AP more accurately, CSR time could be reallocated from correcting mistakes, and inventory management time was reduced.

Moreover, through this exercise, the company realized that with respect to their municipal clients, their database was full of previously unrecognized duplicates. A "ship to" address might be known to the city as "Mayor Brown Water Plant", while to the contractor it is "North Elm St. Facility". And neither address would help either accounts payable or marketing.

Other lessons? Yes, there are. First and foremost, the waste and "invisible" reduction in net income is cross-silo. It is a result of actions and inactions by all departments for whom their "action" doesn't clearly result in improvements to their individual bottom-lines, but will to another department. It is a collective problem. It is also an environmental problem, and especially in an industrialized country it should be considered socially, economically, and politically unacceptable.

International Events:

September

Etail Europe 2009
When: September 9-10, 2009
Where: Guoman Tower Hotel, London, UK
Contact: http://www.etaileurope.com

Annual Summit Shop.org
When: September 21-23, 2009
Where: Mandelay Bay Resort & Casino, Las Vegas, Nevada
Contact: http://www.shop.org

Strategies and tactics to improve online and multichannel retail business.

German Versandhandelskongress 2009
When: September 29-October 1, 2009
Where: Rhein Main Hallen, Wiesbaden
Contact: http://www.versandhandelskongress.de

One of the oldest and most successful gatherings of the catalog and multi-channel industry in Europe, certainly in Germany. Everyone is there.

Postexpo 2009
When: September 29 to October 1, 2009
Where: Hannover Messe, Hannover, Germany
Contact: http://www.postexpo.com

Long-established exhibition of postal technology and speakers and panels on current postal issues of operational and policy significance.

October

European TransPromo Summit
When: October 6-7, 2009
Where: Square Brussels Meeting Centre, Brussels, Belgium
Contact: www.transpromosummiteurope.com

Learn how companies are leveraging the power of bold design, vibrant color and variable data to transform bills and statements into highly individualized customer marketing communications. ---Market education on strategies, techniques and tools.
-Peer-to-peer advice – information sharing and networking to learn what works, what doesn't, and why.
-Technological solution demonstrated by leading-edge vendors and service providers.
Supported by The Prescott Report, FEDMA, PostEurop, Xplor, Xplor Italia, Xplor Spain.

Internet Retailing 2009
When: October 13, 2009
Where: Novotel, Hammersmith, London, UK
Contact: http://www.screenevents.co.uk/IR2009/index.html

One day peer-to-peer networking. "1 Keynote session, 3 Conference streams, Free Workshops, Free Exhibition hall"

October

Rendezvous International e-commerce VAD Lille (Sponsored by French Post.)
When: October 13-15, 2009
Where: Grand Palais, Lille, France
Contact: www.vad-ecommerce.com
250 exhibitors, 11,000 visitors. No admission charge. Some excellent presentations, mainly by vendors. Major networking occasion for DM industry in France. Promoted as the international e-business, direct marketing and distance selling meeting place, it still remains a predominantly French event.

E-commerce Expo 2009
When: October 20-21, 2009
Where: Earls Court, London, UK
Contact: http://www.ecommerceexpo.co.uk/
Now in its third year. As is customary, free exhibition and sessions. Vendor-heavy in the latter case, but not exclusively a continuous sales experience.

Global e-commerce Summit
October 26-28, 2009
Where: Monaco; location to be announced
Contact: To be advised.
New event. Shop.org and EMOTA joint venture, apparently.

November

World Wide Magazine Marketplace
.When: November 2-3, 2009
Where: Madinat Conference Facilities, Jumeirah, Dubai
Contact: http://www.magazinemarketplace.com
Gathering of publishers and suppliers engaged in cross-border publishing.

Golden Dove
When: November 5-6, or 12-13, 20009
Where: Margitsziget, Budapest, Hungary
Contact: To be announced. Watch this space.
The event for those interested in Central Europe.

Distanshandeldagen 2009
When: November 19, 2009
Where: AHAGA conference centre, Boras, Sweden
Contact at: http://www.distanshandel.se
Swedish cataloging and multi-channel marketing event.

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