

Leveraging the Coupon and Envelope

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The expense of processing retail payments becomes uppermost in the treasurer's mind periodically as decisions are forced about outsourcing the function or when events, such as price increases and expensive upgrades, occur. Concern also rises when paper volumes fall and their unit costs inch upwards. Then, in what would otherwise be a quiet interlude of tranquility between these crosses, there are the daily concerns around late or inaccurate reports, posting errors and, consequently, irate customers.

Organizations' payment cycles can be overwhelmed by these and other issues, slowing and interrupting this process. However, optimization of payments can be accomplished through the strategic management of the entire remittance cycle — from the transactional document to its delivery at the customer's doorstep to the recipient's response returning to the enterprise. As was discussed in the first installment of this series, the use of postal optimization is a key element in the automation of the cycle; however, what the customer returns to the enterprise is the other half of the equation. So, careful and informed design of the retail return pair, the coupon and envelope, can both reduce expense and improve reporting and accuracy. After reviewing some industry trends affecting remittance processing, we cover some of the best practices that have been proven to yield both lower costs and higher accuracy.

Trends: Declining Check Volumes

The fourth quarter of 2004 was interesting. In October, the Boston Red Sox won the World Series for the first time since 1918, and on the very next day, Check 21 became effective. In December, the Federal Reserve Board (FRB) reported a milestone on the checkless landscape: we paid fewer bills with paper than we did electronics messages. For the first time ever, the number of checks paid that year was lower than the number of electronic payments (cards, ACH payments/direct debits): 36.7 billion versus 44.5 billion. Checks written declined at 4.3% per year, while electronic payments grew at the rate of 13.2% per year.

If this were a horserace, "check" would be leading but "fading." All the other horses are gaining. In fact, debit card volume grew at 23.5%, credit card volume at 6.7% and ACH volume at 13.4%. The FRB will update their next tip sheet later in 2007, but it looks like the long-lasting, lowly check is on its way out as a common means of funds transfer. Checks will win many more races but only because it has always enjoyed a huge lead and the inside track position.

Reports of My Demise

Mark Twain, the author of *The Adventures of Tom Sawyer*, long before he died in 1910, is famously reported to have said that "the reports of my demise were greatly exaggerated." The demise of the check is also exaggerated. Most industry watchers are betting, and it is a bet, that there will be a sizable number of individuals who will continue to pay their bills with checks, even

as their demographic peers learn to flip on their computers and cell phones to pay their bills. In addition, Check 21 has given a new lease on life to checks, their writers and processors. The 2004 Act has made checking a little more tolerable to banks. With check truncation, the checking networks shed the transportation, processing and fraud costs of paper while consumers continue to write checks. So, do we continue to enter our horse in the upcoming races, or do we wait for the inevitable? Do we optimize the coupon and envelope, or let them wear out until web and bank cards replace them?

Written and processed checks are declining in volume. But does anyone think they are going away completely? Did ATMs replace tellers? Did direct deposit replace the paycheck? If you believe paper checks have an important role to play in the near and long-term future of your payments processing plan, there are some important steps you can take. You can optimize the mix between the needs of the marketing department for customer communications, the needs of accounting for fast and accurate deposits and postings and the needs of remittance processing for efficient, low exception processing.

The Envelope, Please

Providing window envelopes helps customers get organized to pay their bills; it enables the address design benefits, and it opens the door for coupon and check facing enhancements. When the courtesy reply envelope is mailed out, the first-pass kill rate rises and, with it, exception processing savings. Window envelopes also encourage compliant behavior from the customer: the coupon will be returned and will face forward, the check will probably, although not necessarily, both be present and facing the front of the envelope. Following the post office and industry standards on reply envelopes will also help hold down the cost of the envelope by encouraging the use of generic envelopes that can be purchased in great quantities at lower cost.

Optimize Your Envelopes, Reduce Postage

Even though your customer buys the 41 cent stamp and pastes it on your courtesy reply envelope, if the envelope goes in your invoice mailing package, USPS still has a say about it. They use price preference to get their way: heed their specs and you can keep your outbound mail charges to a minimum. The USPS doesn't actually require anything more than complete and machine-recognizable addresses, but if you want an automation discount, there are standards to be met. They want standard-sized white window envelopes, discourage front-side marketing messages, logos or even watermarks and want barcodes and characters to be in certain areas. Your remittance processing service or department should vet the envelope and coupon design to make sure they meet USPS specs as well as their own standards and preferences.

In addition, the 4-State Barcode product, One Code Vision, is replacing PLANET and POSTNET barcodes. Packing 31 characters instead of the current 11, the format will, in addition to aiding mail delivery, support mail tracking similar to what FedEx and UPS offers now. The envelope can carry a tracking number that is unique to that mail transaction. Then, using their Origin Confirm service, USPS can report first-scan and last-scan progress of every piece, allowing the firm to make tremendous strides in improving collection efficiency. Virtually all of the major Regulus customers, an independent payment processing firm located in Napa, California, plan on implementing One Code services, according to Darlene DeVault, a document design expert at Regulus. This service allows the processor to combine the unique code and tracking times from

the envelope via USPS with internal processing and posting data, reporting the flow of information and funds to the customer and bank on a browser-based, near real-time basis.

Security in the Envelope and Data

Security features are becoming more common in window reply envelopes, including clear plastic covers over the windows to foil payment-peepers, heavier grade of paper, as well as security patterns and tints printed on the inside surfaces of the envelope to prevent the visibility of the preprinted check or credit card information.

Another emerging security trend is for billers to thwart identity thieves by reducing the amount of customer data on the stub. Unique one-time reference numbers are printed on the coupon instead of the account number, while the invoice number or date and customer addresses are not printed on the coupon at all. The software decodes the reference numbers into their underlying account numbers, etc., once returned to the enterprise.

Finally, it may involve a negotiation with your marketing folks, but try to keep other documents, changes of addresses or information requests out of the envelope. Extra contents are always an exception unless you are using high-speed envelope extraction and sorting equipment. A smaller (6.5 inch) window envelope helps discourage these and other communications that should be directed elsewhere.

Optimize Your Coupons

The USPS has nothing to say about the design of the coupons, but the in-house and third-party processors do. They are usually linked closely to the mail processing equipment in use since the process is more efficient if the design is linked to the equipment features. Monthly statements with payment coupons might be more expensive than annual coupon books, but they are much more cost-effective in the long run. They foster more frequent contact with the customer and, so, keeps your firm aware of the current address of the customer.

The Scan Line Clear Band

OCR scan lines, like the tigers and snakes in the wild, should not be approached. Keep any customer-completion notation zones away from this band, and be sure to place the perforation line, located at the bottom of the statement and at the top of the coupon, away from the OCR line. A tear through the scan line is an exception.

The late payment expected amount could be added to the scan line to reduce the number of key verification exceptions caused by tardy payments. If possible, preprint the late payment amount on the statement or stub and have the customer enter the amount on the stub as well. Also, keep the scan line numeric. Having to glance down to use the letter keys instead of just the numeric keys will allow the key corrections operators to keep their rhythm and speed up.

Check digits are also useful to detect capture and recognition errors. They do add an additional recognition load and their own share of errors, but for critical fields, they can improve accuracy. At a minimum, the entire scan line can be subjected to check digit coding and verification. Some billers also find that exception keying goes faster if the OCR line has spaces inserted between the data fields, e.g., between the account number and the expected payment amounts. The

keyer is presented with the needed data field image without the clutter of the adjoining character images.

Customer-Supplied Data

Mark-sense check boxes along with constrained handprint boxes can be used to automate the detection and recognition of changes of address and authorizations to auto debit or charges to credit cards. Similarly, having a constrained handprint box for check amount can be used to reduce rekeying if the customer pays an amount not on the stub and scan line. The constrained handprint box, like our second grade teacher, encourages good penmanship. Customers tend to print slower and more clearly, in the right place and with more uniform and more recognizable characters. Look at the higher OCR rates as the modern equivalent of a gold star.

Using drop-out ink to demarcate constrained handprint areas may be more expensive initially, but if you can balance the cost against the savings, they may prove very valuable. Like black-line notation boxes, they encourage better penmanship, and in addition, they reduce character recognition clutter and, thereby, increase the read rate. By disappearing to the scanner's "eye," they also reduce processing/storage cycles and costs.

The Mail Processing Team

The organizational issue with all of these recommendations is that usually the organization bearing the burden of an average or poor envelope and coupon is almost always different from the section that controls the design of these documents. They are also different from the group that prints the documents. Our recommendation is to put responsibility for design, printing and remittance processing under one manager and track the cost of exceptions by cause: design, printing and customer compliance/error. Or if that is not possible, when an application is being added or upgraded, convene a task group of design, print production and remittance staffers and charge them with the responsibility of optimizing the envelope and coupon. Such improvement items and coupon and envelope design, as discussed in this article, can lead a retail billing application towards optimization. Following these recommendations will result in lower processing expense, fewer exceptions and better customer service.