B/OSS BILLING & OSS WORLD **Billing World Article**

Lightening the Load: Reducing Invoice Printing and Mailing Costs

By

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Much of the emphasis in recent years by companies within the Telecommunications Industry has been on how to use their invoice as a powerful customer retention and marketing tool. However, at the same, the entire industry is facing extreme pressure to cut costs. Not surprisingly, the invoice production / mailing function has been identified as one area where significant cost savings can be realized through re-engineering, process improvement and / or outsourcing.

This article will examine and discuss this apparent contradiction in strategies, specifically focusing in on the division of the Invoice Cycle into strategic and tactical components and the targeting of the tactical piece for intense cost containment and reduction.

A New Way to look at the Invoice Cycle

Many telecommunications company are re-thinking the tasks, and relative importance of these tasks within the Invoicing cycle. Classically the invoicing cycle has been viewed as the Cash engine of the business. For Bell operating companies, working under regulatory constraints of 30 to 90 day PUC review cycle, the need to introduce new products, pricing changes or respond quickly to marketplace actions has not been as important as get the paper out of the door on time and get the remittances processed as quickly as possible..

This has now evolved as many Telco's have begun to look at their invoicing cycle as two distinctive pieces, *Strategic* and *Tactical.*

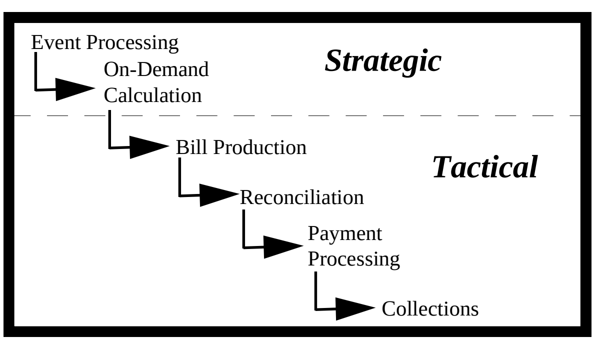

Figure 1

The Strategic Component is really directed towards those billing activities which can add competitive advantage or differentiated versus other Telco's. This includes capabilities as real-time changes to pricing plans, easier new product development, convergence billing and payment issues and customer / product data mining.

The Tactical piece is generally what is thought to be the invoicing cycle. Activities such as bill summarization, taxing, application of discounts, invoice printing, bundling and mailing, remittance processes and collections activities. The thrust here on the Tactical side is intense cost identification and containment with the ultimate goal of realizing (in absolute dollars and not just as a percentage of gross sales) significant reduction in costs. This has been the mantra which has fueled the crash round of rightsizing and work force reductions which have been rampant in the industry over the last few years.

Components of Invoice Costs

For most Telco's, the two biggest "controllable" expenses related to invoicing are staffing and invoice mailing costs. Staffing levels and its associated cost are the subject of business re-engineering efforts throughout the Telecommunications Industry. Surprisingly, however, only a few companies are aggressively going after the next largest cost component.

For purposes of this article, invoicing costs are defined to be the "hard" costs (as opposed to "allocated" or "soft" costs such as computer processing time) of printing, stuffing, bundling and mailing the customer's invoice.

The trick here is to maximize the amount of mailings under 1 ounce and minimize any individual mailings greater than once ounce. As can be seen from Figures #2 and #3, there is a significant ramp-up in cost for any mailings greater than one ounce (e.g., a two ounce letter costs 72% more than under one ounce mail).

	Full	Presort
1 oz	$0.320	$0.295
2 oz	$0.550	$0.525
3 oz	$0.780	$0.709
4 oz	$1.010	$0.939
5 oz	$1.240	$1.169
6 oz	$1.470	$1.399
7 oz	$1.700	$1.629
8 oz	$1.930	$1.859
9 oz	$2.160	$2.089
10 oz	$2.390	$2.549

Figure 2

Over time, Figure #3 shows the huge cost differential resulting from not controlling the weight of your mailings to under one once. At approximately 10 millions pieces of mail sent each month the average number of bills sent by your typical RBOC), your mailing costs are at least doubled if you cannot limit your invoice to less than one once.

Strategies for Reducing Invoice Mailing Costs

There are a number of different ways Telco's and other utilities are seeking to reduce the costs associated with mailing paper invoices to multi-million customer:

- Bundling;
- Expanding the invoice;
- Shrinking the invoice;
- Smart Printing;
- Other Media; and
- Outsourcing.

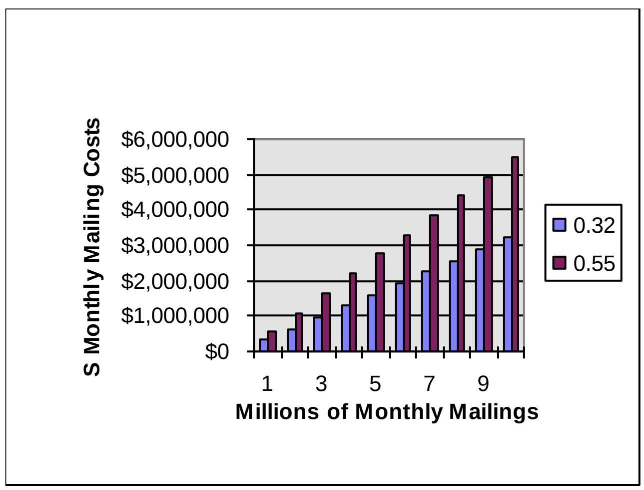

Figure 3

Bundling is the classic method by which companies attempt to control their mailing costs. Bundling is the pre-sorting of outbound mail by the internal mailing organization according to zip code or postal region As illustrated in Figure #2, companies cans save 2.5 cents per ounce of mail by presorting. Most Telco's have moved to zip+4 bundling which permits even larger savings per piece mailed.

Other traditional strategies include reaching agreements with the Postal Service to establish the Telco mailing dock as a mini-post office, with around the clock pick-ups / shipments of invoices, purchase and active updating of customer zip code addresses, re-use / sharing of mailing trays and other cooperative arrangements s with the Postal Service.

The shortcoming with a bundling approach to cost containment is that can only mitigate, not eliminate, the annual increases in first class mail by the US Postal Service. Nor does it address the underlying cost driver, the size/weight of the billing information provided to the customer.

Given the limitations, most mass mailing companies have adopted a variety of other strategies to keep invoice weight under one ounce.

A number of Telco's have sought to expand the invoice by moving from the old shoebox format (i.e., 3 x 5" paper) to full-sized invoicing (i.e., 8.5 x 10.5"). This increase allows more information to be presented than three of the old sheets.

In addition, gains are obtained by removing as much regulatory-ese from the invoices as can be negotiated with the local PUC's. In several jurisdictions, Telco's have been successful in winning approval to provide an once a year letter (sent separate from the invoicing stream) to each customer explaining their consumer rights, regulatory issues etc.

An alternative approach is to shrink the invoice. This is done through *Duplex Printing* (i.e. printing on both sides of the paper) or *Quad Printing*. Quad Printing is the reproduction of four full-size invoice images onto a single 8.5 x 10 piece of paper. Quad Printing may be combined with Duplex Printing with the net result of presenting 8 normal invoice pages onto a single sheet of paper.

While at first blush, this approach may appear to result in unreadable or unintelligible bills, customer focus groups have generally been very receptive to this idea. However, for a Telco to move in this direction, it probably within its billing / printing stream must either retain the ability to product "normal size invoices" or large print invoices for that segment of the populate which is visually impaired.

Smart Printing takes the shrinking of the invoice to the next level. Sophisticated billing program automatically track the number and estimated weight of the customer's invoice. if it appears that the bill will spill over only several lines to the next page, or if the weight threshold is just marginal exceed, the billing programs will back up and regenerate the invoice so that it any spill over or weight increase will be eliminated. The programs do this through employing smaller fonts, narrowing the spacing between lines of text or in some instances, presenting less supplemental information about the charges on the invoice pages.

The above strategies / techniques are targeted at cramming as much information as is possible onto the fewest sheets of paper and generally work well for most mass market customer segments. However, what studies have also shown is that is your largest customers, the National Accounts which generate the vast majority of printing costs. They do so in a number of ways. Sheer volume is the first. Because much of the federal government is located in its region, it is not unusual for Bell Atlantic to generate single customer invoices which fill boxes. Clearly, for customers of this size and charge volume, tweaking invoice size and/or weight is not going to produce the cost reduction and savings which are required.

The use of *Other Than Paper Media* is being aggressively explored as solution to these customers billing requirements. A few of the more aggressive Telco's, including Bell Atlantic have begun to provide customer charge information on CD ROM. Some companies have gone so far as to package with the electronic data inquiry and analysis tools.

EDI is also showing promise for large customers. This may or may not use the INTERNET as a transmission vehicle. Lastly. INTERNET Billing and remittance offers promise for the mass market customers as well. However, it will probably take several years to resolve all of the necessary security and payment protocols issues.

Lastly, there is the option of Outsourcing. the entire invoice production / printing/ mailing functions. In fact, for many years many organizations have relied upon lock-boxes, remittance banks and collection agencies to perform many of the downstream tasks of the invoicing cycle. The current trend in outsourcing however, is to retain in-house only the strategic aspects of the revenue cycle and find vendors to perform any of the tactical functions.

This is more than simply a cost saving strategy, indeed it a strategic decision. Even if you are able to justify, on a pure dollars ands cents basis, the keeping of bill production and mailing for example in-house, from a corporate vision perspective, is this where you want to make your capital investment (which will be substantial and never-ending to remain best-in-class) or spend your executive management's limited time, energy and focus.

Unlike the horror stories of the past, these days a number of high quality reliable vendor have emerged in the areas of bill production, mailing and remittance outsourcing. IBS, a division of US Cable Data in Sacramento, is but once example. It offers a full range of outsourcing services, with emphasis on bill production, stuffing and mailing.

Conclusions

As the industry moves into its second round of deregulation in twelve years, there is renewed pressure to focus on reducing costs. Management and staffing costs have been pretty much reduced through re-engineering, rightsizing, outsourcing and other initiatives. However, for many Telco's, the next single largest cost of doing business is associated with the revenue cycle. Here, historically, the emphasis has been in taking advantage of bulk / presorted pricing form the postal service , or in taking on more responsibility (from the Postal Service) of ensuring that bills get out the door and to the customer on time.

In today's environment, though, the entire revenue cycle model of getting paper into a customer's hands is being rethought. Aggressive Telco's are looking at enlarging, shrinking their bill, or looking to replace it entirely with electronic data exchange or use of the INTERNET. How so it ever it turns out, one thing is clear. Those Telco's which insist on retaining their old mindsets and old ways of doing business will soon join the dinosaurs and become extinct.

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