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Testimony

For Release
on Delivery
Expected at
10:00 a.m. EDT
Wednesday
April 18, 1990

Savings Opportunity for the United States
Mint's Promotional Mailings

Statement of
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Government Business Operations Issues
General Government Division

Before the
Subcommittee on Consumer Affairs and Coinage
Committee on Banking, Finance, and Urban Affairs
House of Representatives



SAVINGS OPPORTUNITY FOR THE UNITED STATES MINT'S
PROMOTIONAL MAILINGS

SUMMARY OF STATEMENT BY
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The Mint's numismatic programs are operated essentially as a direct mail business, through promotional mailings to a list of, currently, 2.8 million collectors. Gross sales attributable to the Mint's direct marketing programs peaked at \$390.5 million in program year 1987 and fell off to \$178.6 million in 1989. Profits from the Mint's operations are turned over to the Treasury, so that increased profits from reducing Mint's business costs could help reduce the federal deficit.

Like other federal agencies, the Mint is required by law to use cost-effective mailing practices. The Mint has taken several actions to reduce its postage costs. For example, the Mint has begun using software to control the size and quality of its mailing lists and to obtain presorting discounts for its promotional mailings. However, the Mint could reduce by more than half the \$4 million basic cost of its mass promotional mailings if it paid third-class instead of first-class postage rates. The higher weight threshold of 3.3 ounces for third class before an incremental charge is incurred would also increase advertising flexibility.

Mint management presented an array of concerns about third class. Because of the value of the rapidly expanding direct marketing business, which makes heavy use of third class, USPS has worked closely with businesses to study concerns about the delivery, timeliness, and image of third class. The result is a large body of evidence that counters the Mint's concerns. Based on these study results and the opinions of industry experts, GAO believes that third class, with an instruction on the envelope that it be forwarded, is appropriate for the Mint's promotional mailings. The Mint could save \$2.4 million annually by using third class for its regular promotional mailings. These savings would be further increased (1) when third class is used for special promotions using supplementary mailing lists, (2) if the Mint combined mailings now restricted by the additional charges incurred above the 1 ounce first-class weight limit, and (3) if first-class rates rise more than third-class rates in 1991 as proposed by the Postal Service.

GAO recommends that the Mint budget for and use third class for its promotional mailings.

Mr. Chairman and Members of the Subcommittee:

We are pleased to be here today to discuss the results of our review, requested by this Subcommittee, of opportunities to reduce postage costs at the United States Mint. This work fits into our overall program of reviewing mail management in a number of government agencies. We were able to apply lessons learned at other agencies to the Mint.

The Mint has taken several positive steps to reduce its mailing costs. However, all Mint promotional mailings are sent first class. We believe the Mint could reduce its basic, recurring postage cost of about \$4 million by \$2.4 million annually, as well as gain considerable marketing flexibility, by using third class (bulk business rate) as the commercial sector does.

My comments today are based on work that we did primarily in January and February 1990. Our review focused exclusively on the Mint's numismatic promotional mailing practices. We reviewed documentation of the Mint numismatic mail operations to reconstruct dollar costs and mail volumes for fiscal years 1985 through the present, and Mint projections of postage costs for fiscal years 1990 and 1991. We obtained several studies and opinions on third-class mail deliverability and timeliness and the Mint's promotional mailings through interviews with a number of Mint, industry, and United States Postal Service (USPS)

officials.

The industry leaders we obtained information from were key members of the Mailers' Technical Advisory Committee, which is a primary avenue for the exchange of views between USPS and volume mailers. From this organization we spoke with the Vice President for Government Relations of the Direct Marketing Association, the Executive Director of the National Association of Presort Mailers, the Executive Director of the Third Class Mail Association, and the Industry Chairman of the First Class Standing Subcommittee, who is also a representative from the Federal Government Association.

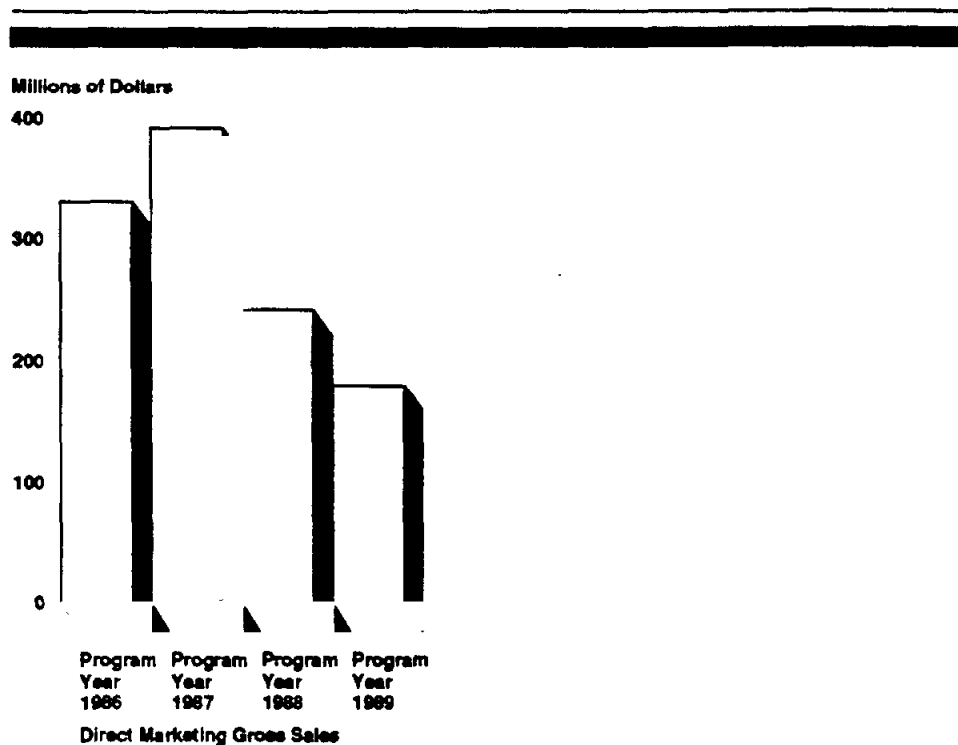
BACKGROUND

The Mint's numismatic programs are operated essentially as a business. Through these programs, the Mint produces coins and medals for sale, advertises these products widely, generates revenues from their sale, and deposits profits from these sales into the general fund of the Treasury.

The Mint sells its products through advertising targeted at special audiences. According to Mint officials, gross sales attributable to direct marketing programs peaked at \$390.5 million in program year 1987, and fell off to \$178.6 million in 1989. Figure 1 illustrates the Mint's gross sales attributable

to direct marketing for program years 1986 through 1989.

Figure 1: Direct Marketing Gross Sales Have Declined



Source: U.S. Mint data.

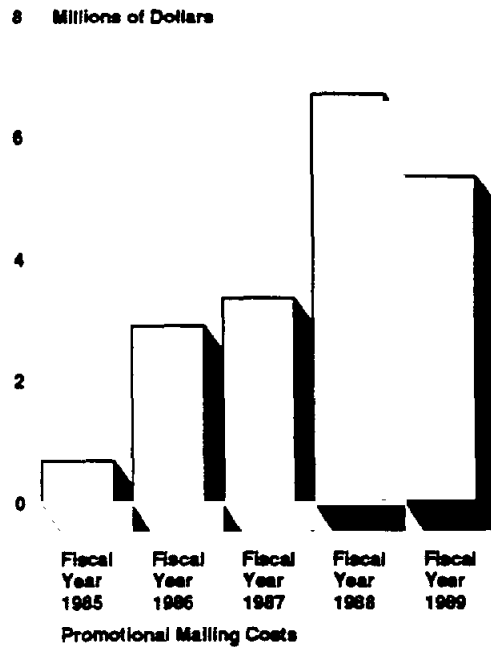
Over the last few years the Mint has typically sent a promotional mailing for each product marketed during the year. Separate mailings have been done for the Mint's uncirculated, proof, bullion proof, and commemorative coins, along with a catalog for holiday sales. These promotional mass mailings have been sent first class. Program year 1989 Mint data show that responses in

the form of orders ranged from about 7.6 percent for the holiday catalog to 32.7 percent for the proof coin promotion. The average response rate was 17 percent for five major mass mailings done for 1989 programs.

The Mint's mailing list currently contains 2.8 million recipients. The mailing list has been built from prior customers and people who have requested that they be put on the list. For some mailings, the Mint's list has been supplemented with additional mailing lists targeted at audiences expected to be interested in the theme of particular promotions. For example, in fiscal year 1988 the Mint used mailing lists supplied by the Olympic Committee to send supplementary mailings to over 10 million recipients for the Olympic commemorative. For the current commemorative program--the Eisenhower commemorative--the Mint plans to send promotional mailings using lists of military officers and retired military personnel.

Postage for the numismatic program promotions was \$6.7 million for fiscal year 1988--the year for which we did our most extensive analysis. The Mint's postage for promotion costs, as submitted in its end-of-year estimate to USPS for fiscal year 1989, was about \$5.3 million. Mint officials project promotional mailing costs for fiscal year 1990 will amount to \$6.7 million. The cost of the Mint's promotional mailings, based on its postage payments to USPS, is illustrated in figure 2.

Figure 2: Numismatic Promotional Mailing Costs



Fiscal Year 1989 postage costs have not been audited or approved by USPS.

THE MINT USES SOME MAILING PRACTICES
THAT REDUCE ITS POSTAGE COSTS

Federal regulations¹ and good management practices require each federal agency to have a mail management program whose objective

¹See Federal Information Resources Management Regulation, 41 C.F.R. Section 201-45.107-2 (1988).

is to provide rapid handling and accurate delivery of mail at minimum cost. The Mint has made improvements to its mail operations that have allowed it to reduce its postage costs significantly. In 1988, the Mint installed computer software to standardize addresses according to USPS criteria and has used other software to add the 9-digit ZIP code to its mailing lists. The Mint obtains presort discounts from USPS by sorting to various levels. According to agency officials, the Mint's mailing list can typically achieve the following presort levels:

- 70 percent of mailings are sorted to the USPS carrier route level.

- 20 percent of mailings are sorted to the 5-digit ZIP code level.

Agency officials say that the remaining 10 percent of mailings cannot be sorted to the 5-digit ZIP code or carrier route levels. These are known as residual pieces, which are charged the first-class single piece rate.

These presort levels are important because USPS offers substantial discounts for presorting mail. Obtaining a 5-digit presort discount reduces first-class postage charges for the first ounce by 4 cents (16 percent). Obtaining the carrier route discount reduces first-class postage charges for the first ounce by 5-1/2 cents (22 percent).

These cost reduction percentages, weighted by the percentage of

presort levels that the Mint mailings attain, show that the Mint is paying 18 percent less for first-class postage than it would if it were not using available software and not presorting its mail.

THIRD CLASS SHOULD BE USED

FOR PROMOTIONAL MAILINGS

The Mint could further reduce its postage costs by using third class for its promotional mailings. Doing so would increase profitability, increase contributions to the Treasury, and, ultimately, help reduce the federal deficit.

Substantial Costs Could Be Avoided

By Using Third Class

The basic rate for first-class mail is 25 cents, while the basic rate for third class is 16.7 cents--8.3 cents (33 percent) less than first class. The rate for first-class mail presorted to 5 digit levels is 21 cents, while the 5-digit rate for third class is 13.2 cents--7.8 cents (37 percent) less than presorted first class. The rate for first-class mail sorted to the carrier route level is 19.5 cents, while the carrier route rate for third class is 10.1 cents--9.4 cents (48 percent) less than similarly sorted first class.

The differences are quite significant when these figures are applied to the Mint's basic 2.8 million recipient mailing list. As in fiscal year 1989, the Mint typically has five major promotional mailings, and two mailings weigh over 1 ounce per item. Using these mailings and the Mint's current mix of 70 percent carrier route, 20 percent 5-digit, and 10 percent that cannot be sorted to these levels, we estimate that the Mint can expect a recurring postage cost at first-class rates of about \$4 million for its basic mailing list alone. Using third-class rates for computing the Mint's postage costs in the same manner, we estimate that the Mint's promotional mailings would cost \$1.6 million, reducing its postage costs by about \$2.4 million (about 60 percent) for its regular mailing list. Additional savings would be achieved by using third class for the Mint's supplementary mailing lists. I note that Mint plans to spend about \$6.7 million on five major promotional mailings in fiscal year 1990--a 68 percent higher spending level than we used in developing our estimate.

We analyzed fiscal year 1988 Mint mailing costs in detail because they were the most recent that USPS had verified and approved at the time of our review. In 1988 the Mint mailed promotions that were mostly attributable to four programs and its holiday catalog. Four major mailings exceeded 1 ounce (two mailings were for the bullion program) and incurred a surcharge of 20 cents per piece. As noted earlier, for the Olympic commemorative the

regular mailing list was supplemented by other mailing lists so that there were over 10 million mailings for this program in fiscal year 1988. Total costs for the promotional mailings in fiscal year 1988 amounted to \$6.7 million. Based on our analysis, using the Mint's percentage of presort rates it typically obtains, we found that the Mint could have mailed the promotions for \$2.3 million at third-class rates, reducing its postage cost by \$4.4 million--about 66 percent.

It is also important to be aware of postage rate increases that will come into existence in the near future. USPS has submitted a proposed rate increase for 1991 that would result in a greater increase per piece for first-class mail than third class. First-class mail at the proposed rates would increase 5 cents per piece for the first ounce for the Mint's mailings, while third class rates at the same sort levels would increase by only 2.2 cents per piece. The difference in the increases alone, at a conservative 5 mass mailings a year, amounts to almost \$400,000 a year. USPS has also proposed increasing charges for additional ounces at first class by 3 cents. At that rate, if two Mint mass mailings a year exceed one ounce, as they have in the past, the Mint will incur an additional postage cost of about \$160,000.

In addition to achieving the cost reductions from using third class, third class offers greater flexibility. The basic weight unit for third class is 3.3 ounces per piece, compared to 1 ounce

for first class, before a mail piece incurs a surcharge for additional weight. The higher weight ceiling for third class would allow advertising more than one product in each promotional mailing without incurring additional postage costs. The Mint currently attempts to do such promoting on a limited basis, working within 1- and 2-ounce first-class weights and by including its advertising with other agencies' mass mailings (such as IRS' income tax refunds). One Mint official agreed that being able to include up to 3.3 ounces of material in each mailing without incurring additional cost could generate a "cross shopping effect" that might stimulate revenues from many of its mailings.

Since the Mint uses the same basic mailing list to send its promotional mailings, the Mint could also merge some mailings before encountering a surcharge for exceeding the basic third-class weight. Merged mailings would eliminate the postage costs of some promotional mailings entirely. Potential merged mailings include the uncirculated and proof mailings, which are now mailed separately early in the year, and the catalog and proof bullion mailings, which are now mailed separately in the fall.

MINT CONCERNS ABOUT USING
THIRD CLASS

During this review Mint officials expressed several concerns about changing to third class for promotional mailings. While granting a postage cost advantage from moving to third class, Mint officials are concerned that the overall revenue impact might be negative. We have given the Mint's concerns the careful attention that they deserve, and we believe that each can be allayed.

Concerns About Nondelivery

In discussions during this review, Mint officials expressed concern about nondeliverability of mail sent at third class and cited a concern about revenue loss from nondelivery of mail. Mint officials believe nondelivery of third-class mail is about 14 percent and, applying that figure as lost sales, generated projections that indicate that they would lose more revenues if third class were used than they would save in reduced postage costs.

Nondelivery of third-class mail has been a longstanding concern of organizations in the direct marketing industry. While there have been several studies of this issue, we believe a study conducted by USPS in 1988 most closely matches the Mint's

mailings. This study was reviewed and endorsed by an independent consultant hired by five major mailing associations-- the Direct Marketing Association, the Mail Order Association of America, the Third Class Mail Association, the Mail Advertising Service Association International, and the Alliance of Nonprofit Mailers. After reviewing the study, design, methodology, and implementation on behalf of the mailing associations, the consultant endorsed the study as a reliable approach that the mailing associations and USPS could accept as a valid indication of the amount of nondelivery of mail.

For one test conducted by USPS in August 1988, the test piece was a properly addressed flat--that is, an envelope larger than typical folded business letter size--that weighed over 6 ounces and had no instructions on the envelope that it be forwarded if the addressee had moved. Only about 30 percent of the mailing was sorted to the carrier route level. (According to an industry expert, the higher the proportion sorted to carrier route, the lower the amount of handling by USPS and the lower the error rate in delivery.) Nondelivery for this mailing was estimated to be 2.6 percent. USPS and major industry representatives have accepted 2.6 percent as an accurate nondelivery percentage for a properly addressed flat of this type.

One industry expert said that this 2.6 percent nondelivery rate for the third-class test is not substantially higher than the

nondelivery that occurs due to errors for any mass mailings, no matter what class of mail is used. This is because all classes of mass mailings are affected by inadequate preparation of mass mailings (primarily poor addressing), handling errors by USPS during transit of products, carrier error (mail pieces delivered to the incorrect destination), and households accepting mailings addressed to other parties.

We had discussions specifically about the Mint's mailings with the Executive Director of the Third Class Mail Association and the Chairman of the First Class Mail Subcommittee of the Mailers' Technical Advisory Committee, who is also a Federal Government Association representative on the Committee. According to these experts, a letter-sized mail piece with address preparation of the quality of the Mint's mailings and a forwarding endorsement should achieve greater deliverability than the test results. The Mint's mail pieces are lightweight, sent in regular-sized envelopes, and can be handled by USPS more efficiently than a flat. The Executive Director of the Third Class Mail Association said that problems with third-class mailings are primarily associated with improperly prepared addresses. As mentioned earlier, we believe the Mint uses excellent mail preparation. Also, the Senior Vice President for Government Relations for the Direct Marketing Association said that the higher the level of carrier route presort, the lower the chance of a handling error by USPS. The USPS study tested a mailing

which had a 32-percent carrier route presort level, while the Mint's mass mailings have a 70-percent carrier route rate.

Mint officials also expressed a concern that third-class mail, when forwarded, would incur a forwarding charge. Mint officials have said that usually 300,000 to 350,000 of their mailing list addresses change during a year. While third-class mail without a forwarding endorsement does not have to be forwarded, mailers can get the same forwarding service for third class as first class by requesting forwarding. This service is available without charge if the addressee recipient has left a change of address notice with USPS. A change of address notice is used by USPS to forward mail for 12 months after the recipient relocates.

If USPS cannot forward a mail piece, undeliverable first-class mail is returned to the sender at no charge, while USPS does charge a fee for returning undeliverable third-class mail. The fee is the appropriate single-piece third-class rate multiplied by a factor of 2.733. However, a Mint official said that the major portion of address changes come from customers whose mail has been forwarded by USPS. While there would be an additional cost of returning undeliverable third-class mail, it need be incurred only once for each recipient since, according to a Mint official, returned undeliverable mail forms the basis for eliminating a recipient from the Mint's mailing list.

Concerns About Recipient Reaction

To Receiving Third-Class Mail

As they did in response to our 1975 report on mailing practices at the Mint and other agencies,² Mint officials again expressed concern about the "image" of third class. There is evidence that this would not be a significant factor in the circumstances of the Mint's mailings. USPS' Household Diary Study,³ a major study of classes of mail, says that the determining factor of recipient responsiveness to a mail piece was whether the recipient had been a prior customer. The Mint's mailing list, by definition, consists of prior customers or those with a demonstrated interest--the list consists of people who have been Mint numismatic customers or who have asked to be added to the mailing list.

As shown by the illustration of a typical Mint envelope in appendix I, and the third-class alternative to it, the postage class is hardly noticeable. We believe there is little chance a customer would even notice that the Mint had used third class rather than a presorted first-class imprint, and even less that it would affect his or her decision to place an order.

²Federal Agencies Could Do More To Economize on Mailing Costs (GGD-75-99, Aug. 25, 1975).

³Household Diary Study--Fiscal Year 1987, Demand Research Division, Office of Rates, Rates and Classification Department, USPS. (Washington, D.C.: July 1988).

Concerns About Timeliness Of
Third-Class Delivery

During this review Mint officials echoed concerns expressed in 1975 about timeliness of third-class mail, particularly for mailings that had a required response date. We found that most of the Mint's mailings do not have a required response date and, where there is a response date, there is a lead time of at least a month, which could be met by third class.

USPS delivery standards for first-class and third-class mail are admittedly different. USPS has set a 1- to 3-day standard for first-class mail. According to a USPS official, third-class mail is to be delivered within a period of days equivalent to the number of zones the mail must cross plus 2 days. (There are eight zones spanning the country.) Thus, USPS delivery standards for third-class mail range from 3 to 10 days.

A series of 11 USPS tests done between November 1986 and May 1989 found that delivery times for third-class mail usually came within a fraction of a day of the USPS standards and that presorted carrier route third-class mailings usually came under the standards by a fraction of a day. As I mentioned earlier, 70 percent of the Mint's mailing list is presorted to carrier route.

Mint officials also said that its numismatic customers all want to receive their promotional mailings about new issuances at the same time and that the Mint will be subject to increased criticism about varying arrival dates if third class is used for mailings. However, the Mint's mailings are now typically mailed over a 2-week period, so that we would expect little difference in customer satisfaction between the current system and third class.

To the extent that simultaneous delivery is a real concern, the Mint could plan to enter its promotional mailings into the mail stream at an earlier date and sequence them to meet the zone delivery times, to allow for the longer anticipated time third class spends in the mail stream.

Our discussions with associations of large volume mailers, and our analyses of major studies pertinent to the issues raised by the Mint, have convinced us that the Mint's continued adherence to first class for its mass mailings is an outdated and wasteful practice that has long been abandoned by the commercial sector. The mail manager for the Franklin Mint--which also produces collectors' items and sells them through mail order--said that practically all promotional mailings by his company are sent third class. Industry association representatives for third-

class and first-class mailers said that third class is appropriate for the Mint's promotional mailings, as long as USPS is instructed to forward the mailpiece.

RECOMMENDATION

We recommend that the Mint budget for and use third class for its promotional mailings.

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Mr. Chairman, that concludes my prepared remarks. My colleagues and I would be pleased to respond to questions.

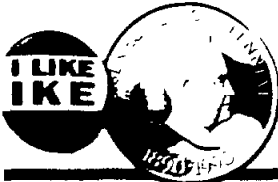
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