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## List Hygiene: Cleaning Up

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With a postal rate increase on the horizon, you might expect catalogers to be agonizing over their mailing plans and slashing circulation. But so far, list industry executives say, that's not the case.

Mailers are evaluating their circulation but not panicking about it. Postal rate increases are "a fact of life for catalogers," says Bill LaPierre, vice president of brokerage for Peterborough, NH-based list services firm [Millard Group](#). "The ones who are panicking are the ones that probably haven't been as vigilant about their list hygiene, [which should be] like taking a shower. You do it every day because you have to."

The pending rate case, which is expected to go into effect in May, calls for average postal rate increases of 9%-12% for Standard Mail. But rates aren't the only thing that will be changing: The U.S. Postal Service is restructuring the entire pricing strategy. The proposed new mailing standards will affect flats, notflat machinable (NFM) pieces, and parcels.

The current postal pricing structure is based primarily on weight. But because the USPS has determined that certain large but lightweight pieces actually cost more to process than some smaller, heavier pieces, a mail piece's shape will be as important as its weight in determining its postage. Your creative and production teams will no doubt be reviewing the changes and determining if they need to modify the trim size, page count, or paper stock of your catalogs.

But that doesn't negate the need to consider developing a more-effective circulation plan.

Given that postal rates went up an average of 5.4% only a year ago, many catalogers have already assessed their circulation and no doubt think they're mailing as lean and mean as they possibly could. But circulation and database pros say that there are likely more measures you can take to mail smarter.

### Beyond RFM

Jim Calhoun, president/founder of Schaumburg, IL-based consultancy [Daystar Data Group](#), illustrates how the postage increase can eat into your marketing costs: "Postage [for catalogs] is going up about 11%-12%. If a catalog costs \$0.70 to deliver, and postage is \$0.28 of that, then your marketing costs will be going up 4.3%. That comes right out of the bottom line. If you are mailing 1 million books and have a 50% cost of goods sold, then your contribution to overhead will be reduced by \$30,000. That is a big hit. You will either have to increase sales by \$60,000 or reduce marketing expense by \$30,000. And you will have to be careful to do this in a way that keeps your 12-month file growing, which is not an easy task."

Jim Wheaton, president of Chicago-based database marketing consultancy [Wheaton Group](#) (who with Calhoun recently cofounded a joint consultancy, Daystar Wheaton Group), says that most catalogers are indeed preparing for the next increase. "The interesting question is whether they are focusing on all the right places. For example, it is remarkable how many companies do not take full advantage of robust marketing databases and advanced data-mining techniques."

For many marketers, Wheaton points out, it will continue to be business as usual: recency, frequency, and monetary (RFM) cells driven by rudimentary data repositories. And that is unfortunate, he says, because powerful databases coupled with sophisticated analytics can remove much of the sting from postal increases.

List modeling, says Millard's LaPierre, will indeed have to go beyond traditional RFM. For example, if you are a cataloger that sells tools and accessories to refinish furniture, and a customer buys a one-time product to repair a table, you may not want to mail every month to that customer, even if the purchase was recent enough and costly enough to put him in the deciles for recency and monetary value. Instead, you should model your house file for other elements and criteria, such as whether buyers of certain products were more likely to make subsequent purchases than buyers of other items.

"Look at what the customer is buying," LaPierre advises. "Focus on the merchandise and the future propensity to order."

Catalogers need to remember there are two sides to direct marketing, says John Lenser, president of San Rafael, CA-based consultancy Lenser: the value of the customer and the cost of acquiring the customer. For a company to make a profit, the value of the customer always has to be greater than the cost of acquisition. So when mailing costs go up, "it is more costly to extract value from the customer," he says. "Lifetime value goes down because the cost of subsequent mailings has gone up and the cost of acquiring the customer goes up. Therefore, one must reduce one's mailings, or revenue falls and the company becomes smaller."

### **Keeping it clean**

One thing is for certain: List hygiene will be more important than ever. That's why Calhoun is suggesting list and data makeovers for some clients to get them ready for the increase. "We believe it is more a matter of doing 100 things 1% better rather than one thing 100% better," he says. He typically starts a "makeover" by reviewing the client's data hygiene practices and asking these types of questions:

\* How often do you run National Change of Address (NCOA)? To determine the frequency you should run NCOA, Calhoun says you should find out the move rate of your customers: By looking at a recent NCOA report, you can see how many address changes and undeliverable addresses were identified. By knowing how long it had been since the previous NCOA processing, you can estimate your move rate.

Let's say you ran 1 million records through NCOA, and 2.1% were identified as address changes and 0.3% as undeliverable, and it had been 60 days since your previous NCOA process. Your move/undeliverable rate would be 12.6%/1.8% a year or 1.05%/0.15% a month. This means that if you switch from running your file against NCOA every other month to every month, your 1 million-name file will have about 10,500 address changes and 1,500 undeliverable addresses every month.

"Suppose that the incremental cost of running NCOA is \$0.50/M," Calhoun continues. "Does it make economic sense to pay \$500 to move 10,500 records—some of which may be identified as duplicates—to their current address and eliminate 1,500 undeliverable mail pieces? In most cases, the answer is yes."

\* What percentage of your file has a valid zip+4? Without a zip+4 code, a record cannot be matched against NCOA and an address cannot qualify for postal automation discounts. "We advise our clients to take the non-zip+4 records and run them through the USPS's Address Element Correction [AEC] service," Calhoun says. AEC can correct specific elements of an address, such as street directionals ("North" vs. "South") and street suffixes ("Rd." instead of "Dr."). AEC can also find at least 40%-50% of a file's missing zip+4 codes, Calhoun says.

\* Have you used other U.S. Postal Service products, such as Delivery Sequence File, Locatable Address Conversion System, and Delivery Point Validation? Calhoun runs three additional hygiene tools—Second Generation Delivery Sequence File (DSF2), Locatable Address Conversion System (LACS), and Delivery

Point Validation (DPV)—for clients during NCOA. “We advise our clients to review mailing results by the footnotes provided in these processes. DSF2 might tell you that the business addresses you are mailing are underperforming. DPV will identify records with missing street numbers that may render them undeliverable.”

\* Have you reviewed your merge/purge for duplicates? It’s important to know that your merge/purge is doing its job properly. If the composition of your file is shifting so that it now includes more business addresses, for example, the consumer-only merge/purge may not be identifying all the duplicates. Conversely, you may find that your merge/purge is too aggressive. It may be calling every Smith in a high-rise in Manhattan a duplicate.

“By reviewing duplicate sets and net-name listings from your merge/purge on an annual basis, you can make sure it has minimized any overkill or underkill,” Calhoun says.

What’s more, the preponderance of co-op databases has led to more multibuyers being found in the merge/purge, but their performance has eroded. “By keying co-op-to-co-op, co-op-to-rental, and rental-to-rental multibuyers, and then measuring their performance, we have been able to help stop the ‘multi madness,’” Calhoun says. “In some cases, we have advised our clients to optimize these multibuyers along with other marginal segments post-merge/purge.”

\* Are you using available suppression files, such as deceased and prison names as well as your removal requests? “We encourage our clients to review their own data-collection practices,” Calhoun says. “We believe that by adopting best practices, deliverability increases, and it all starts at home.”

### **Get with the program**

If you think it’s too early to start planning circulation changes—perhaps you want to wait to see if the rate case is approved in its entirety—think again. Gene Del Polito, president of the Arlington, VA-based Association for Postal Commerce, contends that catalogers need to do their homework now. “Mailers need to understand some of the unique requirements and that they are changing,” he says.

For example, while the new rules will encourage mailers to have presorted catalogs drop-shipped as close as possible to the destination delivery unit (DDU)—the local postal office of the recipient—Del Polito says you will need to decide if you should have your printer drop-ship your catalogs or contract with a third-party drop-shipper, or if you currently aren’t drop-shipping to the DDU level, whether you should start doing so.

Todd Kintopf, manager of distribution and postal affairs for Sun Prairie, WI-based Royle Printing, says that most larger mailers already have their printers drop-ship their catalogs into the mail stream—if not as deep into the stream as the DDUs, then at least into the sectional center facilities (SCFs) or bulk mail centers (BMCs)—to avoid the USPS’s fuel surcharge of 15%-21%. With that in mind, Kintopf reminds his clients to be extra stringent about address hygiene to ensure correct zip codes and zip+4s.

Short term, Wheaton says the rate increase may discourage catalogers from testing with catalog mailings. This typically happens when there is a postal increase.

In part because of a temporary decline in testing, Cheryl Bagdan, senior account executive of Danbury, CT-based list firm Statistics, says catalogers may try to negotiate for lower list rental rates. “Mailers are expecting deeper negotiation than a couple of years ago,” she says. Ultimately, “it may mean we rent more names that way as well.”

And ultimately catalogers may test more. “Mailers will be focused on identifying ways to squeeze costs out of catalog production in order to counteract the increase in postage,” Wheaton says. “Identifying a lower-cost option that does not generate a proportionate decrease in responsiveness will be the goal.”