



OFFICE OF INSPECTOR GENERAL

UNITED STATES POSTAL SERVICE

Will the Check Be in the Mail?

An Examination of Paper and Electronic Transactional Mail

RARC Report

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OFFICE OF INSPECTOR GENERAL

UNITED STATES POSTAL SERVICE

Executive Summary

Physical mail still plays an important role today and will continue to do so in the near future.

Transactional mailpieces — primarily household bills and payments — generated \$18.5 billion in revenue in fiscal year (FY) 2013, more than a quarter of the U.S. Postal Service's total revenue that year.¹ Like many other mail segments, transactional mail is contending with the onslaught of digital communications, in particular electronic options for bill delivery and payment.

The U.S. Postal Service Office of Inspector General (OIG) collaborated with the consulting firm InfoTrends to conduct research to better understand customers' preferences for receiving and paying bills. Specifically, the research examines 3 months of customer billing data from a major U.S. utility company. The OIG and InfoTrends then interviewed executives who manage bill delivery and payment processing to help determine how the utility's delivery-and-payment trends compare to those at other utilities and even in other industries.

The utility company's billing data revealed that 91 percent of customers chose to receive their bills by mail despite a clear preference to pay bills online. Even among the utility's newest customers — those expected to be more digitally savvy — an average of 89 percent opted to have their bills mailed to them.

¹ OIG calculation based on U.S. Postal Service, *The Household Diary Study: Mail Use & Attitudes in FY 2013*, May, 2014, http://www.prc.gov/Docs/90/90246/USPS_HDS_FY13.pdf, and U.S. Postal Service, *Public Cost and Revenue Analysis: Fiscal Year 2013*, December, 2013, <http://about.usps.com/who-we-are/financials/cost-revenue-analysis-reports/fy2013.pdf>.

Highlights

Customers continue to prefer receiving bills by mail, but show a willingness to pay their bills electronically.

While companies look to minimize bill delivery and payment costs, they cannot ignore customer preferences, as customer satisfaction is a top priority.

Offering a variety of bill delivery and payment options can lead to higher customer satisfaction.

Why? Research shows that consumers value the physical mailpiece as a record-keeping tool and reminder to pay. Moreover, consumers do not save any money by receiving their bills digitally, whereas they save postage when they pay online. The executives we interviewed said this was consistent with what they have observed in the industry.

Digital billing is less expensive than hard-copy billing, and cost is always a factor in any business decision. But customer satisfaction rates are a primary driver for companies that send transactional mail. While over time more customers may opt to receive bills electronically, our research shows that physical mail still plays an important role today and will continue to do so in the near future.

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Analysis



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**Consumers continue
to prefer receiving
paper bills in the mail.**

Introduction

Consumers and businesses are conducting more communication and commerce online today than ever before. Consequently, businesses are adjusting how they manage and plan for communications with existing customers. Bill-sending organizations—such as financial institutions and utility companies—look to cut costs, often encouraging electronic-only delivery of those communications to avoid postage costs. The money those companies spend in postage to send bills and the money consumers spend in postage to pay them is a big business for the Postal Service. Case in point, in FY 2013 the transactional mail segment accounted for \$18.5 billion of revenue (27.5%) for the Postal Service.¹

To better understand these market dynamics, the U.S. Postal Service Office of Inspector General (OIG) collaborated with InfoTrends to help further explore how consumers' preferences for receiving and paying bills are evolving. The primary research effort consisted of an analysis of three months of customer billing and payment data from a large utility, supplemented by interviews with key stakeholders in the customer communications market. The stakeholder interviews revealed several key insights into the reality of today's transactional mail market, as well as the role of customer satisfaction.

An Overview of the Transactional Mail Market

American consumers received 24 billion household bills and statements in 2013.² Despite strong business desire to drive these communications to electronic-only delivery, consumers continue to prefer receiving paper bills in the mail. In fact, the Postal Service delivered nearly 80% of those bills

¹ U.S. Postal Service Office of Inspector General (OIG) calculation based on U.S. Postal Service, *The Household Diary Study: Mail Use & Attitudes in FY 2013*, May, 2014, http://www.prc.gov/Docs/90/90246/USPS_HDS_FY13.pdf, and U.S. Postal Service, *Public Cost and Revenue Analysis: Fiscal Year 2013*, December, 2013, <http://about.usps.com/who-we-are/financials/cost-revenue-analysis-reports/fy2013.pdf>.

² Matt Swain, "Fast-Evolving Tactics for Customer Communications, Outsourcing, and Bill Payment Adoption," *Document Strategy*, December 16, 2014, <http://www.documentmedia.com/Main/articles/1537.aspx>.

Many companies do not include associated costs when evaluating mail and digital channels, making it more difficult to compare the true costs of bill delivery and processing payments.

Most utilities are primarily driven by customer satisfaction, even more so than by the costs associated with physical or digital billing and payment processing.

and statements.³ However, there has been a more rapid transition away from physical mail in household bill payments, with the majority of consumers preferring to pay bills online. In fact, just 37% of consumer bills were paid by mail in fiscal year (FY) 2013, a 45% decline since FY 1998.⁴

Our 2014 research supported this perspective, with the majority of customers preferring to receive paper bills through the mail, but paying their bills electronically. The actual percentages of customers that choose to either receive or pay their bills digitally vary widely across industries, with utility companies having far lower adoption rates than most other industries. Even among utilities, the percentage of their customers that choose to receive and pay their bills electronically depends on the type and size of the company, as well as the level of regulation the utility faces.⁵

The cost of sending physical bills through the mail also varies, but is consistently more expensive than sending bills electronically. These costs primarily include bill creation, delivery, and payment processing. Often absent from these calculations are other associated costs, such as the money the company forgoes while it waits to receive a customer's payment, late payment penalties, and default rates—making it more difficult to compare the true cost of sending bills and receiving payments through the mail versus electronically. One executive that we interviewed called companies' attempts to calculate these true costs the “wild west.”

The Importance of Customer Satisfaction

Instead of focusing exclusively on costs, representatives of the companies we interviewed highlighted the importance of customer satisfaction as a key metric for success. In fact, most utilities are primarily driven by customer satisfaction, even more so than by the true costs associated with physical or digital billing and payment processing. A high rating by consumer satisfaction researcher, J.D. Power and Associates is considered

³ Customer Communications Delivery Market Sizing & Forecast: 2013-2018, InfoTrends, 2014.

⁴ The Household Diary Study: Mail Use & Attitudes in FY2013, U.S. Postal Service, May 2014.

⁵ Some states and localities require utilities and other regulated industries to mail certain types of communications to consumers physically.

“a badge of honor” in this industry. In fact, some executives’ incentive packages are dependent on strong customer satisfaction ratings.

In an effort to put customers first, many transactional mailers do not try to pressure customers into moving to all digital communication, even though it could save the company money. Most companies we interviewed agreed that incentives were ineffective as long-term solutions to get customers to switch to electronic billing and payment.

Rather than relying on incentives, billers try to encourage customers to go all-digital by creating a better online or mobile experience. While cost reduction is important, good customer experience usually trumps the use of negative incentives like charging customers for paper versions of their bills. One approach to drive customers to electronic billing is to set the default for new customers to paperless delivery, while others automatically register customers who pay online to also receive their bills electronically. However, these tactics still carry a risk of customer backlash and could have a negative impact on the company’s relationship with the customer.

In general, customers value having options for bill delivery and payment. Financial services technology company Fiserv calls these customers “Bill Pay Omnivores” because they are likely to choose a variety of channels to receive and pay bills.⁶ Separately, a 2014 Fiserv survey found that 43% of customers had a higher level of satisfaction with billers that offered multiple delivery and payment options.⁷ Using a data-driven approach to more closely examine these delivery and payment preferences related to household transactional mail, InfoTrends, in collaboration with the OIG, developed and completed a case study evaluating the costs of paper and electronic bill delivery and payment for residential consumers of a domestic utility company.

⁶ Eric Leiserson, Boosting Satisfaction and Loyalty with Billing and Payments, Fiserv, p. 3, 2014.

⁷ Ibid.

Research Background

Objective

The primary objective of this project was to quantify the costs associated with each of three primary billing scenarios, including all expenses related to bill production and delivery through bill payment for residential customers of a large utility. A secondary goal was to explore the costs, benefits, and deterrents for the residential bill payer for each of these bill delivery and payment options and track customers' overall bill delivery and payment behavior relative to physical and electronic channels.

About Utility East

Without a utility company willing to share its data, this project would not be possible. A utility company that serves a major metropolitan area in the Eastern United States—which will be referred to in this paper as “Utility East”—generously provided access to three months of billing data for a subset of its customers. All personally-identifiable information of the customers was removed before the data was received.

Utility East is a Fortune 500 company providing electric and gas services to more than 3 million customers. Like any major metropolitan area, its residential customer base is highly diverse in terms of customer demographics. More than 85% of Utility East's customer base is residential customers, with upwards of 15% turnover each year. Customers of Utility East can receive their bills by mail or electronically and also have a variety of payment options. [Table 1](#) shows the percentages of Utility East customers that continued to pay and receive bills through the mail, compared to the national average of all transactional mailing companies.

Table 1: Adoption Rate of Physical Bill Delivery and Payment by Households

	Means	Utility East ⁸	National Average ⁹
Bill Delivery	Mail	91%	79%
	Electronically	9%	21%
Bill Payment	Mail	25%	37%
	Electronically	71%	59%
	Other Means ¹⁰	3%	4%

Table 2 provides a breakdown of delivery and payment approaches for the 2 million residential Utility East customers whose data we were granted access to in May of 2014. As might be expected, customers who sign up for electronic bill delivery choose to pay electronically as well.

Table 2: Distribution of Bill Delivery and Payment Scenarios

Bill Delivery and Payment Scenarios	Residential Customers
Receive by mail	91%¹¹
Pay by mail	25%
Pay electronically	62%
Pay by other means ¹²	3%
Receive electronically	9%
Pay by mail	0%
Pay electronically	9%
Pay by other means	0%

According to company estimates, Utility East sends about 30 million residential bills each year. It also sends over 550,000 termination-of-service notifications to residential addresses annually, which are sent if a

⁸ Related percentages in this category total 99% due to rounding.

⁹ National figures for bill delivery across all industries from *Customer Communications Delivery Market Sizing & Forecast: 2013-2018*, InfoTrends, 2014; national figures for bill payment from *The Household Diary Study: Mail Use & Attitudes in FY2013*, U.S. Postal Service, 2014.

¹⁰ This includes payment through a visit to a walk-in center and field collection.

¹¹ Related percentages in this category total 90% due to rounding.

¹² This includes payment at a walk-in center and field collection. Payment by phone is considered electronic payment.

customer is carrying an unpaid balance for an extended time period (generally 3 months or more). Utility East receives approximately 7 million inbound paper check and money order payments by mail each year. While it outsources its printing needs to an external provider, Utility East processes checks through its subsidiary.

Billing and payment workflows can vary significantly from one company to another. These workflows can depend on the company’s size, industry, software, partnerships, incentives offered for certain delivery channels, breadth of payment channels, and methods enabled, as well as company policy on frequency and channel of reminder communications associated with a billing lifecycle. Each of these workflow variations yields different average costs. Utility East is similar to other utilities we interviewed in that it does not offer any personal incentives for customers choosing one delivery or payment channel over another. The executives we interviewed also said it is standard for a utility to not send bill pay reminders until the bill is months past due. Table 3 lists the bill delivery and payment options that Utility East offers.

Billing and payment workflows can vary significantly from one company to another and yield different average costs.

Table 3: Bill Delivery and Payment Options for Utility East Customers

Delivery Options	Payment Sources	Payment Types
Physical Mail via Postal Service	Physical Mail via Postal Service	Paper check
Electronic Delivery via its website	Direct debit from bank	Money order
Electronic Delivery via bank website	Utility East website	e-Check (ACH) ¹⁵
	Utility East direct payment plan	Credit card
	Bank bill pay service	Debit card
	Phone (CSR) ¹³ and (IVR) ¹⁴	Cash
	Walk-in center	

¹³ Customer Service Representative

¹⁴ Interactive Voice Response (IVR) is a technology that allows a computer to interact with humans through the use of voice and telephone tones from a keypad. In this instance, Utility East uses the technology to allow customer questions and payments to be addressed through the automated system without requiring a customer service representative.

¹⁵ Automated Clearing House (ACH) automatically deducts the full amount due from the customer’s bank account on the same day each payment cycle. Businesses often prefer ACH due to its low fees, direct tie to customers’ bank accounts, and predictable payment schedule.

Methodology

Utility East provided InfoTrends with 2 million residential customer records for the billing months of May, June, and July of 2014. With the support of the OIG, InfoTrends analyzed a subset of these records with a focus on how customers received and paid their bills, as well as factors that influenced the cost of each method, including fluctuations in call center volume.

InfoTrends broke residential customers into four main groups. InfoTrends opted to randomly select a subset of the 2 million records it received to make the volume of data more manageable.¹⁶ The first three groups each consisted of 5,000 customers randomly selected within each of the following cohorts:

- Bills delivered by mail and paid by mail
- Bills delivered by mail and paid electronically
- Bills delivered and paid electronically

Customers who are billed electronically and pay by mail represented an insignificant portion of the Utility East customer base, so were not analyzed in this study. This was also the case for customers who paid by other means, such as in person at walk-in centers.

The data that Utility East collected and provided for analysis lacked sufficient information about payment cycle lengths for each of the cohorts tracked. Because of this, InfoTrends was not able to determine how quickly each cohort paid after receiving a bill. Other potential data points, including defaults, follow-up mailings, and collections calls, proved to either have an insignificant financial impact or were irrelevant to the operations of Utility East.

¹⁶ To perform the full range of analytics needed for the project, the customer billing data had to be cleaned of irregularities in data entries and reconcile nuances within the data files. It would not be feasible to do this for the entire customer database of 2 million records within the scope of the project.

InfoTrends also monitored the 5,000 newest residential Utility East customers in the dataset as of the May billing cycle and tracked changes in their behavior over the first three months. From the insights gained in this exercise, InfoTrends decided to dig deeper into specific data related to when a resident became a customer of Utility East. This included a review and mapping of more than 1 million customer records, dating back to customers joining Utility East in January of 2007.

Key Findings

Foreword

The following findings are specific to Utility East for a timeframe of three months. While the paper includes generalizations about how these insights could be applied to the broader market, it is important to recognize the data limitations and should by no means be used as a measure of *the* market standard.

At times, the paper includes supplementary information from InfoTrends' ongoing tracking of the customer communications market and the surveys it conducts.

Electronic Bill Delivery and Payment Was the Least Expensive for the Utility

It may not be surprising that serving a customer who receives a bill electronically and pays it electronically costs Utility East less than a customer who receives a bill by mail and pays by mail or electronically. Table 4 reviews the costs that contributed to the total cost for bill delivery and payment, both physically and digitally.

Table 4: Utility East's Average Monthly Bill Delivery and Payment Workflow Costs per Customer

Delivery		Payment Processing		Subtotal	Call Center	Total
Type	Cost	Type	Cost		Cost	
Electronic	\$0.05	Electronic	\$0.01	\$0.06	\$0.26	\$0.32
Mail	\$0.49	Electronic	\$0.01	\$0.50	\$0.30	\$0.80
Mail	\$0.49	Mail	\$0.04	\$0.53	\$0.23	\$0.76

While costs to send and process bills electronically is less expensive for Utility East, these calculations did not include other considerations such as late payment penalties, customer defaults, technology investments and costs associated with the payment cycles.

The customer call center volume contributed a sizeable per customer cost, which is an often overlooked component of a billing and payment workflow.

When factoring in costs associated with bill delivery, call center calls, and payment processing, the average monthly cost to serve a Utility East customer who received and paid a bill electronically was \$0.32. This is primarily driven by the low cost of electronic bill delivery, which averages \$0.05 per piece compared to \$0.49 for printing, processing, and mailing a hardcopy bill. When comparing Utility East's delivery costs to other estimates for utilities, the costs of physical delivery by Utility East fell within the industry range. The cost of electronic delivery for Utility East was far less than some industry estimates.¹⁷

When call center data is factored into these averages, the cost for each cohort increases by between \$0.23 and \$0.30—showing that call center costs contribute greatly to the average monthly cost per customer. Some costs—such as those related to composing the documents to be delivered, termination notices, and field collections—have been excluded from this analysis as these costs did not contribute significantly to the per-customer cost of Utility East. As noted earlier in the paper, many of these financial costs are not tracked when determining the total cost to send bills and process payments physically or digitally.

Customer Service Calls Contributed Greatly to Average Monthly Cost per Customer

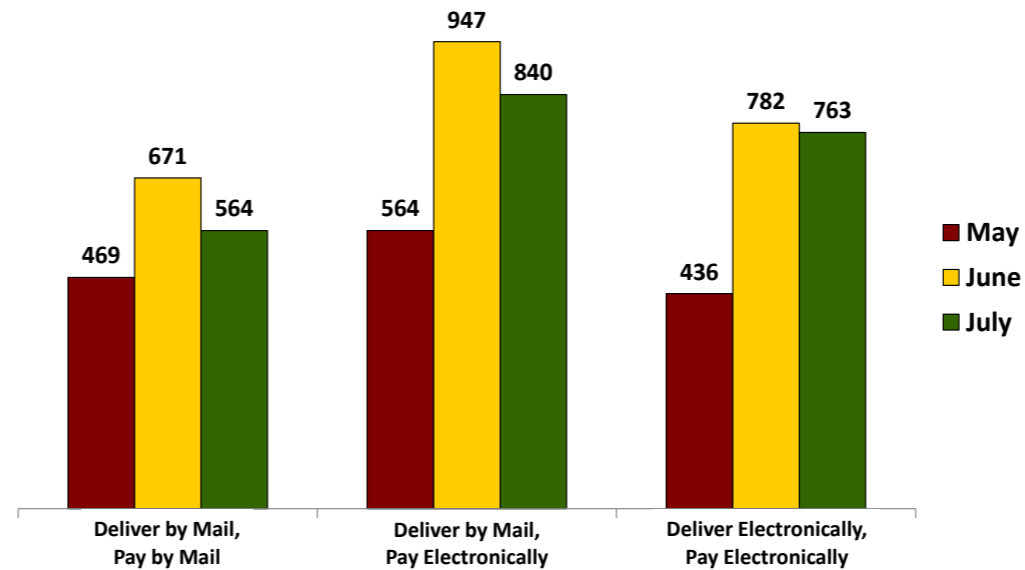
The customer call center volume contributed a sizeable per customer cost, which is an often-overlooked component of a billing and payment workflow. Because these calls require one-on-one human interaction, each costs the utility company \$6.44, which is over 13 times the cost of delivering a bill via the Postal Service. InfoTrends research shows that 4 out of 5 Americans will call their providers when they have a question about a bill,¹⁸ and these costs add significantly to the amount of money it takes to receive and process a payment. While Utility East did not provide detailed data that would indicate the reasons why each customer contacted the call center, discussions with their team led InfoTrends to conservatively

¹⁷ The physical delivery was estimated fall between \$0.50 and \$1 per communication while e-mail was up to half of that cost.

¹⁸ Annual State of the Customer Communications Market Survey, InfoTrends, 2014.

estimate that about 30% of the calls were billing-related. Figure 1 shows total in-bound call center volume over the three month timeframe for each cohort.

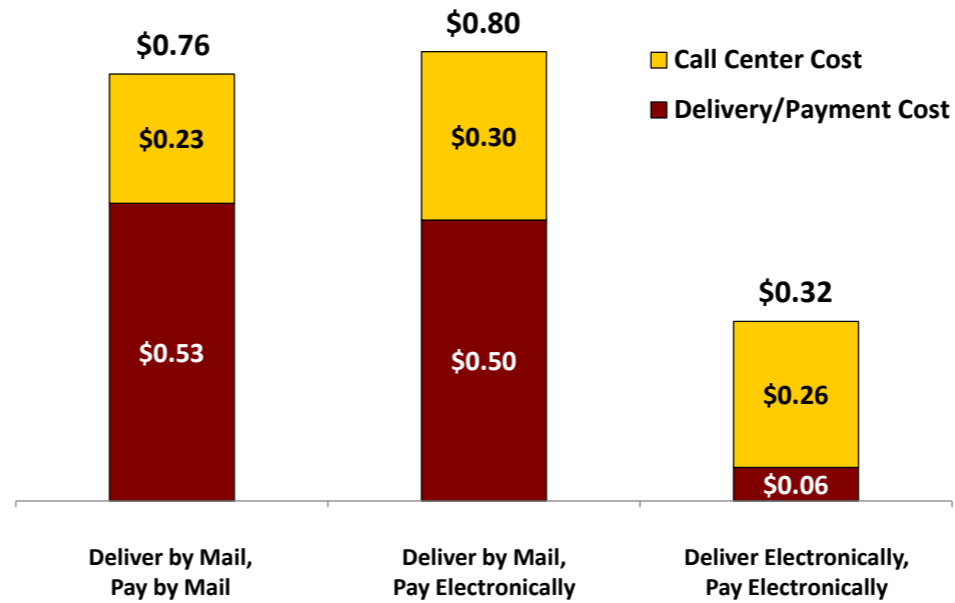
Figure 1: Total Call Center Volume Tracking for Primary Customer Sample



Without specific data on the reason for each call, it is unclear why there was a jump in call center volume from May to June across all cohorts; however it is possible that volume spiked when customers saw higher bill amounts due to increases in electricity usage (often due to increased use of air conditioners during that timeframe).

Using the direction from Utility East that 30% of call center traffic is billing-related, Figure 2 shows how the cost of the billing and payment lifecycle changes when this customer service factor is accounted for.

Figure 2: Total Average Bill Delivery and Payment Workflow Cost per Customer



Customers who received and paid their bills by mail accounted for the least call center volume.

Figure 2 illustrates the effect that billing-related call center volume has on the total costs for each cohort. The data showed that customers who received and paid their bills by mail accounted for the least call center volume. Customers who received and paid their bills electronically had a slightly higher incidence of call center volume. Customers who received their bills by mail and paid electronically were the most likely to contact Utility East’s call center. Further discussion with Utility East regarding the potential reasons for increased call center volume within this cohort revealed that it could be a bi-product of electronic payments, including payments made over the phone. For instance, if a customer who normally pays by mail receives a notice of termination or has their power turned off for defaulting on payments, then the most immediate course of restoring power is to call Utility East and make an electronic payment.

The team studied other potential cost factors in the billing data that are not included above because the impacts on total cost were negligible. For instance, while customer defaults on bills and sending collection agents to a home incur significant costs, they were so infrequent as to not affect the bottom line.

Most Customers Chose to Receive Paper Bills by Mail

A review of the habits of the 5,000 newest customers revealed that only three (0.06%) had opted for electronic bill delivery after the three month tracking period. In fact, the same three customers opted to receive their bills electronically in the first month of tracking. Table 5 shows the progression of delivery and payment shifts among these Utility East customers.

Table 5: Bill Delivery and Payment Habit Shifts for New Customers

Bill Delivery Method	Bill Payment Method	May	June	July
Mail	Mail	1,294	1,202	1,092
	Electronic	3,625	3,715	3,824
	Other Means	78	80	81
Electronic	Electronic	3	3	3
	Other Means	0	0	0

Out of the three-month sample, some newer customers moved from physical to electronic payment, but none moved to electronic delivery.

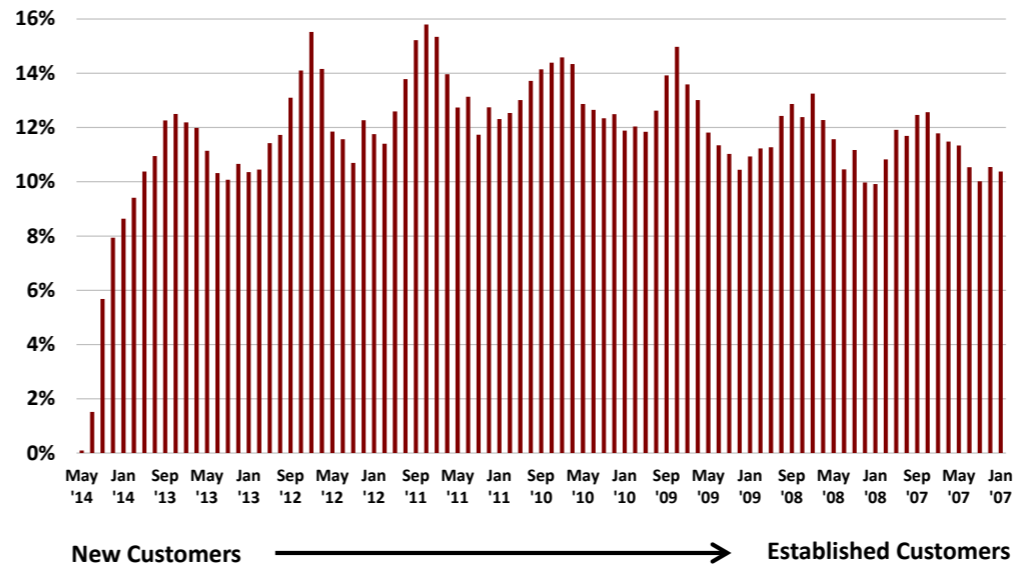
Newer Customers Were More Likely to Pay Bills Electronically Than by Mail

While the data revealed a 5.5% growth in electronic payment at the expense of payment by mail from May to July, there was no change in customers who wanted to receive their bills electronically. Knowing that overall electronic delivery adoption rates are about 9% at Utility East, InfoTrends conducted a separate analysis of more than a million residential customers who received their July 2014 bill electronically. A study of this population and when they became a Utility East customer revealed that the electronic adopters represented an average of 11% of the total population of customers who also became Utility East customers in the same month they joined. These adoption rates fell within the range reported by bill delivery and payment executives for utilities, who cited paperless adoption from the high single digit percentages to the teens.

Figure 3 shows the percentage of residential customers who received their

July 2014 bill electronically, based on the month and year in which they became a customer of Utility East.

Figure 3: Electronic Delivery Adoption by Date of Service Initiation



Most customers retained paper delivery and delayed their decision to switch away from it.

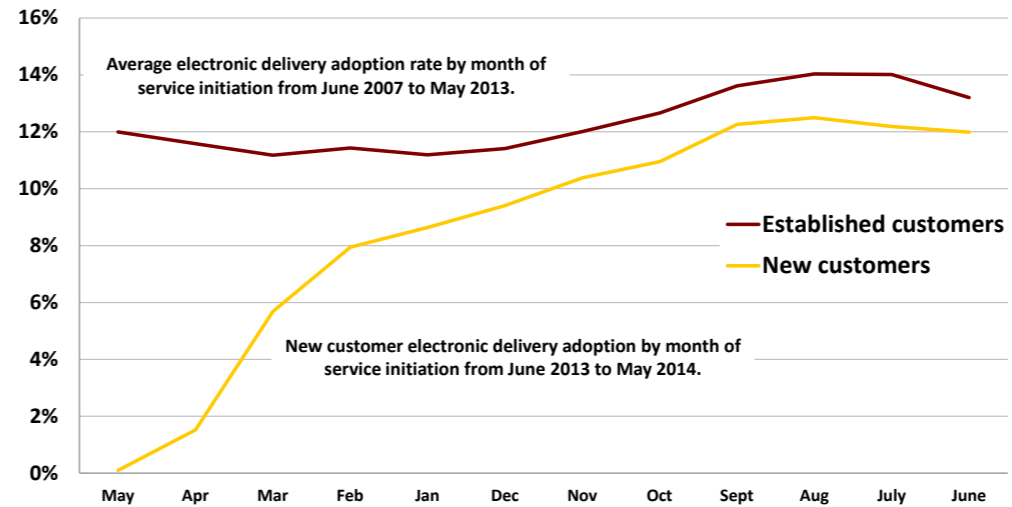
Figure 3 shows a clear recurring pattern, with customers who established new accounts during the months of June through September being the most likely to choose electronic delivery. This could speak to the demographics of people who move during these time periods, rather than a statement about those specific months. For instance, college students, recent graduates starting new jobs, and families working around a school-year schedule tend to move during these months.

Utility East does not actively promote electronic delivery over hardcopy delivery; rather, it provides passive encouragement on its website and an expressive environmental message on the envelope. Thus, this data may represent a more accurate reflection of customer preferences, as there are no additional incentives for the customer to change their billing approach. Absent any additional enticement, most customers retained paper delivery and delayed their decision to switch away from it. Most customers that chose electronic payment continued to receive paper bills, even after visiting Utility East’s website. These customers had already taken the time to establish a digital identity with the company in order to pay online, but

chose not to move to electronic bill delivery. Each time these users log on, they are given the option to switch to electronic billing.

The newest Utility East customers—those that had joined in the last nine months of the data collection period—adopted electronic billing at a lower rate than established customers, as seen in Figure 4.

Figure 4: Electronic Delivery Adoption Rates for New and Existing Customers



Electronic bill delivery adoption rates fluctuate but never surpass 16% paperless adoption.

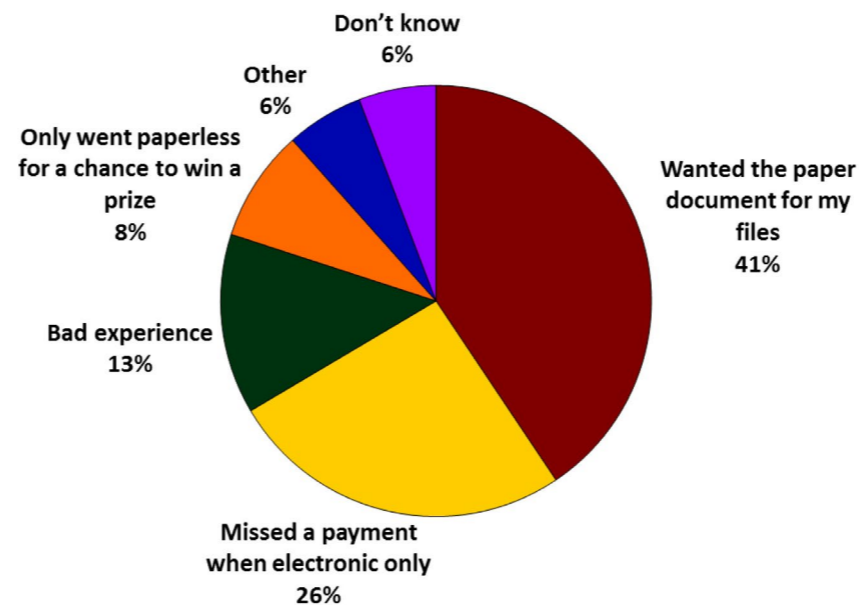
The electronic billing adoption rate of new customers started out slowly (with fewer choosing this method in the first few months), but then ramped up significantly. The “established customer” curve in Figure 4 is an average of the current electronic delivery adoption of customers who initiated their service in each of those months over the previous six years. As Figure 3 demonstrates, the data from past years reveals a consistent pattern, with electronic delivery adoption rates fluctuating but never surpassing 16% paperless adoption. Assuming the adoption rate of the newest Utility East customers will eventually reach an electronic delivery adoption rate that mirrors those of the existing customers, the data may indicate that new customers do not necessarily adopt electronic bill delivery right away, but instead take several months to switch to electronic bill delivery. A comparison of the adoption rates of established and new customers also suggests that another 2% of electronic adoption may come from the new customer base in the next few years of their relationship with

Utility East. Interestingly, Fiserv research found that 45% of consumers surveyed preferred to activate electronic billing when opening an account.¹⁹ As noted earlier, the rate of electronic adoption for new Utility East customers was much lower.

Separate from this analysis, InfoTrends tracks and researches the billing and payments markets closely. While InfoTrends shows overall electronic delivery of bills and statements as growing, it has also found that sometimes customers revert to paper delivery after sampling an electronic-only experience. In fact, one out of three people surveyed in 2014 (657 out of 2,000) said that they had reverted to paper delivery at least once in the past. Understanding the consumers' reasons for making the switch back to hard copy bill delivery could also help explain why so many consumers do not adopt electronic billing when they are a new customer. Figure 5 shows these customers' reasoning for moving back to physical bill delivery.²⁰

One out of every three people surveyed in 2014 said that they had reverted to paper delivery at least once in the past, after sampling an electronic-only experience.

Figure 5: Primary Reason Why Customers Reverted to Physical Bill Delivery



¹⁹ Eric Leiserson, E-Bill Marketing in the Evolving Social Landscape: Five Emerging Ways to Increase E-Bill Adoption, Fiserv, p. 3, 2013.

²⁰ Annual State of the Customer Communications Market Survey, InfoTrends, 2014.

The majority of U.S. households now use multiple methods to pay their bills.

With InfoTrends' research also showing that customers value having a hardcopy for their records and the physical bill as a reminder to pay, this data appears to support why the majority of customers receive their bills by mail, but then pay electronically. The Postal Service promoted the security of physical bill delivery in a recent advertising campaign, which was directed at customers like those from the InfoTrends research, who may not be willing to move their record keeping online.²¹

This movement from one billing method to another is not unique to Utility East. Fiserv research revealed that customers often change their billing methods month to month. The study reported that over 15 million U.S. households switch their bill payment methods each month, and that the majority of U.S. households now use multiple methods to pay their bills.²² Allowing customers to choose from multiple billing and payment options had a positive impact on customer satisfaction with the biller.²³

Adoption Rates for Electronic Bill Delivery Were Far Lower than Rates for Electronic Bill Payment

InfoTrends analyzed how the same one million-plus customers that received electronic bills as of July 2014 paid their most recent bill. That analysis revealed a very high preference for electronic payment, as seen in [Figure 6](#). The [Figure](#) also includes electronic delivery rates overlaid to show the disparity.

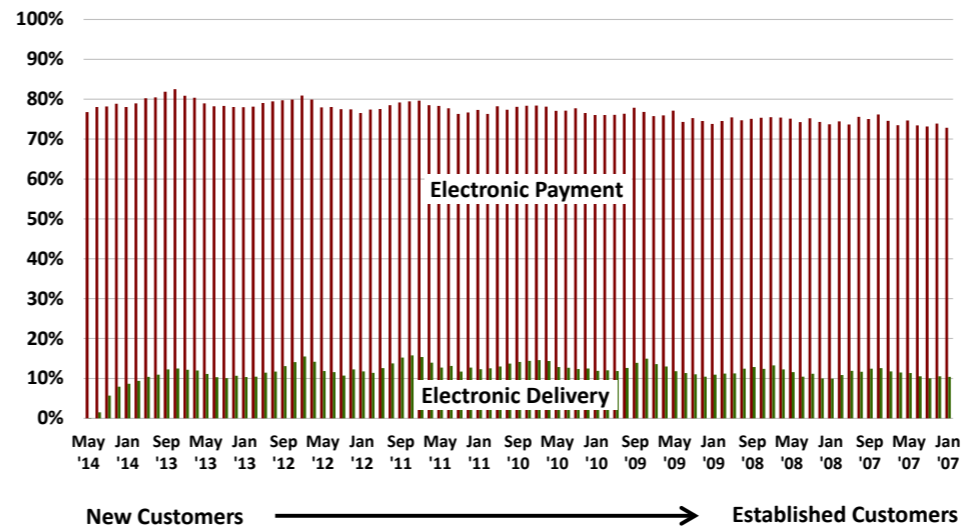
²¹ "Hacked," U.S. Postal Service, 2011, <https://www.youtube.com/watch?v=oysFmSVzCnM>.

See also "Postal Service Launches New TV Ad Campaign," Ed O'Keefe, Sept. 30, 2011, http://www.washingtonpost.com/blogs/federal-eye/post/postal-service-launches-new-tv-ad-campaign/2011/09/29/gIQABMTS8K_blog.html.

²² Eric Leiserson, Boosting Satisfaction and Loyalty with Billing and Payments, Fiserv, p. 3, 2014.

²³ Ibid.

Figure 6: Electronic Payment Adoption by Date of Service Initiation



Electronic payment adoption for these Utility East customers averages nearly 78%, with new customers on their third billing cycle (March 2014) exceeding that average. Utility East offers a direct payment plan for customers, which automatically debits the customer’s account after ten business days. With an average payment cycle of 27 days across all customers, the direct payment plan allows Utility East to receive payments significantly faster than other options.

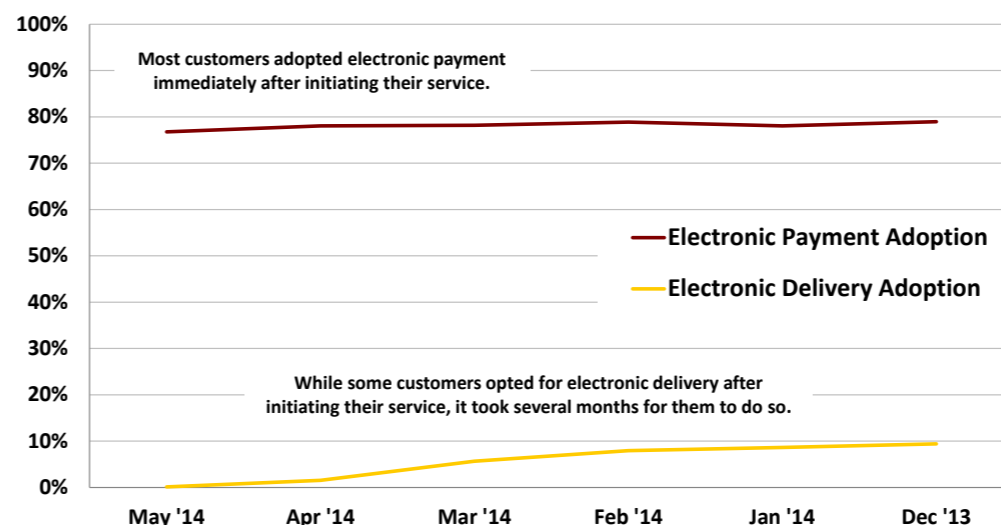
Reviewing this extended data set reveals a similar trend of peaks and troughs depending on the month when the resident became a Utility East customer, but also shows a trend toward increased electronic payment for newer customers. Residents who became customers in 2007 averaged electronic payment rates of 74%, compared to almost 80% for those who became customers in 2013. This could be a result of the demographics of this particular group of new customers (which Utility East does not collect), or it might point to something more behavioral. For instance, it is possible that when someone moves and becomes a new customer they revisit their approach to billing and payments.

Consumers may see value in paying bills electronically, as it helps them avoid associated costs, such as paper checks and stamps. Using estimates of a single check costing \$0.15²⁴ and a stamp at \$0.49, the monthly cost to the consumer is about \$0.64 per bill paid by mail. With electronic bill payment often being free to the consumer, the cost to send a payment by mail might be a disincentive.

New customers to Utility East that adopted an electronic payment approach immediately appeared to keep the same approach as they became longer-standing customers. Comparing electronic bill delivery and electronic payment adoption shows that it takes more time to ramp up, as shown in Figure 7.

Consumers see value in receiving their bills by mail, specifically to have the hardcopy for filing purposes and to have it serve as a reminder to pay.

Figure 7: Electronic Payment and Delivery Adoption Rates for New Customers



This difference in behavior may be the result of the fact that—like many billing relationships—Utility East customers receive paper bills by default, but there is no default type of payment. Customers must take action to establish a payment approach, whereas the delivery approach has already been dictated to the customer, and they must take action to say that they would prefer electronic delivery. Even so, InfoTrends market research shows that consumers see value in receiving their bills by mail, specifically

²⁴ Checks Unlimited, 2014.

to have the hardcopy for filing purposes and to have it serve as a reminder to pay. For consumers who prefer electronic delivery, they most often cite convenience and environmental reasons.²⁵ Some consumers also lack the means to receive and pay bills electronically, while others may distrust the technologies involved with electronic bill delivery and payment. Ultimately, when Utility East's customers chose a payment approach, the vast majority of them opted for electronic payment.

Executives from the companies we interviewed noted a similar gap between the percentages of people who chose to receive bills electronically and those who chose to pay bills electronically. A 2014 Fiserv report also recognized this difference, dubbing it the "eGap."²⁶

Conclusions

The Postal Service continues to play an important role in Utility East's billing and payment workflow, with most customers continuing to receive their bills by mail. The data did not indicate a dramatic shift in electronic delivery adoption at the hands of new customers. The Postal Service's role in delivering inbound payments to Utility East is less significant. Most customers chose to pay their bills via alternative means, possibly because of an economic incentive for Utility East customers to pay bills electronically, by saving money on the cost of the stamp. In the case of bill delivery, there is less incentive for Utility East customers to receive their bills electronically, since they are not paying to receive the bill by physical mail. Of course, the incentive is much greater for Utility East, since the cost of bill production and delivery falls on the company. While the access to Utility East's data was invaluable to this project, the data must be treated as a single reference point and readers must understand that there are many billing and payment workflows across the United States that could show variable results. That said, many of the findings in this case study were corroborated by interviews with executives who managed billing and payment channels for other companies.

²⁵ Annual State of the Customer Communications Market Survey, InfoTrends, 2014.

²⁶ Eric Leiserson, *State of E-Bill Adoption*, Fiserv, p. 2, 2014.

Further research could reveal the true costs of sending bills and processing payments.

Further research on this topic—whether with another utility company or in a separate industry—would be highly valuable to understanding the overall billing and payment workflow costs to a company. A study that incorporates additional data could reveal the true costs to a company of sending bills and processing payments either through the mail or electronically. Additional data could include the amount of time it takes customers to pay, the cost to a company when a customer defaults on a payment, and the relative costs of how companies handle customers that default on payments. Some companies handle defaults by sending additional mailings, while others use automated phone messaging, and some have call center personnel reach out to the customer for payment.

Ultimately, the Postal Service should not expect consumer preferences to remain static. As mobile broadband becomes increasingly available across the United States, more people will likely become comfortable with a digital lifestyle, including electronic billing. The Postal Service must plan for the future by examining and being prepared to serve the digital bill delivery and payment needs of the American public.



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