

...applying automation to flats processing

Flats have a poor reputation with mail consolidators so a relatively low volume of flats are presorted. To be sure, flats aren't letters and differ from them in a number of critical ways. Several perceived issues exist with flats that have depressed the enthusiasm for sorting them:

- *Flats are bulkier and heavier than letter mail so they require more space for staging and are more difficult to handle in the shop*
- *There aren't that many flats and there is still plenty of letter mail, so locating flats and creating working arrangements with customers isn't justified*
- *There isn't a reliable method available that allows flats to be automated, especially Standard flats, so profitability is difficult to achieve*
- *The amount of the automated presort discount simply doesn't justify the additional time and effort, especially for Standard flats*

The bottom line is that most pre-sort mailers simply aren't interested in processing flats. But are these really impediments or just challenges that must be overcome before converting flats processing into a

highly profitable business? Obviously we believe that all of these issues can be overcome and that flats can be sorted profitably. The following analysis of each issue helps explain how it can be done.

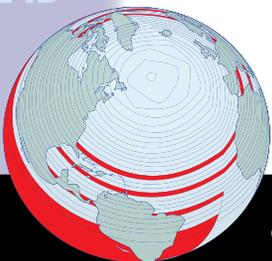
Flats are heavier and larger than letters and require more space for staging

Flats are larger and most times heavier than letters, that much is certain. As for the additional space requirement, this is a common situation that most presorters are already faced with multiple times per year, such as at the end of a quarter or end of a year. To create additional space for the increased volume, storage can be consolidated into a smaller area and enhanced housekeeping can create additional space as well. Therefore, the solution for flats is to make these space saving changes permanent so the space to store



and stage the flats becomes permanent.

A slightly more involved issue is the extra effort needed to process flats. In reality, any additional presorted mail volume requires additional time and effort, including letters. So the real question is not the extra effort required, but the amount of revenue that can be generated for the time and energy expended. While it is widely accepted that for each hour of sorting time spent, more revenue can be generated by sorting letters than flats, there are at least three flaws to that logic. First, that logic is true only if the operation can be 100% utilized in sorting letters. If it can't, then flats offer a reasonable alternative for earning incremental revenue. Second, if your customers' flats can be converted from First to Standard Class, the potential exists for much larger per piece revenues than can ever be generated by letters. More



on the conversion of First to Standard a little later. The third issue is the recent improvement in worksharing discounts that were instituted with the most recent rate case. These larger discounts have greatly improved the per piece revenue that can be generated for First Class flats.

There aren't that many flats and there is still plenty of letter mail

While abundant letter mail (First and Standard Class) does exist in some instances, in most locations letter mail volumes have been declining for several years. The automation of flats is a viable alternative to replace at least some of that lost revenue. In addition, substantial flat mail volumes can usually be generated from within an existing base of letter mail customers. Once you decide to automate flats, you of course must deal with the rules for sorting them, such as package or tray-based rules in First Class. And if you automate Standard Class flats, you can only sort using packages. Whether using packages for First or Standard, you must adhere to the "10-10-10" rule (10 piece packages to the 5-digit, 10 pieces to the 3-digit and 10 pieces to the ADC) and then use two rubber bands on each package. Of course, First Class can also be sorted using tray-based rules.

But in those unusual cases where flat volumes simply don't justify automated presorting, services can still be created to meet your customers' needs. A couple of simple examples of flat services that can be used in such circumstances include:

Per piece fee: For a per piece fee, pick up the flats with the letter mail and apply the required postage. This saves

the customer a trip to the Post Office and more importantly saves them the labor expense of applying the postage to each piece.

No fee: If competition is particularly fierce, pick up the flats for select customers and apply the postage at no additional charge, again relieving the customer of that labor expense. Will you enhance revenues doing this? No, but you will be offering a service to customers that perhaps your competitors hadn't considered, which helps you keep customer satisfaction high.

There isn't a reliable method available that allows flats to be automated

While this used to be the case, it is no longer true. With advancements in weighing technology and software, it is now possible to place un-metered flats on an MLOCR sorter, and receive a sorted, permit imprinted flat and a mailing manifest as outputs. When you incorporate manifesting into your operation, neither you nor your customer needs to apply postage. Manifesting allows each mailpiece to bear a permit imprint and the postage is paid via a central account. It also allows Standard Class flats to be submitted via an MLOCR, something not normally allowed by the USPS. The manifesting process works much like this:

- **Unmetered First or Standard Class flats are placed on the automated sorter where the on-board MLOCR reads and codes the appropriate information**
- **The flat passes across an in-line, weigh-in-motion scale that captures and reports the mailpiece weight to the sorter's command/control system**
- **The flat then passes in front of a printer where the appropriate**

coding information, permit indicia and manifest tracking number are applied

- **The tracking number is reported to the sorter's command/control system where it is incorporated into a mailing manifest along with the mailpiece weight and the required postage for the mailing**
- **The USPS acceptance clerk checks the mailing by pulling several flats, weighs them individually on a scale and verifies their weights against the mailing manifest**

Officially called Itemized Manifesting under Postal Publication 401, this method of manifesting accounts for each mail piece by weight and by destination Zip code. A few of the Publication 401 requirements include:

- **Manifested mailings require the prior approval of the USPS**
- **Any mailer considering the use of manifested mailings must first have an approved quality program in place**
- **All mail types except Express Mail and Periodicals qualify for manifested mailings under Pub 401; therefore Standard Class flats can be submitted as a mailing produced by an MLOCR**

Standard Class flats of different weights have not been allowed as part of a MLOCR mailing in the past because their individual weights and postage could not be verified. The lack of verifiable postage is exacerbated by the large differences in weight that can occur from item to item. But because manifesting provides both the weight and the total postage due, the USPS does accept Standard Class flats from an MLOCR when manifesting is used. Manifesting also eliminates the need to apply postage to mixed-weight First

Class items and allows a much quicker, simplified acceptance procedure.

The amount of the presort discount simply doesn't justify the additional time and effort required to sort flats

If the presort discount or a per piece fee were the only means of creating revenue, this statement would be correct. But automation discounts and per piece fees are just the tip of the iceberg. There are millions of flats mailed every day as First Class that could be mailed as Standard Class, but aren't in order to avoid the Standard flat sorting rules. In just one city (with a population of less than 200,000) there is a verifiable volume of at least 2.5 million such First Class flats mailed every year. Imagine how many such flats there are in cities such as New York, Los Angeles and Chicago!

But the question is how to extract revenue from this mailing issue. We start with the following table:

Weight	First class postage*	Standard class*	Difference
4 oz.	\$1.077	\$.460	\$.617
7 oz.	\$1.587	\$.598	\$.989
10 oz.	\$2.097	\$.737	\$1.36
15 oz.	\$4.60 (Priority)	\$.968	\$3.63
* ADC Automation Rate			

Note the difference between the First and Standard Class postage for a flat of a given weight, say 4 ounces. With such a spread there is a considerable amount of savings that can be generated by mailing items as a Standard Class flat that would otherwise be sent as First Class. This savings is then shared between the bureau processing the flats and the customer supply-

ing them. The pricing of the product should be on a cost plus basis and incremental depending on the weight of the flat. If such a service is embraced, the revenue generated from it can dwarf those normally created by normal automation discounts and per piece fees. Using this model, several companies now consolidate standard class flats and gross over \$400,000 per year with 10,000 or more pieces per day. The cost of processing is the sum of the per piece costs for hardware and software, labor, in-bound transportation, postage, and out-bound transportation, including any expedited delivery fees.

To illustrate the revenues and costs, we offer the following example:

- 10,000 Standard Class flats presorted per day
- Automated sorting equipment with 40 bins, a weigh-in-motion scale and manifesting software amortized over a five year period yields a \$0.021 per piece cost on the stated daily volume
- Required labor is 3 FTEs at \$25,000 per year (all overhead included) for a single full shift, resulting in a cost of \$.03 per piece
- Transportation of the mail to the bureau should be less than \$100 per day, resulting in a per piece cost of \$.01 per piece
- Using 4 oz. pieces the postage cost is \$0.460, for a savings of Standard vs First of \$0.617 (see above table)
- Using Priority Mail sacks delivered to a BMC with 100 flats (25 lbs.) within each and sent to a Zone 5 delivery (for example, New York to Chicago), the sack would cost \$26.25 (\$0.2625 per piece) in postage
- Summing the above costs yields a total of \$0.7835 per piece

- With a chargeback of \$0.95 per piece to the customer to cover postage and other operating expenses, the net revenue per piece is \$0.1665 or \$416,250 per year
- Across the presorter's total clientele, savings would be \$317,500 per year or \$0.127 per piece

Keep in mind that in the above example the number of flats, weight of the flats, a change in out-bound shipping or a larger fee, could all affect the presorter's revenue. Some of these items, such as larger and heavier flats, will enhance the customer's savings as well.

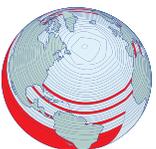
The desirable client for this service would be someone mailing fairly heavy First Class flats because they don't want to bother with standard class regulations, or someone who has no interest in the faster delivery times for First Class. For customers who are somewhat concerned about delivery times but still want to take advantage of the savings, the service can be offered to customers who are mailing to locations close to the point of entry into the USPS system, which will help ensure quicker delivery. Examples of mail that can be converted to Standard include corporate annual reports, advertising booklets, insurance coverage booklets, mutual fund quarterly reports and distributor sales kits, just to name a few.

While there are considerable differences between letters and flats, the acceptance of flats into your business can add significant value for you and your customers. When considered on the whole, automating flats offers a way of both differentiating yourself from competitors as well as offering the potential for dramatically increas-

ing your revenues. So regardless of how they are perceived, when sufficient volumes are available, flats do offer a reasonable alternative for your presorting business.

about ID Mail

ID Mail provides a range of hardware and software for complete mail processing solutions including accountable mail tracking and semi-automated parcel handling systems.



for more information contact us at

1-888-IDMAIL9 • e-mail: sales@idmailsystems.com • web: www.idmailsystems.com
180 Johnson St, 2nd Floor, Middletown, CT 06457