Introduction
Chief financial officers concerned about liquidity and working capital use a number of strategies to control both. But one thing is out of their control; and that’s the United States Postal Service. As part of its ongoing Network Optimization, the Postal Service is closing about 60 percent of its processing facilities across the country. Mail from city to city will be substantially impacted.

These closures already are impacting companies accustomed to payments being in the mail for an average of three days. Now they are seeing them in transit for five days. If those checks coming in two days later represent a high-enough dollar value, then companies either have to borrow to cover this new shortfall in their liquidity or working capital, or cut back on spending, or change the model for how they manage their businesses.

One change that’s easier to make than many people think: outsourcing payments operations – both paper and electronic. Companies that specialize in optimizing payment strategies can do it better, faster, and cheaper. That means improved liquidity with lower costs and fewer headaches.

What’s Your DSO?
Days Sales Outstanding is the familiar metric that expresses how much companies expect credit customers to pay them within a certain window of time. The higher that metric, the more inefficient they are in getting payments from customers. That’s why companies always want their DSO to be low, though the numbers vary widely by industry. In the world of trucking, the typical DSO is 17 or 18 days, while in the legal profession, the DSO is closer to 290 days. Some industries have very low historical DSOs and some have very high historic DSOs. Most everybody falls between 18 days and 290 days.
By knowing its DSO, and benchmarking it against its peers, a business can figure out the value of getting its cash faster, and how critical it is to close any time gap. You have to look at the cost of capital. Let’s say, for sake of argument, that the cost of capital is 6 percent. For every $1 million a business can get one day faster, it can save $60,000 a year in interest expense.

If it can get $5 million in the door faster, that’s $300,000 less that it has to pay back to a creditor or lender. Projects that accelerate the DSO almost always have an immediate or a very fast payback.

All companies must have a balanced payment strategy. But whether finance professionals like it or not, that strategy still needs to include paper payments as well as electronics. Paper payments still account for almost 50% of B2B payments, and 45% of C2B payments.

How Mail Delivery Affects Payments Flow
Sixty years ago, the only way to make a payment electronically would be to go to your bank, fill out a form, and have the bank wire money from your account. In fact, the “wire” system as we know it used to be the old telegraph, just like in the Old West. And then there was a teletype. That’s how the Federal Reserve ran same-day settlement of large dollars “electronically.”

After World War II, more folks started using the mail to make payments they used to make in person, like water and utility bills. Then the personal-credit explosion happened, creating a sharp rise in paper payments. The Postal Service was really the main routing source to collect paper payments. Now, it’s generally about a 40/60 split: About 40 percent of all payments are by paper, and 60 percent are electronic. The Postal Service still has a responsibility for roughly 40 to 50 percent of payments being made locally or nationally, city to city. So, it has a very important task. That’s why the agency’s problems are so relevant to those of us in the world of payments.

The USPS and Where It’s At Now
The U.S. Postal Service right now is losing about $1.2 billion a quarter—almost $5 billion a year—because of inefficient operations and the way it handles transportation. USPS has to do a better job of operating and getting mail out the door.

Standard mail, better known as junk mail, actually makes the Postal Service money. It’s not much, but it pays the bills and keeps a lot of the lights on in USPS facilities. Selling stamps and philatelic services—for stamp collectors, commemorative items, and such—has a very high mark-up of almost 45 percent.

First-class mail, the familiar 46-cent stamp, is the problem. Getting that out the door with the great service the Postal Service used to provide costs a lot of money. USPS believes that if it shuts down about 60 percent of its plants and abandons the standards of next-day, two-day, and three-day first-class mail, it can make first class a profitable product.

Furthermore, Congress requires the Postal Service to make real-dollar contributions to its workers’ pension fund. USPS cannot amortize or actualize the contributions; and the Postal Service simply doesn’t have the revenue to make those pension payments.

Some Solutions Bring More Problems
The Postal Service reasoned that Saturday mail represented one-sixth of its home-delivery costs, so it tried to abolish it, until Congress stepped in.

The Postal Service knew the American public was going to start to grouse about the lengthy delays in receiving mail. USPS was smart enough to realize that it had to manage a perception of service even though it had closed almost 17,000 more rural post offices, so it extended Saturday hours in some locations.

In years past, large cities had several sectional center facilities (SCFs) that had the same capabilities as the region’s central processing hub. In the Dallas-Fort Worth area, for example, USPS closed those outlying SCFs and sent all of that work through Dallas Central, where the machinery and people are working 18 and 19 hours a day.

So, you have folks trying to struggle with new work patterns, new ways of handling volume, and mail becoming ready for processors later and later in the day or even being deferred into the next day and so on. Those are just some of the problems we’re seeing in the Postal Service right now.
Why Sectional Center Facilities Matter
Remember the old “I Love Lucy” show? There was that classic scene in which Lucy and Ethel are working in a chocolate factory. They had to wrap little chocolates and put them in boxes. Well, they were doing a pretty good job until somebody sped up the conveyor belt and all hell broke loose.

That’s exactly what the Postal Service has done by closing all of these plants so rapidly and forcing all of this mail volume into more central processing. It has essentially sped up the conveyor belt. As a result, people have to adjust. Machinery has to adjust. Some of this machinery is overworked and is breaking down more often. Closing down a lot of these centers and centralizing their processing was a great idea, but even the USPS would admit to problems in how it implemented these cuts over the last couple of years. Maybe it should have been a five-year plan rather than a three-year plan.

Monitoring Impacts at Your Business
There’s nothing like the three M’s: measuring, modeling, and monitoring. Every business should be looking at the postmarks on the envelopes they receive and the day they opened those envelopes so they can process the checks inside.

There are study tools to look at the data and discover patterns that show businesses the best sites in the U.S. for lockboxes to receive their mail. Companies need to understand the length of the mail float: the time between when customers are sending payments and the time we, or somebody working for us, can get that check cashed.

It’s important to make sure payment strategies are optimized. For example, in the past a lot of companies had lockboxes in Chicago. That used to be a good choice. Now, it’s not a good choice at all. If most of a company’s clients are in the Midwest and in the Southeast, it could very well be that Atlanta or Columbus, Ga., is the best place to receive mail.

Thinking Outside the Lockbox
If a business collecting $1 million a day in paper checks all of a sudden sees a two-day delay, that adds up to $120,000 a year needed to cover that shortfall. It would cost substantially less than that to have a second or third lockbox around the United States to go recapture those lost days.

That’s the point that many folks are missing: Our drive for efficiency has to be counterbalanced now with the Postal Service’s inefficiency. We have to have the right number of lockboxes in the right places. The point is not to get to as few lockboxes as possible; it’s to get the right number.

It’s the same thing with organizations who handle payments. We’ve been all crazed about electronic payments and all of these entrants into the marketplace who want to help us with electronic payments. But in the end, the right processors are processors who know paper payments as well as electronic payments.

Considering Options: Start with a Strategy
Attractive as it may be, we can’t wave a magic wand and make everybody pay us electronically. Payments move through media—cash, checks, wires, ACH, cards—and over pathways: mobile, web, paper, and electronic.

Multiplying five media by six pathways by three preferences: That’s 90 payment possibilities. That’s way too fragmented. An organization has to have a payment strategy, and it has to fit into its working-capital strategy.

Once you have a strategy, you have to ask yourself, how do you optimize it? And then when you see gaps in your optimization, what actions do you take?

A company receiving $20 million to $30 million or more every month in a lockbox probably needs two or three lockboxes, not just one. And it probably would be better served outsourcing that work. Companies that specialize in optimizing payment strategies can do it better, faster, and cheaper than you can.

The Case for Outsourcing
A good processor is going to deliver your mail fast, optimize your costs, and optimize your processes. If you could get those three things equal to or cheaper than what you’re currently doing in-house or with somebody else, wouldn’t you make that move?

Any company can perform the main functions of getting the mail, opening the mail, and extracting the mail, preparing the mail, capturing the data, and depositing the check. At its most basic, outsourcing does a “lift-and-shift.” It takes these operations out of your business and shifts them to processors or banks that do the same service.
A lockbox operation is more than just lift and shift outsourcing. It's really knowledge process outsourcing. Can your processor help you with an accounts receivable strategy? Can your processor handle deduction management for you?

Outsourcers can help a company become much more efficient and even drive down further the costs of handling their accounts receivables, in addition to solving mail flow issues.

**Outsourcing Pitfalls and How to Avoid Them**

Let’s be frank: There are two big problems in optimizing any process. The first one is the project cost for whoever wants to optimize. You need one or more staff devoting a huge chunk of their day to this through the lifespan of the project.

The other one is change management. Over the last six years, we’ve seen dramatic layoffs and job cuts. We’re asking folks to be involved with more technology. We’re stressing to people the need to produce better, faster, leaner, cheaper, quicker.

When employees see a change in how a process would be performed or that a third party would now be performing a process, a lot of times they just put up a wall because they are concerned about their jobs.

There are a lot of issues surrounding change management that have to be managed.

**What to Look for in Your Outsourcing Provider**

The very first thing that companies should look for in a business process outsourcing provider is experience. You want somebody who has the experience and who has made a commitment to the business.

Be careful. A lot of companies in the BPO space have a philosophy of “sell the work and then we’ll figure out how to do it.”

On the other end of the spectrum are companies like BancTec, which has been doing this work for more than 40 years, has its own intellectual property, its own physical hardware, and a huge book of dominant designs and best practices.

Costs savings are going to be important. Every business process outsourcing provider knows that they have to achieve 20 percent or more in savings or they shouldn’t even be in the business.

BancTec has a record of getting that level of return for its clients and more – sometimes much more.

So when choosing a BPO provider, focus on experience and the ability to make sure that costs can be cut and processes can be optimized.

**What is Intelligent BPO?**

BancTec got its start helping banks and other businesses process the explosion of paper payments. Forty years later, BancTec is focused on Intelligent BPO, or iBPO.

- **Envision**
  Intelligent BPO starts with envisioning what a better process looks like. That really gets you involved with benchmarking and using folks who have done this before to create great outcomes for other companies.

- **Design**
  Next you design what that process looks like for a specific company. That’s where you want to make those decisions based on best practices.

- **Transition**
  Then you have to transition, planning common-sense workflow to move the process from one party to the other.

- **Optimize**
  Even after the process is transitioned, work continues to find ways to further optimize it.

This four-step process has been used many, many times to help companies in a range of industries. Whether it’s in telecommunications, utilities, healthcare, oil and gas, manufacturing, service industries, iBPO really works.
How to Learn More
The Postal Service’s website has additional information on its Network Optimization. There are plenty of articles in industry publications that discuss business optimization and business process outsourcing. There are literally millions of reports that take a look at what comprises good BPO practices. But none of that becomes alive or takes shape without some sort of relationship.

Reach out to us here at BancTec. As a relationship forms and grows, we’re going to make sure we do what’s needed to help improve your liquidity in the face of the sweeping changes taking place at the United States Postal Service.
**BancTec** helps clients around the world simplify the process of managing their information. Founded in 1972, the company provides financial transaction automation and document management services for organizations seeking to drive efficiency in their financial and back-office processes. Operating 21 BPO centers in the United States and worldwide, BancTec utilizes a common technology platform to deliver reliability, security and consistently high levels of performance.

For further details, visit [www.banctec.com](http://www.banctec.com).