

Statement Outsourcing Considerations

By Tommy Dean

In today's challenging economic and regulatory environment, companies are looking to reduce costs wherever they can. Is your company looking at its statement operations? Determining whether to outsource your statement operations can sometimes be confusing, but asking the right questions of your partners can help fill gaps in your program or provide for an effective, end-to-end service.

Capital and Resource Investments

Many companies have statements produced by legacy software and systems that are deeply interfaced with their processing or core systems. These legacy systems are sometimes called the "backbone" of their financial structure, as they take transactional data and summarize it for use on customer statements.

Companies outsource generally because they are faced with a buy versus build dilemma concerning outlays of capital expense. Such concerns are predicated on the difficulties of legacy systems and their resistance to evolving technologies and processes. Costs can mount quickly when the entire landscape is surveyed to include expenses such as major printer and inserter upgrades, software purchases and investments in human capital to meet the increasingly demanding skill sets.

The Need to Improve Statement Design and Content

Companies are looking to differentiate themselves to their customers and can do so by changing logos, marketing slogans and color schemes to highlight new products. Dynamic statements are very important in connecting with your customers, as ample research has shown that of all the mail pieces received, statements are most likely to be opened and given the recipient's time and attention. These valuable seconds of one-on-one connections are powerful avenues of communication with customers, especially considering the fact that the statement may be your one and only touch point with the customer that month. One-to-one marketing and transpromo (the incorporation of timely, targeted and relevant promotional content within transactional documents) are two concepts that can be brought to reality through a properly executed statement design.

Postal and Regulatory Requirements

Continuous investments are needed to meet the requirements of the United States Postal Service (USPS) to qualify for discounted postage rates. In the last three years alone, new endeavors associated with Coding Accuracy Support Systems, National Change of Address Link and Intelligent Mail Barcode projects have caused companies to incur dramatic expense increases in capital spend, development and support. This trend is expected to persist

in the near future, as the USPS presses mailers to meet new levels of sophistication to achieve the same workshare discounts.

In the financial services industry, the current regulatory environment has led federal agencies to adopt changes to Unfair and Deceptive Acts or Practices (UDAP) and Regulation Z that significantly impact statements. Several of the new developments involve changes to statement design and execution, which can be a further impetus to a new approach.

In both such cases, outsourcing can shift many of the costs of compliance with guidelines and regulations to a trusted partner. A good outsourcing company can absorb these expenses more readily by distributing them among a larger client base, resulting in economies of scale.

So how does a company proceed with changing its statement strategy, and what type of options are available?

Options Available

One option when determining a new strategy is to assess the strengths and weaknesses of the existing system for statement production. Are there updated versions of the system available that may give more flexibility to the appearance of the statement? If so, consider taking a close look at the new offerings to ensure it includes all the features needed to compete in today's market. Particular attention should be paid to the version's messaging, graphics capability, image placement and selective logic to include or exclude pre-defined content. All good messaging should apply targeted text within a statement so customers become more likely to read the statement thoroughly and respond to the call to action. As with any marketing document, image placement — including charts, diagrams and pictures — is important for the overall look, visual balance and flow of the statement. Selective logic can drive the statement content in regards to messaging, graphics and image placement.

Another option is to change the existing processing system. Extreme as it may appear, core systems do age toward obsolescence and in some cases statement needs can be the catalyst to justify overhauling the core system in its entirety. The vendor of the core legacy system may be able to customize enhancements or patches to their software to add features for

the statements. Many times, these services are expensive, risky and may only satisfy the requirements specified without future flexibility. As an example, some processing systems purchased from outside vendors have pre-assembled statements. To change a processing system shared by other vendors' customers often involves extensive and costly programming to meet an individual company's needs. Future enhancements would also need to be created and tested on an ad-hoc basis, an inherently risky strategy that has not been proven in the market.

In light of such risks, another choice is to modify existing output through tools implemented and managed outside the legacy system. This approach enables you to incrementally add layers of complexity to the process with software and services that bridge gaps.

The choice to outsource statements and documents is one alternative many companies are using to solve these aforementioned issues. Instead of replacing or modifying legacy systems, they have partnered with vendors that specialize in taking information and producing a completely new look for the statement. This option is especially attractive for companies that wish to avoid undertaking enhancements or major changes to their legacy systems. Shifting responsibilities from the processing system to a vendor allows for independent statement content, flexibility and logic.

However, there are caveats to this approach as well. Potential downsides to outsourcing include losing some aspects of control of the technical aspects involved in the statement system. Outsourcing sometimes presents hard costs without accounting for soft costs that may be present but not readily identified in your current operation as they are embedded in multiple areas across your company. Comparing a full cost of ownership model rather than a simplified materials cost per statement will give greater insight into true expenses and facilitate a proper study of return on investment.

Outsourcing Strategies

Outsourcing can be a source of long-term cost savings for companies looking to trim expenses. Often times, printing and mailing is done in-house to monitor control of quality while avoiding minimum volume requirements of outsourcing vendors. As the business grows, bigger and better printers are needed, and insertion machines replace manual processes. In addition, mailing regulations and postal discounts start to raise the complexity level. At this point, it may be time to consider if money can be saved by outsourcing print and mail operations while allowing a company to focus on its core business rather than statement support functions.

The advantages of long-term outsourcing are that, with multi-year contracts, vendors can more readily afford to offer lower rates and other incentives to new customers. Similarly, costs can be guaranteed over the duration of the contract, removing the

OUTSOURCING DISADVANTAGES

- Loss of control of internal manual processes relating to statements
- Production schedules in a shared environment with lack of total dedication to your business
- Risk if provider is not financially stable and may go out of business
- Provider's quality standards may not match those of your company
- Provider may not have secure facilities
- Provider may outsource certain processes related to printing and mailing (e.g. sorting the mail)
- Solutions may be more expensive than those established in house
- Possible additional hidden costs from provider

OUTSOURCING ADVANTAGES

- Ability to save money and utilize modern technologies
- Opportunity to redesign the statement look and utilize color
- Ability to combine multiple legacy systems into one statement process
- Capability to use external files from marketing and collections
- Greater statement readability and included transpromo information
- Generic materials available from provider to save you money
- Mail address services to cleanse and update address information
- Management of content and statement weight by provider
- Commingling of mail to obtain postal discounts with other provider clients
- No updates needed to legacy system or print and mail equipment
- All new USPS rules are managed by provider
- Allows your company to focus on core business

burden of capacity planning for enhancements to the production environment. And, as mentioned earlier, a company can better concentrate on its core competencies.

Disadvantages to long-term outsourcing include a loss of process control. Some companies build manual processes and quality controls within their systems to compensate for a lack of quality in processing systems. Clearly, selecting a vendor whose priorities and goals are not tightly aligned with those of the outsourcing company can make for a less-than-ideal scenario.

Some companies have valid reasons to outsource that may be temporary in nature. Suppose a company is looking to update its current system to handle a new statement format. Perhaps, for example, a company lacks the technical resources to make changes to the statement. A short-term outsourced solution may aid a smooth transition to an anticipated future state of the in-house environment.

Advantages to temporary outsourcing include the ability to incorporate industry best practices learned from the vendor into a new in-house system, making present and future production work more efficient. Further, companies can postpone incurring larger expenses until more favorable economic times.

Disadvantages stem from shorter contractual terms, which often lead to higher outsourcing costs. There is also a risk that the temporary nature of the outsourcing relationship becomes more permanent and a proper holistic solution is never reached, all while absorbing higher renewal and/or operating costs.

A great way of reducing outsourcing or bringing work back in-house involves the use of remote printing. Remote printing is a solution by which the vendor undertakes the composition of the statement and the actual printing is done by the company. This joint approach allows for advanced composition functionality while maintaining a production presence within the company. Remote printing is not offered by all outsourcing vendors, but is an option for companies who have existing in-house capabilities or plan to have them in the future.

Advantages to remote printing include the reduced risk and added flexibility to current systems while maintaining production capabilities. A company can also select the type of production it does most effectively and offload the more difficult or complex work to a vendor. This strategy also allows for a company to run parallel testing for new in-house processing.

Finding the Right Outsourcing Partner

When looking for temporary outsourcing and creative approaches like remote printing, realize that some firms are more flexible than others and can engage more as a partner than a vendor. Some vendors may try to entice companies with low initial pricing but use clauses that make it difficult for the company to leave. Other vendors may charge substantial fees to send high volumes of archived statements to their clients. As such, companies should be aware of these potential pitfalls and fully understand their rights to information from the vendor.

Cost comparisons can be done to assess the advantages of outsourcing work, but determining internal costs can sometimes be a challenge. Many times, the person charged with determining the costs may not be fully aware of all activities across the organization and thus unable to pinpoint the true, full costs. The following are some common cost categories that a company will want to make sure it captures when comparing outsource to in-house expenses:

- Compliance with new governmental regulations, e.g., Reg Z and UDAP
- Setup for daily production (pre-production)
- Labor costs for producing work, including benefits
- Hardware/equipment costs, including maintenance
- Energy Costs
- Environmental issues
- Purchased software
- Software maintenance
- Supply expense (paper, envelopes, toner, MICR, shipping/storage of supplies)
- Building expenses (for production & utilities)

- HR expenses & payroll processing
- Disaster recovery or contingency plans cost
- Postage savings & USPS rate increase projections
- Cost of compliance with new USPS requirements
- Transportation (to Post Office, supplies)
- Training for Employee Turnover
- Material Waste (production / material versions)

As discussed, placing your work with an outsourcing vendor is not entirely without risk. One way to minimize risks is to implement the outsourcing with a project plan that has stages. By creating manageable pieces of work, running parallel processing and comparing the results, companies can gauge the level of comfort with an outsourced provider. One suggestion is to identify the most challenging or difficult work and implement it first. This allows the company to test the outsourced provider's true ability with the knowledge that the other components will most likely make for an easier transition.

For example, printing checks is considered one of the most precise types of printing. With short production windows, expensive pre-printed check stocks and printer jams, check printing can create headaches for companies. Companies that produce large volumes of checks as part of their services are even more challenged, and check printing may be a good place to start with an outsourced provider to ensure it is secure enough to complete this type of work.

Once the agreement is reached with an outsource provider, the next steps involve planning the transition of work from the company to the outsourcer. A good provider should offer project management resources to help facilitate a smooth transition. In addition to the project manager most companies typically appoint, a counterpart on the vendor's side can help quickly address project obstacles.

The opportunity to outsource opens up a variety of output options that benefit a company. While print and mail may be the most common outputs, electronic documents are becoming more important in today's e-capable environment. If your outsource provider is composing your document, you will want to have electronic versions of the document for archiving purposes, Web presentation and internal reference. Make sure you can specify that the provider's format is able to match that of your internal system.

The Federal Reserve Board has adopted changes to format, timing, and content requirements for the five main types of disclosures subject to Regulation Z, to include credit and charge card application and solicitation disclosures, account-opening disclosures, periodic statement disclosures, subsequent disclosures including change in terms notices, and advertising. The related federal agencies have adopted changes to UDAP to address the following five provisions: reasonable time to make payments, payment allocation, rate increases, double-cycle billing, and financing fees/deposits for issuance of credit.

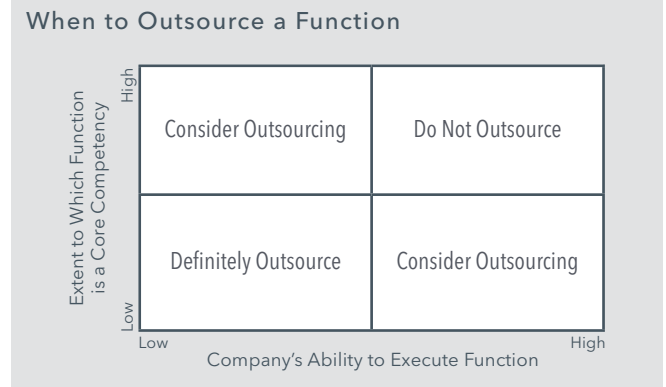
A longer lead time between platform readiness and the regulatory effective date means you'll have more time to address downstream needs, execute testing strategies and revise your collateral. In addition, your partner should watch closely the other consumer protection legislation being considered in Congress. While you should avoid overreacting to every legislative bill that is introduced, as many are never enacted, it is important to stay abreast of hot points and involved with partners positioned to provide guidance. A strong partner should support your compliance needs in a predictive, rather than reactive nature so you are ready with time to spare.

Security is of extreme importance to all card and statement production printers, as data compromises can be devastating to a company. When outsourcing, you will want to ask and check on the physical and logical security placed around your work.

Accuracy is a reasonable expectation, but just how accurate is your outsource provider? Make sure to look into how they measure their accuracy and what their track record is for precision.

Most companies would like their work to go out as soon as possible, but be sure to research the time necessary to get your printed materials into the USPS mail system. Companies tend to think same-day processing and mailing is a necessity, but in many cases a day or two delay may be possible without affecting customer service levels. Those extra days translate to big savings in output services bills.

Further, some outsource providers offer mail services that improve delivery time. Special techniques can be used in processing mail before releasing it to the USPS so efficiently is boosted and your pieces reach the recipient sooner.



There are several compelling reasons to consider outsourcing. If outsourcing is the right decision for your business based on both the relative essence and operational performance to core business processes, it should benefit you in several important ways. When properly executed, outsourcing can help companies avoid capital investment, improve communications with customers and more readily adhere to government regulations, all with a seamless impact to quality. A compelling return on investment premised on the function's full cost of ownership should be integral to the process. Choosing an outsourcing partner is equally important as the choice to outsource in the first place. A good partner is more than a vendor; a good partner possesses the vision and resources to stay abreast of what's coming and is fully engaged to provide the solution that best fits your ongoing needs.

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