

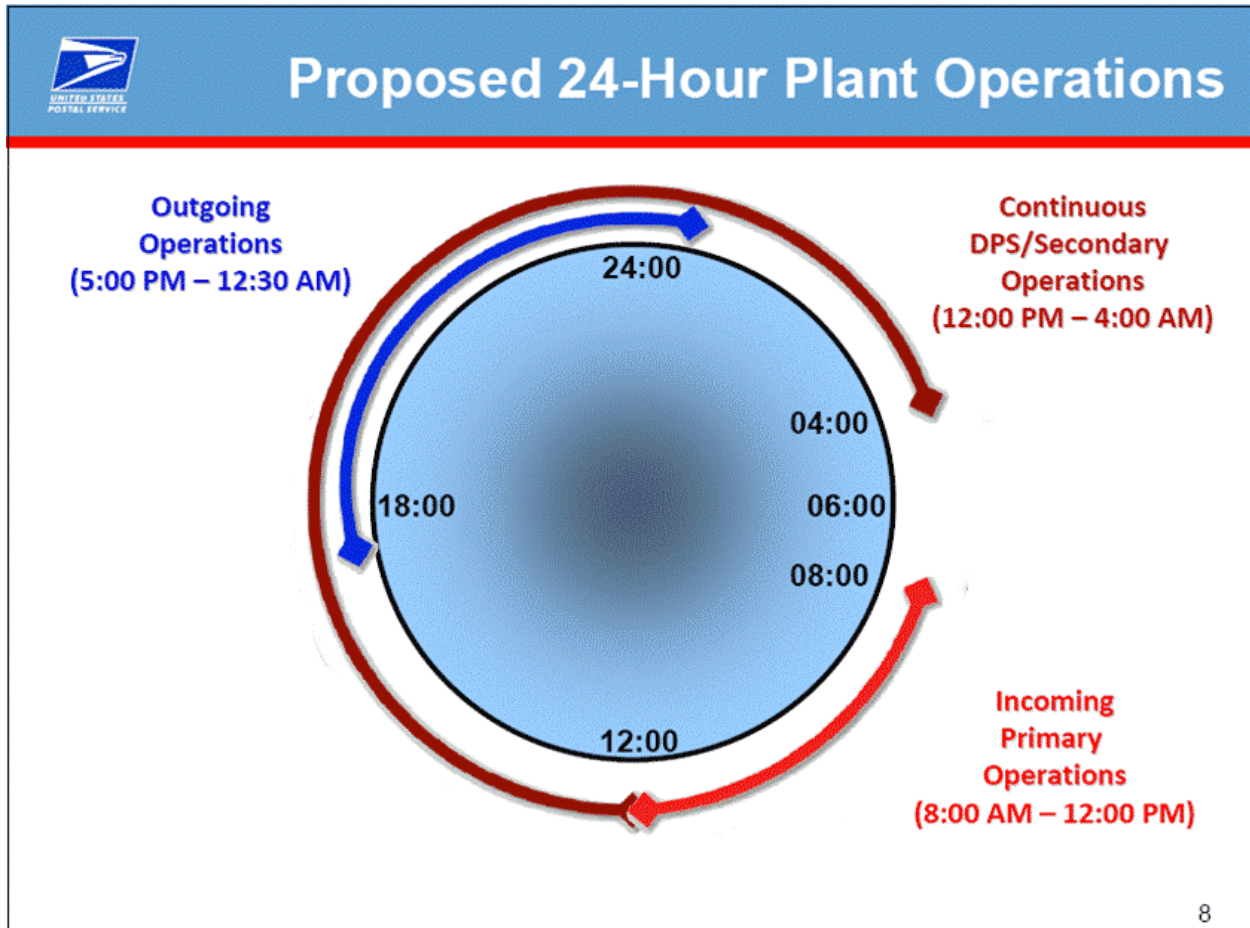


## **USPS Plant Consolidation Plans Have Remittance Mail in Mind**

In response to deepening declines in mail volume and revenue, the USPS has an aggressive plan to reduce its processing footprint and shed perhaps 35,000 employees currently involved in mail sortation. The Service identified 223 current processing facilities which will undergo processing consolidation into a different facility by 2013. The delivery of overnight First Class mail creates huge time constraints that cause inefficient utilization of sortation equipment and even network transportation. So USPS is adopting new First Class Service Standards that eliminate the overnight delivery category and reduce the extent of 2-day delivery. Without the constraint of overnight standards, the USPS can switch to a daily operating schedule in which delivery (destination) processing has a longer operational window and can serve a greater geographic area.

All of these changes of course have implications for remittance mail and sound very damaging to the time sensitive mail stream. Fortunately, the USPS has been attentive to remittance needs in the design of the consolidated network. Plants that survive consolidation and have significant remittance volume will have sortation equipment dedicated to run remittance mail throughout the day. In the sections that follow, Phoenix-Hecht will discuss the key aspects of consolidation and how lockbox mail will benefit versus regular First Class Mail.

**Change of Plant Processing Schedule:** Collection (outbound) mail will continue to be processed from roughly 5p.m. – midnight each evening. Transit mail that needs to move to a different processing facility for eventual delivery will still be released to the transportation network shortly after midnight. What will change is the deadline (the critical entry time) at the destination plants to have mail delivered next day. Currently that deadline is in the late afternoon, perhaps as late as 6p. The new deadline will shift back to 8 a.m. to allow up to twenty hours (until the next morning at 4 a.m.) for completing all delivery sortation including delivery point sequencing which saves manual carrier sorting. This results in more efficient equipment utilization and permits a destination plant to serve greater volume and cover a larger area than today. Ironically, the advantage that lockbox mail has over regular First Class Mail actually increases with this new schedule.



**Preservation of Overnight Remittance Delivery:** Remittance mail sortation will run twenty hours a day (stopping only from 4 a.m. – 8 a.m.). Because the outbound mail processing window is not changing (blue arc in the figure above), lockboxes will continue to receive origination mail processed by their receiving plant either late evening the same day it was mailed or early the following morning. This is a huge advantage for lockbox mail over regular First Class mail, which will not be delivered until two days after mailing.

**Earlier delivery of both 2-day and 3-day mail:** Again, because lockbox sort plans run throughout the plant processing day, lockbox mail is delivered to processor’s couriers well ahead of its delivery to a regular PO Box or carrier-delivered business address. Further, remittance mail is often labeled as such within the USPS transportation network. Thus, when it arrives at the destination plant, it either does not have to wait for the “incoming primary” sort which the above diagram depicts running from 8 a.m. until noon each day, or the incoming primary sort can be run after noon on equipment dedicated for remittance. For 2-day mail, this can result in delivery perhaps even early day 1 for rather local points, more likely by mid-day and early afternoon day 1 instead of the morning of day 2. For 3-day mail the difference can be even more dramatic, with delivery possible as early as late day-1 or early day-2 for flown mail,

but more probably by mid-day or early afternoon on day 2 as opposed to the morning of day 3. *The USPS is not planning to increase existing 3-day delivery standards to 4- or higher.* This actually has some positive impact for remittance mail. Air delivery must remain a significant component of 3-day service delivery. Lockboxes, with privileged addresses, will continue to benefit from air versus ground delivery.

**Deposit availability advantages:** The early exit of remittance mail from the destination plant to a processor's courier results in more advantageous assignment of deposit availability float at the bank. The more frequent mail pickups that lockboxes utilize create a more robust deposit timing pattern which can better utilize advantageous availability deadlines. Lockbox-collected items win in two ways over non-lockbox – some items actually get deposited on an earlier business day, and some items get deposited for a more advantageous availability deadline. Moreover, some items even receive both advantages!

There are of course potentially negative aspects for remittance mail in the new plan.

**Reduction of 2-day Delivery Reach:** Because of the earlier 8 a.m. critical entry deadline at each destination facility, there is actually less time to transport 2-day mail. The maximum delivery time would be about four hours, perhaps as much as six hours, as opposed to twelve hours today. Thus, the USPS will implement a reduced delivery area for regular First Class 2-day mail. Since remittance mail is not rigorously subjected to the ironclad 8 a. m. to noon incoming primary sort process, remittance mail will have this two-day delivery area reduction mitigated.



This chart shows the current USPS 2-day delivery standards into Atlanta. The white area is the current 1-day delivery which is being eliminated except to lockbox. The lighter green area is the current 2-day delivery area. The red circle (with several radii) indicates an approximation of the new 2-day delivery standards based upon reduced transportation time available. This loss will occur for non-remittance First Class mail but be mitigated for remittance mail. Nonetheless, we suspect the changes will likely incent corporations to consider adding an additional

lockbox location.

**Reduction of Processing Facilities:** Several facilities with significant remittance mail processing are being consolidated:

Buffalo, NY to Rochester, NY	Industry, CA dest. letters to Santa Ana, flats to Anaheim
Chicago, IL outbound only to Carol Stream and South Suburban	New Orleans, LA to Baton Rouge
Dallas, TX dest. letters to Ft. Worth	Pasadena, CA to Los Angeles Tulsa, OK to OK City

The process for closing facilities considers multiple factors including current capacity, projected volume, potential cost savings, and customer input. When all processing is removed from a facility, caller services may or may not still be offered. While this is an issue more for processors currently in these locations, corporate customers impacted will definitely need to understand how their processor is going to react.

**Shift in Receipt Time for Lockbox Items:** This also is a processor issue primarily, but corporate customers will want to understand what impacts it may have. The new 8 a.m. critical entry deadline and start of the day's incoming mail primary pass sort seems likely to produce increased remittance delivery volume later morning and early afternoon. At this point there is insufficient information about proposed standards changes and transportation timing to even speculatively forecast this shift, but conceptually it seems likely. We suspect that corporations do not have much flexibility to change cutoff timing, but it is possible that shifts in the arrival of items at the lockbox will have availability implications that should be understood. Keep in mind that lockbox retains significant advantages in this new delivery timing.

**The Value Proposition of Lockbox:** The differential between receipt of normal First Class mail and lockbox mail with unique zip, prioritized USPS sortation, and round-the-clock caller service will increase. Lockboxes will continue to enjoy the delivery of "overnight" mail which will become 2-day delivery to non-privileged recipients. With the new processing schedule at each plant, lockboxes will receive tomorrow's mail relatively even earlier in all likelihood. Thus, it would be counterproductive for a corporation to stop utilizing lockbox, receive payments at a regular PO Box, and rely exclusively upon the remote deposit bank product.

This is our best understanding of the Postal Service's evolving proposal at this time. USPS implementations will begin no earlier than May 15 and include a pause from September through January 2013 for election mail and the holiday season. While we believe that consolidation is inevitable and will lead to longer aggregate mail time, we are encouraged that the Postal Service has considered remittance mail needs in its design. All of us at Phoenix-Hecht look forward to assisting the industry adapt through this period of significant change.