



PHOENIX-HECHT®

Measuring, Modeling and Monitoring Your Lockbox

A Practical Guide

2009

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INTRODUCTION

It is a good practice for corporations to review their collection systems on a regular basis. Many times a collection system review includes a lockbox analysis. A lockbox analysis identifies the optimum number of lockbox sites, the best locations for these sites and the most efficient assignment of customers to the selected sites. A common type of analysis evaluates the current performance of an existing lockbox system and fine tunes the system by reassigning customers among existing lockbox sites.

The material contained in this booklet provides an in-depth discussion of how to recognize the need for a lockbox analysis, how to approach doing a lockbox analysis and how to monitor your lockbox's performance.

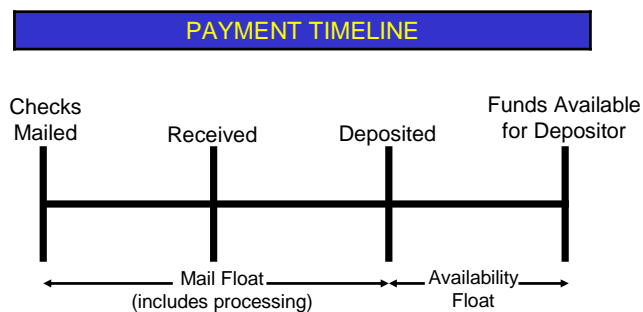
Phoenix-Hecht is responsible for measuring the mail and availability data used in almost all lockbox analyses. It is estimated that over 99% of the lockbox studies performed use Phoenix-Hecht supplied data. The data and expertise to conduct a lockbox analysis is available directly from major lockbox providers as well as a few select independent consultants. A current listing of consultants is available at www.phoenixhecht.com.

This booklet is the eighth revision of What Every Company Needs to Know to Insure a Quality Lockbox Analysis, originally published in 1985 by Phoenix-Hecht in conjunction with its user group of banks. This latest version was updated and revised by Phoenix-Hecht, which is solely responsible for its content.

MEASURING COLLECTION FLOAT

The payment time line or the "check is in the mail" (Figure 1) is a familiar concept to most cash managers. Outside of a lockbox environment a cash manager could measure all of the float components from the mail date (postmark), receipt time (date/time stamp or mail log), deposit date (deposit ticket or bank statement), and funds availability date (balance report). In a lockbox environment, only the processor knows the time mail was received, therefore this same time line appears to a lockbox customer as only two segments: mail float and availability float.

Figure 1



In a collection analysis, mail float is measured from the calendar day of mailing to the banking day of deposit. Availability float is measured from the banking day of deposit until the banking day when collected funds are made available to the depositor. Both segments of this float (delay) are calculated in calendar days.

Calendar days, business days and banking days do not always coincide. A banking day may end as early as 1 p.m. Deposits made earlier than that time are credited on that calendar day while deposits made after that time will bear a ledger credit date of the following business day. A "deposit" made on Saturday or Sunday would appear as a Monday deposit on a banking statement.

Phoenix-Hecht reports mail times to mirror what a corporation would actually see if it were to measure mail time using its own remittances. Specifically, if a corporation were to measure its own times, it would use the ledger credit date per the bank statement to determine the date of arrival. Mail time, as the corporation sees it, is the number of elapsed days from the postmark date to the deposit date.

At the center of every lockbox analysis is a comparison of the current system to alternative solutions. Comparisons are made using data from Phoenix-Hecht that is weighted by the corporation's own customer payment pattern.

THE PHOENIX-HECHT POSTAL SURVEY™

The Phoenix-Hecht Postal Survey is a scientifically designed database of mail and availability times. This data is used to quantify the time required for corporate payments to flow through the postal system, be processed by various lockbox service providers and be converted to available funds in the receiving company's account. This information can be used to estimate and compare different wholesale lockbox locations. The Postal Survey reports total float (mail plus availability) by measuring mail float and integrating that data with availability schedules supplied by banks. The mail times are updated twice a year by sending test envelopes from 170 "population weighted sending zip codes" to the major lockbox processors across the country.

Phoenix-Hecht mails about 500,000 survey test envelopes each year. Each test envelope is individually coded and tracked as it enters and exits the mail stream. The Phoenix-Hecht Postal Survey integrates the measure of mail times with bank availability to calculate total float.

**TOTAL FLOAT IS THE ONLY VALID FLOAT FIGURE TO USE
WHEN COMPARING TWO OR MORE LOCKBOX PROVIDERS.**

A corporation can obtain a lockbox provider's Phoenix-Hecht Postal Survey results directly from the service provider or through the fulfillment service available on PhoenixHecht.com. The printed Postal Survey report requires a number of assumptions to determine the availability component of total float. The most accurate representation of the total float your corporation is likely to experience involves conducting a lockbox analysis.

MODELING

THE LOCKBOX ANALYSIS

A lockbox analysis is well-suited to a stand alone project, since lockbox sites can be added, deleted or changed without affecting the basic structure of a cash management system. Corporations sometimes integrate a lockbox as part of a larger project, frequently called a treasury review, covering many components of a company's treasury and related procedures. This section provides a structure that will help insure the quality and usefulness of a lockbox analysis.

One or more of the following situations is often cited as the reason for conducting a lockbox analysis:

- The company's remittance pattern has changed since the last lockbox analysis. Changes can occur due to sales growth (or contraction), changing customer base, acquisition or divestiture of subsidiaries, divisions or product lines, and changes at the lockbox bank, in the postal system or in the check collection process. (See the section on Monitoring Your Lockbox.)
- The company wishes, for administrative and control reasons, to reduce the size of its banking network.
- A lockbox network offered by a single bank provider is being evaluated as a substitute for an existing multi-bank lockbox network.
- Three years have elapsed since the company's last lockbox.
- The company is not using lockboxes and receives large dollar checks (averaging \$1,500 or more) mailed from its customers.
- The company's credit facilities are with a bank or banks that require that their cash management services be utilized as part of the extension of credit.

HOW TO CONDUCT THE STUDY

Defining the Scope and Objectives

The first question that should be addressed defines the scope of the analysis. *“Is the study going to evaluate the performance of the current lockbox banks and simply fine tune the system or have the payments to the company changed sufficiently that a complete reevaluation of lockbox sites is warranted?”*

An evaluation of the current system is usually considered part of a lockbox analysis in that it serves as the benchmark for comparing any alternatives. Evaluating the current system can also be part of an ongoing monitoring program discussed further in the section on Monitoring Your Lockbox.

Fine tuning the system does not change the existing lockbox sites but, rather, changes the customers assigned to mail to each existing lockbox. The result of this type of study is usually modest volume shifts among the existing lockboxes.

A lockbox optimization considers a complete realignment of the lockbox system.

WHAT DATA SHOULD BE GATHERED

The Remittance Sample

The lockbox model contains the mail time and availability schedule databases, but needs one more set of data in order to provide estimates of the total float for various alternative lockbox locations. The remittance sample is the data that allows the calculation of custom float estimates for each company.

The remittance sample, often referred to as the check sample, is one of the most important aspects of a lockbox analysis. Striking an appropriate balance between accuracy and a cost effective data collection effort is the key to a successful study.

There are many different ways to gather a remittance sample; some are complicated and costly while others are easy and inexpensive. Basically, the sample should represent a reasonable estimate of how many dollars are expected to be mailed from the company’s customers in the future and from where will these payments be mailed?

A simple (and in many cases acceptable) remittance sample is “sales by state” information from a recent month or quarter.

A somewhat more precise remittance sample is “dollars by mailing zip code.” It should be noted that the model is “dollar driven” since a large dollar payment will generate more float than a small dollar payment. Often a “dollars by zip code” sample is simply taken from a customer sales report that has been put into an Excel spreadsheet. Not all customers need to be included in this type of sample as long as about 80% or more of the total dollar volume is represented.

There are many possible sources of data for the remittance sample, all of which share the basic elements of indicating how many dollars are coming from which locations.

An analysis may not warrant an extensive data collection effort. A simple benchmark of the current system can be calculated with aggregate remittance data from the accounts receivable system. A realignment of customers within existing lockbox sites can be accomplished with a modeled or assumed remittance pattern. Depending on the type of analysis being considered, trade-offs in data collection can be considered to substantially lower the data collection costs.

Given these observations, here are some important points to consider in selecting or creating a sample:

- The sample should be an accurate, dollar-weighted, geographic distribution of the companies’ annual remittances. The geographic distribution of the sample is a significant factor in determining the accuracy of the calculations in a lockbox analysis. If the sample does not accurately represent the major dollar locations from which customers are mailing their remittances, it will invalidate the analysis.
- All large dollar remittances (customers) should be accurately accounted for in the sample. Two possible errors can occur here. First, some large customers may have been left out because none of their remittances happened to be received in the sampling period. If this occurs, additional items from another time period should be selected and added to the sample. Second, some customers may be over-represented, in that their

items were unusually large or received with greater than normal frequency during the sample period. This source of bias can be adjusted by deleting or adjusting the size of the items.

- Given the cost of creating a check sample, it is not necessary to include every item in the study. A stratified sample will provide an unbiased study while controlling costs. In a stratified sample the largest dollar items are segregated. If the larger items represent a significant majority of the dollars (80% or more), then the remainder of the items may be safely discarded. If the smaller items represent, in the aggregate, a significant number of dollars, the items should be sampled and the sample included in the study. The use of this stratified approach in creating the remittance data is a statistically appropriate methodology.
- The number of items included in the sample should reflect the size of the company. That is, the larger the total dollar value of the remittances being analyzed, the greater the number of items that should be included in the sample. The reason for this is that as a company grows, the lockbox system grows larger and marginal decisions will be made on smaller differences in float. Remittance sample error is one of the principal causes of error in a study, increasing the percentage of dollars included in the sample by increasing the sample size provides more accurate float measurement.

Related to the issue of sample selection is determining what data should be collected for the sample. All studies that use the Collection Model™ should have a sample containing at a minimum:

- Dollar amount of the remittance
- Mailing location of the remittance (zip code or state)

Using these two pieces of data aggregated and combined with assumptions on the payment behavior of the customer base can produce an accurate study for benchmarking or monitoring the current system and realigning the assignment of customers within the current system.

The degree of accuracy in the study can be enhanced by adding:

- Routing Transit Number (RTN) of individual checks
- Customer name

There are good reasons to encode the Routing Transit Number of the check and customer name.

- Individual customer payment practices (i.e., the mailing zip code may not reflect the location of the drawee bank) can be examined.
- A test can be conducted.
- To test the sensitivity of the lockbox system to a particular customer; i.e., what happens to the lockbox system if customer XYZ pays electronically next year.

The following items are optional, but may be collected if possible:

- Postmark date
- Date deposited
- Division or an accounting entity designation

The postmark date and date deposited are usually captured when the study is used to measure actual mail times in a remittance sample. This measurement will not have any impact on the lockboxes selected as part of an optimization or on the assignment of customers to lockbox sites. The principal use of current system data is to provide a comparison between measured Phoenix-Hecht mail times and the mail times actually experienced for the purpose of evaluating the processing of the current provider. A division code is needed if the company wishes to analyze or assign lockbox sites by division or some other accounting entity.

After the remittance sample has been collected, the data should be reviewed to determine that the dollar weighted geographic distribution of remittances matches the distribution observed by the accounts receivable or sales department and all large customers have been accurately represented.

Individual items in the sample that represent 1% or more of the total dollars should be questioned. Any large non-recurring or intra-company remittances should be eliminated from the sample. Other large items that are received less often than the sample would indicate may need to be adjusted or eliminated. In some cases a lockbox can be justified for just a few large remittances. Remember that in the lockbox model float is a dollar weighted calculation. Any anomaly can cause an incorrect assignment of remittances.

THE COLLECTION MODEL™

A lockbox analysis is based on sophisticated technology which has evolved since the first models were introduced in the early 1970's. The databases used by these models began with the first mail time study done by Phoenix-Hecht in 1968.

The Collection Model™ licensed by lockbox providers and consultants can be used to perform any type of remittance analysis for companies of all sizes. The data structures permit the model user to analyze wholesale or retail remittances by tailoring assumptions and including processing costs.

UNDERSTANDING MAIL TIMES AND EXPECTED AVAILABILITY

The heart of all lockbox studies is the determination of relative total float times for current and proposed lockbox site configurations. In order to accurately estimate total float, lockbox studies depend on surveys of mail times performed by Phoenix-Hecht, bank availability schedules and deposit cutoff times.

The mail times used by the computer model come from the data collected and processed by Phoenix-Hecht in its Postal Survey™. The availability is from a database of corporate availability schedules provided by each surveyed bank, which represents each bank's best commercial availability schedule. Deposit times are also provided by each bank to calculate availability in calendar days.

WHAT TO LOOK FOR IN THE ANALYSIS

The actual model runs will usually proceed in a step-wise fashion. Each step narrows the focus of potential considerations. The stages an analyst/ consultant will follow during the process are:

- Determine the number and selection of cities that would be appropriate for lockbox sites using city-average mail and availability data. Lockbox networks can be considered as opposed to individual cities if desired. However, networks should be compared only to the best system that can be obtained using a traditional lockbox system approach.
- Model individual processors within each selected city to determine float differences and to make adjustments for differences in deposit timing at each lockbox provider.
- Assign individual customers or customer groups to the final configuration of lockbox locations.

HOW ACCURATE IS THE ANALYSIS?

A lockbox analysis represents a combination of several assumptions and measurements, each of which contributes to the reliability of the final float estimates. The quality and accuracy of the remittance sample is the most important. The second most important source arises from differences between actual bank operating procedures and the way such procedures are modeled within the databases. For instance, if a company is receiving only one processing deposit per day and this was not taken into account, the float estimate may be off by 0.4 days or more.

A small amount of error can come from statistical variations relating to the mail time and availability databases. As a general rule, typical studies have a "model accuracy level" of approximately 0.1 days. This implies that if one were to find two solutions whose total float times differ by less than 0.1 days, the float could be considered equal and the selection should be based on criteria other than the float difference. This rule is only a general guideline. Differences of less than 0.1 day can be meaningful for lockbox systems involving multiple sites.

ATTAINABLE SAVINGS

The savings seen in the study can typically be divided into two parts. First, is the savings obtained from simply reassigning customers to existing lockbox sites. The second component of savings comes from adding or deleting lockbox sites. The cost of implementing changes to customer assignments is usually much lower than the cost of adding or deleting lockbox sites. Accordingly, each savings component should be viewed separately. If this rule were observed, many more studies would result in a customer reassignment only and not in lockbox site changes.

If the postmark and received date were captured in the remittance data, the analyst may document observed mail times. There can be significant differences between mail times as measured by Phoenix-Hecht and the times measured using deposit and postmark dates. For study purposes, the appropriate comparison is between different configurations using Phoenix-Hecht survey times. The relative value of float between solutions is the best indicator of total float benefit.

MONITORING LOCKBOX PERFORMANCE

TRACKING PERFORMANCE

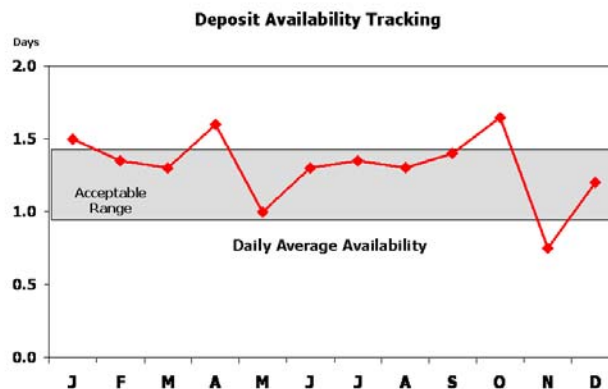
Once a set of lockbox sites has been selected and the company's customers notified of the new remittance address, a company will want to have some measures with which to monitor the collection performance of the lockboxes. It may also want to set up a monitoring system for measuring the quality of service.

Many companies set up "report cards" summarizing such factors as processing errors, encoding errors, reporting errors, timeliness of reporting, quality of remittance detail and images, etc. Each month they track these items, perhaps assign weights to each, and then rank the banks relative to each other or to some established standard. In combination with quality assessments of other bank services, this can be an effective basis upon which to conduct an annual review of bank operating services with each bank.

Since minimizing delays is such an important factor in lockbox service, companies usually employ measures to monitor collection float and other quantitative factors.

Some companies go to the expense of having the bank capture the postmark date and deposit date of each remittance envelope in order to track mail times. While this can be a useful, though expensive, measure over time, it is likely that the mail times will not correlate precisely to the mail times in the model. Phoenix-Hecht does not rely on postmarks to determine mailing day because postmarks and (backdated) meter marks can be in error. Phoenix-Hecht's test mailings are conducted during periods without holidays or seasonal effects. Tracking postmark to receipt date (or deposit date) over time can help detect changes caused by customer changes in mailing practices, post office changes, or bank processing changes.

Companies monitor total deposits by day of week. If mail or processing slows, it could show up as more dollars being deposited later in the week. For example, a large total deposit on a Tuesday is likely an indication of a problem processing mail over the weekend.



The combination of account study and bank statement can produce a measure of "average days to collect" by dividing total float for the month by total check deposits for the month (or average daily float by average daily deposits).

An endpoint study can also be used to calculate average days to collect. Most endpoint analyses will have a summary of dollars by days of float, similar to that shown below. By obtaining total float from this report and total check deposits for the same time period from the bank statement, one can calculate average days to collect.

AVERAGE DAYS TO COLLECT				
Deposits		Days	=	Float (\$-days) ¹
\$ 185,607	X	0 Days	=	\$ 0
\$1,968,556	X	1 Day	=	\$1,968,556
\$ 413,930	X	2 Days	=	\$ 827,860
\$ 31,712	X	3 Days	=	\$ 95,136
\$2,599,805			Total Float	\$2,891,552
Total Float		\$2,891,552	(\$-days) =	1.11 business days X 1.4 =
Total Deposits²		\$2,599,805		1.56 calendar days

¹ From Endpoint Analysis
² From Bank Statement

All of these calculations and observed figures can be used to track a lockbox providers check clearing performance over a period of time. However, the difference in ledger credit cutoff times prevents these measures from being valid for bank-to-bank comparisons. The Phoenix-Hecht Postal Survey™ (and Collection Model™ database) integrates observed mail times with the banks' availability schedule, taking into account ledger credit. The net result produces comparable relative float numbers between lockbox providers which is the best comparison.

CONCLUSION

The establishment and maintenance of an efficient collection system involves many elements. While price, service quality, information needs and other product features are important, the primary consideration in almost every lockbox decision remains: converting receivables to investable funds. Data and computer models have been developed over the years by Phoenix-Hecht to help cash managers identify the most favorable number and location of lockbox sites. However, there is no single best way for corporations to pursue a lockbox analysis. Each analysis must be carefully designed and executed to meet the individual circumstances of each company. Special care must be taken to choose the appropriate sample period, sample size, modeling assumptions, and the correct interpretation of results.

Cash managers should thoroughly understand the lockbox processing environment of current and prospective service providers, ways in which it is consistent or inconsistent with assumptions made in the study, and what impact these inconsistencies will have. The questions in Appendix A and responses to the standardized lockbox questionnaire are a good place to start.

Once a system is in place, it should be monitored for float performance as well as for the timeliness and accuracy of processing. The account analysis, bank statement and daily balance reports can be used to track some fairly simple indicators of float trends within a bank. Your lockbox provider can supply you with its Phoenix-Hecht Postal Survey™ data to help track their performance over time or to compare banks.

Phoenix-Hecht provides lockbox processors an array of tools to assist them in advising their customers. *For further information about lockbox studies and monitoring performance contact your bank. If you still need additional information, call Phoenix-Hecht.*

APPENDIX A

FREQUENTLY ASKED QUESTIONS ABOUT A LOCKBOX ANALYSIS

Can mail times alone be used to select lockbox banks?

Many corporations are shown mail times from the Phoenix-Hecht surveys as a means of comparing banks. In general, these mail times alone are not sufficient to select one provider over another.

- The mail times shown on Phoenix-Hecht's reports are in elapsed days. As described in this booklet, these times are measured with respect to a bank's specific ledger credit cutoff and schedule of deposits. These mail times are usually not comparable from one bank to another. In general, the bank with the earlier ledger credit cutoff will show longer mail times, but will show correspondingly shorter availability times.
- A reasonable comparison between two banks can be made by consulting the published total float figures (combined mail and availability) for each bank. This will provide a benchmark measure for comparing two banks. Keep in mind, however, that the published mail and availability times are based on availabilities that assume that all checks are drawn on banks local to the city from which the remittances were mailed. The only way to get a truly accurate comparison is to take a sample of a company's remittances, analyze it using the Collection Model™ and then evaluate the non-model factors discussed in this booklet.

A bank claims that it has many more immediate availability endpoints on its availability schedule than its competition. Is this not a better lockbox bank?

Unfortunately, availability schedules can be "artificially" enhanced. One simple way to do this is to move the ledger credit cutoff up by several hours. The earlier the ledger credit cutoff, the more immediate endpoints will be shown on the availability schedule. Another way to artificially enhance an availability schedule is to show many immediate endpoints of no significance.

- If a cash manager wants to compare banks on the basis of their availability schedules, the correct starting point is to have an endpoint analysis done. That is, the company should first find out the dollar total for each routing transit number being received at the company's current lockbox banks. Many banks can also do an endpoint analysis for lockboxes they process. From this list, the cash manager can compare the availability shown on different schedules for the endpoints that really matter. Even this comparison, however, will be valid only if items are processed and deposited in the same fashion as assumed by the model. This comparison is also subject to ledger credit differences as discussed earlier.

Why do the availabilities predicted by the model differ from those found on account analysis statements?

In theory they should be the same. In practice they usually are not. The following are the most important reasons why they differ:

- The availability schedule used by the model is different from the one used to assign availabilities to the company. Keep in mind that Phoenix-Hecht gets the best availability schedule offered by the bank. It is important to check that this is the same availability schedule given to the company.
- The schedule of processing deposits used by the model does not match those offered to the company. This can occur especially when lockbox volume is small. In addition, some banks process items early, but not for the customer's benefit. This helps the bank, but not the lockbox customer.
- The model run was based on city average data and not on data for the specific bank being used. As mentioned previously, different ledger credit cutoffs used by banks in the same city can make substantial differences in the computation of availability. (Note: changing ledger credit times does not alter total float. It simply shifts float between mail and availability.)
- Processing of items before critical deposit deadlines took more than the 4 hours assumed by Phoenix-Hecht. This can occur when a bank experiences heavy mail receipts close to the deadline cutoff and is not

properly staffed to handle the volume. The problem is most acute during night and weekend processing cycles when the bank may have limited staff to handle the volume.

- The bank statement contains other deposit items not included in the study such as wires, ACH payments, even over-the-counter items or items deposited via remote deposit capture.
- The study period did not exactly match the statement analysis period. Many analysis statements split float between statement periods when they end on Friday or a weekend.

The cash manager must be very careful when comparing model predicted versus actual availability. Even if a company's actual availability is better than predicted, it may be that the company is actually losing float. For instance, a bank can substantially improve reported availability by depositing all lockbox checks just after the start of a new ledger day. In this situation the deposit will make all the cutoffs shown on the availability schedule. Of course, items are then held for up to 24 hours before deposit.

Why do Phoenix-Hecht Postal Survey™ times differ from mail times as measured by postmark and deposit stamp information?

There are several reasons why Postal Survey and lockbox analysis measured mail times differ, the most important of which are:

- Many times when a bank encodes the mail date, it encounters an illegible or missing postmark. It must then use the date found on the check as the mail date. Checks are dated before they are mailed. Thus, the use of the check date makes the observed mail times somewhat longer. Phoenix-Hecht has found in its Postal Survey that 12% of the cancellation marks are either illegible or missing.
- Postmarks do not always reflect the actual date of mailing. Due to late mailing, error or delay, the postmark and actual date of mailing could be different. Phoenix-Hecht does not rely on the postmark to determine either the date or location of mailing.
- The sample may have a significant number of "remails." Remails are remittances sent to the wrong address, usually the company's office address, instead of the lockbox. They are then remailed to the lockbox. A large number of remails usually indicates a problem with the company's invoicing procedures. Remails can cause measured mail times to appear unusually long.
- A sample gathered from a company's remittances will likely be too small (2,000-5,000 items) to evaluate postal performances. Phoenix-Hecht mails over 500,000 envelopes per year. In addition, Phoenix-Hecht mail times contain no three-day weekends or other holidays that distort mail patterns.
- Phoenix-Hecht items that are time stamped up to four hours before the last daily deposit are considered to be "deposited" that same day. The actual performance of a lockbox department for a particular customer may have a portion of the received items "deposited" the next business day. This difference results from the timing of deposits and/or an early cutoff of mail processing to comply with a company's information reporting requirements.
- If the lockbox analysis mail times are for a non-lockbox location, such as a company office, processing and handling procedures will create considerable variation. Lockbox banks typically receive their mail sooner, owing to such advantages as unique zip codes, caller box service, and frequent mail pickup.

Are lockbox tours worthwhile?

Every cash manager should tour his or her most important lockbox banks. Lockbox tours are important because they provide details on bank procedures and can give insight into the quality of service a company is likely to experience. The following questions should be asked of the lockbox supervisor about your account:

■ ***How frequently and when are processing deposits made?***

This question should be asked with respect to the corporation's account, and not what occurs for a typical account. Processing deposit times made for the benefit of the company's account should be compared with the bank's availability schedule. The key point is that the company should be receiving processing deposits corresponding to the bank's major availability cutoffs.

■ ***Does the bank have adequate staff available during critical processing periods?***

For most banks, a great majority of items arrive for processing during the second and third shifts on weekdays and on the weekend. Moreover, most banks also have some critical availability cutoffs in the early morning hours. Unfortunately, these shifts are also the hardest ones for many banks to staff. Thus, it is important to determine whether your company's work will be processed and deposited during these critical periods. Ideally, the cash manager should schedule the lockbox tour during the bank's peak processing time.

If the company requires some non-standard processing as part of its lockbox processing, talk to the shift supervisor to determine how the bank will accommodate that request and whether it will result in lost availability.

Sometimes non-standard operations can significantly slow lockbox processing. For example, there may be only one clerk who can work on the company's items because of that request or the work may be held until all mail is received for that shift.

If the company's lockbox typically receives only a few items each day, especially if they are of very large size, ask that the lockbox be processed at least once a day.

Ask the supervisor if the bank does "cherry picking" prior to major availability cutoffs. Cherry picking is a process by which the lockbox bank will sweep through unprocessed items to remove the large dollar ones as a critical deadline approaches. This can prove very useful since it can significantly improve availability. A bank that cherry picks may be able to get an item processed even if it arrives only 30 minutes before a critical availability cutoff.

Ask further if cherry picking will apply to your account and at what dollar level.

APPENDIX B

KEY QUESTIONS A TREASURY MANAGER SHOULD ASK WHEN COMMISSIONING A LOCKBOX ANALYSIS

Define the Scope of the Analysis

Are there any specific cities or banks I want to either include or exclude from my lockbox system?

Do I want to examine potential new lockbox sites (banks and/or networks) or only fine tune my existing system?

Do I have some very large customers who should be analyzed individually?

Should the analysis be done for each of my divisions (receivable processing centers) or should only a company-wide analysis be performed?

At what level should the study be performed? (City average, bank specific without considering individual operating characteristics, or bank specific with individual operating characteristics considered.)

Selecting and Encoding the Remittance Sample

Am I satisfied that the remittance sample accurately represents the geographic distribution of my customers and my annual check receipts?

Are all of my large customers represented accurately in the remittance sample?

Analysis Results

What is the estimated marginal value of adding or deleting sites?

What cost of capital should be used to value float savings? Since the float savings derived through a change in lockbox sites is a permanent change to a company's cash flow, it is appropriate that the cost of capital be used to value float savings (not the overnight investment rate). The cost of capital most closely approximates the interest rate used in lease vs. buy decisions.

APPENDIX C

THE PHOENIX-HECHT POSTAL SURVEY™

Phoenix-Hecht conducts a survey of lockbox mail twice a year. The Postal Survey™, conducted since 1968, is recognized as the industry standard for lockbox float measurement. The method used in the Phoenix-Hecht Postal Survey™ for measuring collection time for wholesale lockbox remittances is compatible with what a cash manager would observe from the documents provided by a lockbox provider. (A special version of the Postal Survey™, the Phoenix-Hecht Retail Mail Analysis™, can be used to analyze collection float in a retail lockbox environment.) The Postal Survey™ reports total float (mail plus availability) by measuring mail float and integrating that with bank supplied availability schedules.

The mail time portion of the Postal Survey™ is designed to measure remittances mailed to wholesale lockbox processors. Almost every provider that has a lockbox operation of any size participates in the survey. During the survey, envelopes prepared by Phoenix-Hecht are mailed for ten consecutive business days from 170 separate locations throughout the continental United States to participating lockbox sites. In total, Phoenix-Hecht mails about 500,000 envelopes per year as part of its surveys.

The survey is conducted under a very controlled methodology. Each envelope is individually coded and tracked as it enters and exits the mail stream.

Each receiving institution is instructed to stamp the time and date of receipt on the Phoenix-Hecht envelopes immediately after the fine sort of items to the Phoenix-Hecht lockbox number. Using this time stamp, Phoenix-Hecht can accurately measure the elapsed time an envelope spent in the postal system. Individual sites are routinely monitored by the use of a time clock, set and sealed by Phoenix-Hecht, to date and time stamp the envelopes. Data integrity is also assured through numerous comparisons of mail times with prior times for receiving locations, current and prior times for neighboring and similar cities, and with data from the U.S. Postal Service itself.

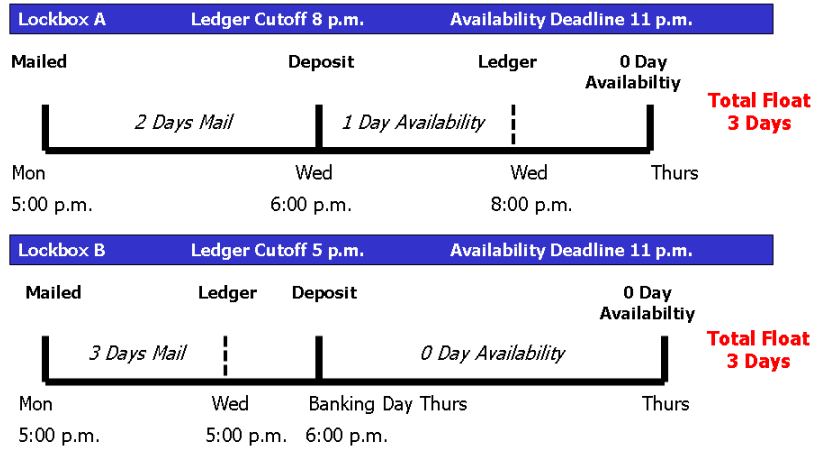
The mail observations are integrated with processing times and availability schedules to determine an expected total float. The integration is critical because mail is measured in hours and availability is granted in days.

Phoenix-Hecht reports mail time to mirror what a corporation would actually see if it were to measure mail time using its own remittances. Specifically, if a corporation were to measure its own times, it would use the deposit stamp placed on the check when it is received by the bank to determine the date of arrival. Mail time, as the corporation sees it, is the number of elapsed days from the postmark date to the deposit date stamp.

Phoenix-Hecht replicates this process by examining the time and date stamp and comparing it to the ledger credit cutoff used by the bank to determine the banking day of deposit. Since lockbox providers may have differing ledger credit cutoff times, the elapsed days of mail time can be different even though the elapsed hour measurement may be identical.

The example below illustrates a situation in which mail experiencing identical “elapsed hours” has different “elapsed days.” In the example both envelopes are mailed on Monday at 5 p.m. and arrive at Lockbox A and B at 6 p.m. on calendar day Wednesday. Both pieces of mail have experienced 49 elapsed hours of mail time.

Mail and Availability Float



At Lockbox “A,” with a ledger credit cutoff of 8 p.m., it is still the Wednesday banking day. Assuming the lockbox is processing mail at this hour, the check will be deposited on the Wednesday banking day. From postmark date and deposit stamp (or bank statement), the cash manager will observe two elapsed days of mail time: mailed on Monday, deposited on Wednesday.

At Lockbox “B,” with ledger credit cutoff of 5 p.m., it is already the Thursday banking day and the check will be stamped (and deposited) with Thursday's date. The cash manager will observe three elapsed days of mail time: mailed on Monday, deposited on Thursday.

If both lockboxes have the same deadline for collecting the check on Thursday and the same availability schedule, Lockbox A will show the check having one day availability: deposited Wednesday, available Thursday. Lockbox B will show the check having zero day availability: deposited Thursday, available Thursday.

In both cases there are three days of total float but the difference in the ledger credit cutoff splits the three days differently for the two lockbox providers.

TOTAL FLOAT IS THE ONLY VALID FLOAT FIGURE TO USE WHEN COMPARING TWO OR MORE LOCKBOX PROVIDERS.

The Phoenix-Hecht Postal Survey™ integrates the measure of mail times with availability to calculate total float. Each lockbox provider that participates in the Postal Survey™ provides a copy of its corporate availability schedule to Phoenix-Hecht. Usually, this is the best schedule the bank offers. Some lockbox providers may offer more than one availability schedule and, therefore, corporations may not receive the availability schedule submitted to Phoenix-Hecht. Phoenix-Hecht verifies the authenticity of the schedule submitted, however, an availability schedule should be considered as part of the pricing for lockbox. A corporation should never assume that it will automatically receive the availability schedule from which Postal Survey™ times are calculated, but should specifically request that schedule during price negotiations.

A corporation can obtain a lockbox provider’s Phoenix-Hecht Postal Survey™ results directly from the service provider or through the fulfillment service available on PhoenixHecht.com.



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