

# The Outsourcing Balancing Act

More organizations review whether outsourcing payments processing and data capture makes sense for them

By Lesa Brooks

Proponents call payments outsourcing a tool for reducing costs while enhancing functionality without the capital expense. Skeptics deem outsourcing a means of giving up control over receivables, the lifeblood of any business. Either way, interest has never been higher in outsourcing payments processing to reduce cost, eliminate operations overhead and focus on core competencies. The key for organizations is balancing the pros and cons of outsourcing.

To be sure, outsourcing will be adopted by more organizations to help them work through financial and competitive challenges. Many organizations that are not outsourcing will consider or move aggressively to outsource their IT or business processes to focus on their core business, predicts Stamford, CT-based Gartner, Inc. Allie Young, vice president and distinguished analyst at Gartner, notes, "The potential for outsourcing to address immediate cost pressures as well as long-term recovery goals will be unprecedented. However, only organizations that are diligent about understanding and avoiding the pitfalls of cost-focused outsourcing, and that apply business-outcome-focused outsourcing, will be successful."

There are three primary options available to organizations weighing their processing options:

- Manual in-house processing
- Automated in-house processing
- Outsourcing/co-sourcing

## Manual In-house Processing

Manual in-house processing offers organizations hands-on control (literally!) over their receivables, as well as the ability to maintain a local mailing address (key for municipalities).

But manually processing payments in-house also is labor-intensive, not easily scalable, and requires day-to-day operations management. For these reasons, fluctuations in mail volumes or unplanned absences by clerical staff can cause delays in posting payments or responding to customer payment inquiries. And making paper deposits, versus image cash letters, slows down the clearing process, in turn decreasing the organization's funds availability (a huge issue in our current economy) and potentially resulting in more checks being returned for non-sufficient funds. Typically, paper deposits also carry higher bank fees. And manual processing environments generally don't offer options for disaster recovery or redundancy. Moreover, in-house payments processing is not a core competency of most businesses.

## Automated In-house Processing

A second option for many organizations is to make ongoing investments in their in-house payments processing infrastructure, including imaging software and hardware. In this scenario, organizations maintain complete control over their receivables handling, keep their local mailing address, and gain some efficiencies compared to manual in-house processing. What's more, automated in-house processing offers improvements in functionality, such as electronic archival of payments and related documents, and provides greater scalability.



## So What's the Downside?

Like manual processing, automated in-house processing requires day-to-day operations management. It doesn't always provide options for disaster recovery or redundancy in the event of hardware downtime or failures. And, it isn't a core competency of most businesses.

But, most importantly, automated in-house processing requires a significant upfront capital investment, as well as hefty ongoing expenses for software enhancements and customization, hardware and software replacement, and ongoing software and equipment maintenance. To keep up with evolving payments processing and clearing mechanisms (think: migration from paper check processing to electronic payments),

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organizations have to be willing to spend a lot of money on their processing infrastructure. Given the current focus on cash preservation, and the move toward variable operating expenses, that is hard for most businesses to do.

## Outsourcing/Co-sourcing

In contrast to processing payments in-house, either manually or using automated solutions, outsourcing all or part of your payments volume to a services provider requires no day-to-day operations management, and no capital outlay or ongoing hardware and software expense. Outsourcing puts the on-us on a services provider to build out an infrastructure with the necessary scalability and disaster recovery contingencies, as well as keep up with industry trends and to make the enhancements and software customizations necessary to meet your business requirements. Service providers also must meet your contractual terms for turnaround times, helping ensure optimum funds availability. In addition, most lockbox service providers use electronic check presentment (ECP) for deposits, which potentially increases funds availability, reduces bank fees, and decreases the number of checks returned for non-sufficient funds. And some services providers offer advanced

functionality, such as secure document image retrieval, data capture and integrated remote deposit capture. Best of all, by outsourcing payments processing, your business can focus on its core competencies.

Of course, by outsourcing your organization will give up some control over its receivables processing. And, depending on the geographic footprint of your service provider, you may not be able to maintain your local mailing address for payments. But those tradeoffs might be a small price to pay to eliminate the overhead, cost and hassle of payments processing.

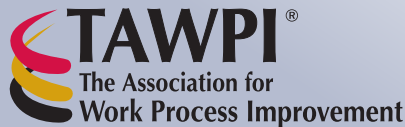
Outsourcing payments processing is not a fad where every organization will be doing it. But it is a viable alternative for organizations stymied by inefficient manual operations or overwhelmed by the open-ended commitment that automated in-house operations require. If organizations are looking to facilitate their growth strategies, while reducing operations expense, improving functionality and enhancing service, they'll take a hard look at it.

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