

A Special Report from TechVentive

**Ideal Timing and Approach for
Bundled Outsourcing**
- When Scale Drives Even Greater Synergies -

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Many large and middle market organizations have at least dabbled in some type of outsourcing over the last few decades. If you're curious about the next wave of outsourcing and how it will drive better business outcomes, then I'd like to invite you to read the following paper and seriously consider the business case it puts forward.

This document introduces a topic that Accenture calls bundled outsourcing—a step beyond shared services and BPO, a great stride toward unlocking the maximum value of outsourcing as a high performance business strategy.

We all know that outsourcing is not just about cost take-out any more. Done right, outsourcing will make your organization more nimble, more agile and more competitive. Over its relatively short history, outsourcing's growth has proceeded in general along two paths: the outsourcing of a single process—e.g., accounts payable, payroll or help desk—or a comprehensive set of processes within a major business function—e.g., finance, IT or learning. In spite of the gains companies reap from those forms of outsourcing, many redundancies and inefficiencies remain.

Over the past eighteen months or so, a small handful of innovative companies have found that they can overcome those constraints, get better return on their investment and improve their overall business performance by outsourcing several business processes across multiple functions at one time. Call it multi-function, shared services, multi-tower or bundled outsourcing but the point is, outsourcing more than one piece of your enterprise to a single provider is fast emerging as a strategy used by business and government executives to drive value into their enterprises while simultaneously pushing cost out. Today's emerging brand of outsourcing—bundled outsourcing—can improve top line growth opportunities and increase bottom line savings.

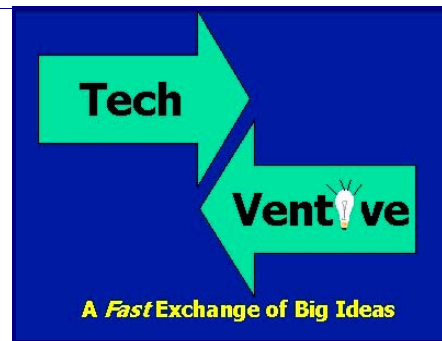
Think about it – reduced governance headaches, improved compliance, increased efficiencies, better cash flow, more revenue and more productive employees. Look beyond the traditional silos of outsourcing individual processes and consider the natural linkages between purchasing and accounts payable; HR spend tied to learning and content development/delivery; or hiring and retiring; and everything in between.

Maybe you've seen an industry analyst report, or heard about one of the emerging bundled outsourcing contracts. But have you thought in much detail about the business outcomes that can be achieved through the bundling of outsourcing services. I hope the following paper will shed some light on the possibilities. If you are intrigued, I'd be happy to share some examples of how Accenture is teaming with industry leading companies to leverage the power of bundling.

Anyone can outsource. Smart executives do it well. I hope you'll read on to learn more about how bundled outsourcing can help you achieve maximum competitive advantage and new levels of high performance.



Kevin Campbell
Group Chief Executive—Outsourcing, Accenture



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- Bundled Outsourcing Defined
- Case for Bundled Outsourcing
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Executive Summary

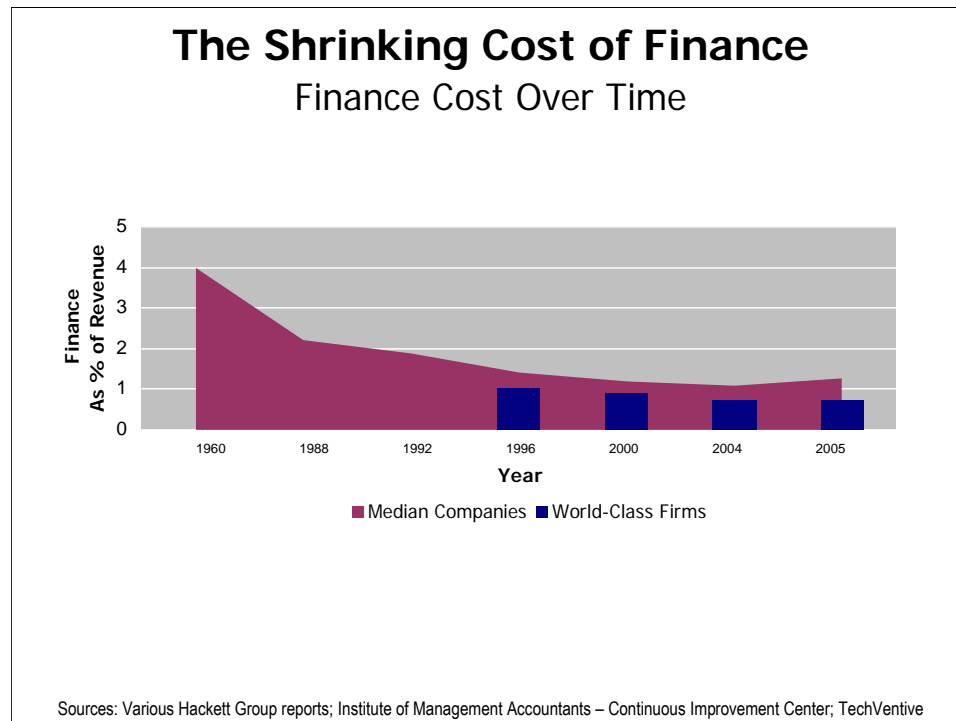
- ▶ Shared Services has been a big hit with global 5000 firms; however, it is morphing into Bundled Outsourcing so that new value opportunities are created for today's leading firms
- ▶ Many firms will consider Bundled Outsourcing within 2-3 years
- ▶ Large Bundled Outsourcing firms will become the G500's top solution providers as their scale will drive the best value and expertise
- ▶ Bundled Outsourcing is a business partner decision (not a vendor selection) that will be the purview of the CEO, CFO or COO
- ▶ A number of questions affect the timing and scope of a Bundled Outsourcing decision (e.g., "Are your firm's compliance costs high and staying that way?")
- ▶ Preparation is required prior to engaging in Bundled Outsourcing discussions with potential providers

Many top executives are already familiar with the concept of shared services. Shared services are functions, processes and systems that are cooperatively designed and used across two or more parts of an organization.

Frequently, firms have consolidated and standardized finance, procurement and human resources systems and personnel across multiple business units, country operations and/or legal entities to serve the entire corporation. These back office activities and systems were natural choices to operate in a shared service facility as they could be consistently performed and benefit from economies of scale.

In the last decade, shared services have expanded to include front-office processes and systems. CRM, knowledge management, analytics, etc. have been added to list of possible uses of a shared services operating model.

CFOs, CIOs, CEOs and other executives have grown to like shared services. Shared service operations often permitted firms to operate processes at world-class levels. The advances in efficiency and effectiveness have been nothing short of phenomenal. For example, the cost of finance and accounting operations has declined from approximately 4% of gross revenues (for \$1 billion+ revenue firms) to approximately 1% today. World class firms have reduced that amount to as little as 0.6-0.7% of total revenues. Similar savings have been noted in HR and procurement processing during this same timeframe.



Shared service operations win with executives because they use fewer software licenses, fewer personnel, less IT hardware, etc. They also allow personnel to specialize more, provide better expertise and enhance service levels.

But, as with any business model, the shared services concept is continuing to evolve. Its latest advancement involves the infusion of a third party business process outsourcing (BPO) firm with their front and back office shared services solutions. This new development, called “Bundled Outsourcing”, takes leverage a quantum step forward. Bundled Outsourcing now extends beyond the boundaries of one company and applies a scale and leverage potential that previously was only a dream.

The closest analogy one can draw to Bundled Outsourcing is the payroll outsourcing industry. With this, thousands of firms can leverage a common solution to achieve massively cheap, highly accurate and high quality service from a handful of major providers. The success of payroll outsourcing has been huge. Of the big three in the U.S. (i.e., ADP, Ceridian and Paychex), ADP alone provides payroll processing for 450,000+ employers, large and small.

Shared services and outsourcing are two business models that recognize the power of scale. Combine them and even more opportunities are available for businesses.

The Case for Bundled Outsourcing Today

Should businesses seriously consider Bundled Outsourcing?

The answer is yes and it appears more and more firms will embrace it.

Why?

Once a firm has reduced the cost of finance, HR, etc. to today’s low, best-in-class levels, how can it cost-justify future capital and technology investments in this area? With new application software licenses and software implementation fees running into the tens of millions of dollars, any new refresh or restructuring of finance processes can quickly become very expensive.

When a company reengineers a process or replaces application software, each additional refresh can only capture a diminishing degree of new benefits. If typical, your company reaped significant operational, performance and service improvements when it first implemented automated solutions in back office areas (see Figure 1). Over time, as older systems were retired, the new technologies could close books faster and a little bit cheaper but the newer system’s incremental benefits were never as significant as the first automation effort.

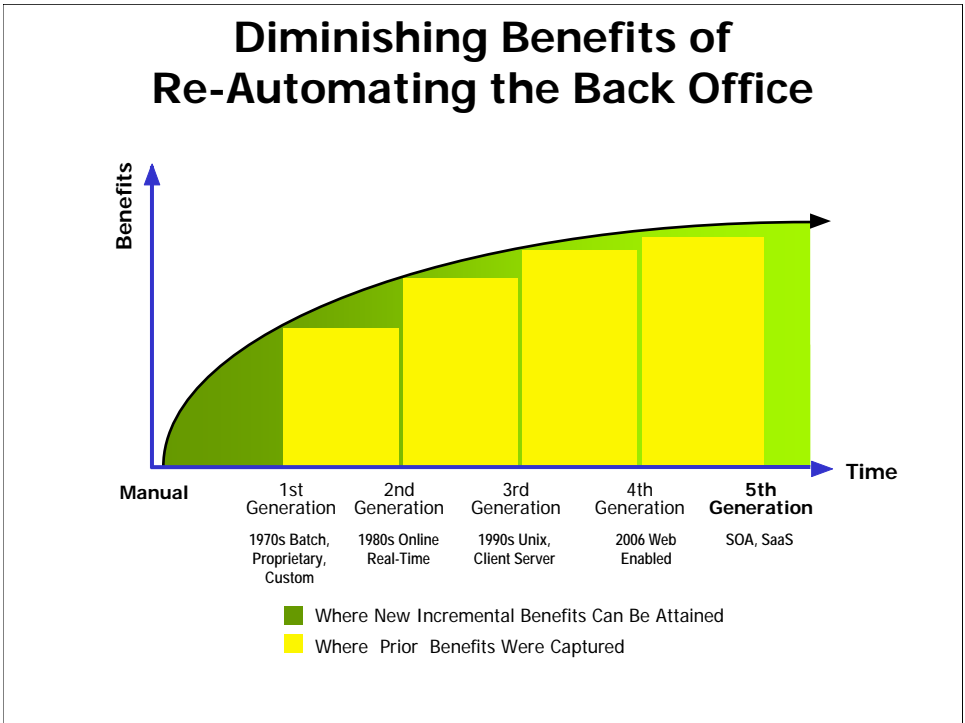


Figure 1

When the re-automation costs are factored in, re-automation efforts leave businesses upside down on the net benefits curve (see Figure 2).

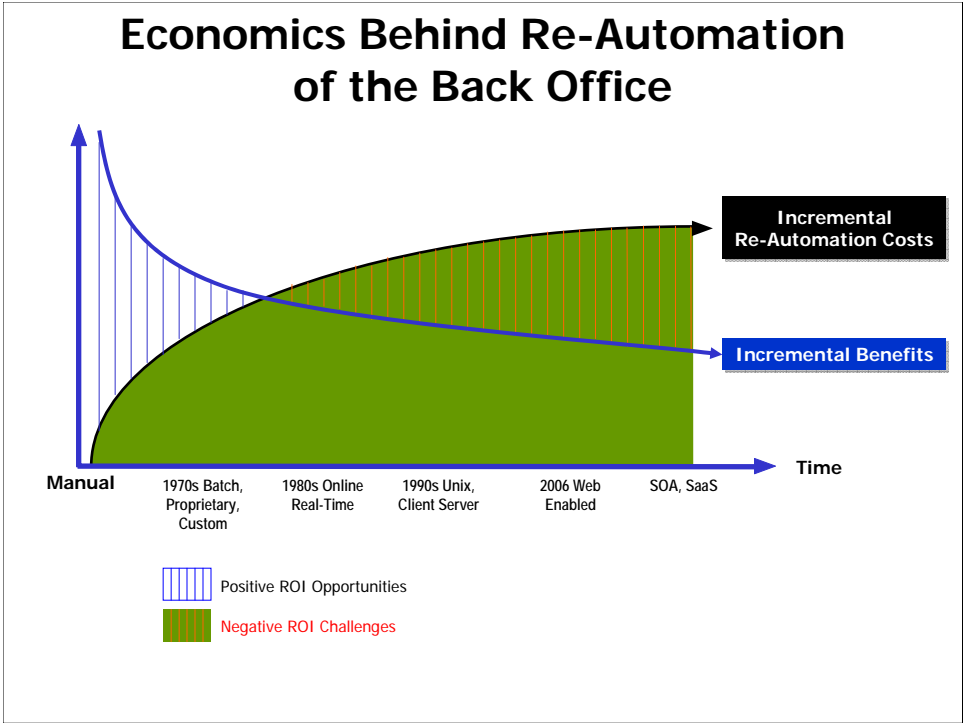


Figure 2

Re-automation efforts, in and of themselves, are hard to justify today unless other capabilities and techniques are part of the upgrade process. Re-automation without business process reengineering, vendor rationalization, shared services or transformational outsourcing is of doubtful benefit today. Case in point - significant process improvements can improve the potential upside of a systems change. When these process improvements are tied to positive business or operational improvements (e.g., increased working capital) these efforts can be quite advantageous to a company. To guide many firms in these efforts, better firms use a model like the DuPont ROI model to identify additional wealth creation opportunities (see Figure 3).

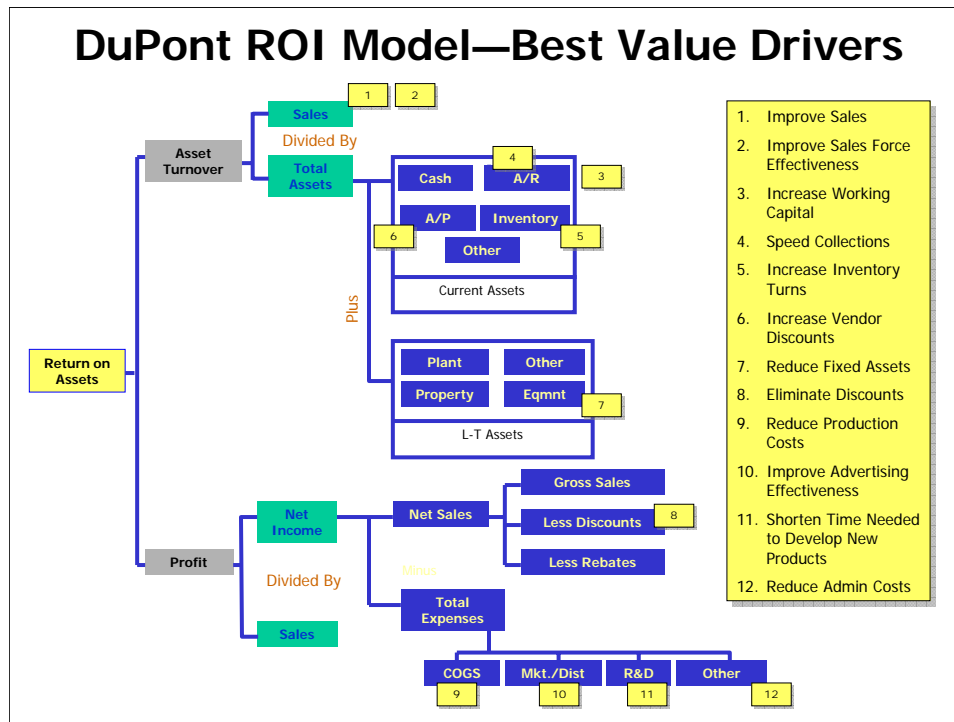


Figure 3

New technologies (e.g., service oriented architected (SOA) solutions) for the back and front office are coming. Many firms will need to replace/upgrade older systems for a variety of reasons (e.g., technical obsolescence, organic growth, inorganic growth, divestitures, etc.). No matter the reason for change, many executives will be disappointed to realize:

1. How costly the next refresh will be
2. How minimal the incremental benefits will be

The time is right for a step change in how back and front office services will be offered (see Figure 4). For businesses to achieve new performance and value levels during a systems refresh, they will need to look for solutions that are implemented outside their firm and gain economies of scale across dozens or hundreds of other companies instead of inward-looking, one-customer solutions of their own doing. The bottom line is that most major firms have already milked the vast majority of performance improvements that were possible from *internal* systems.

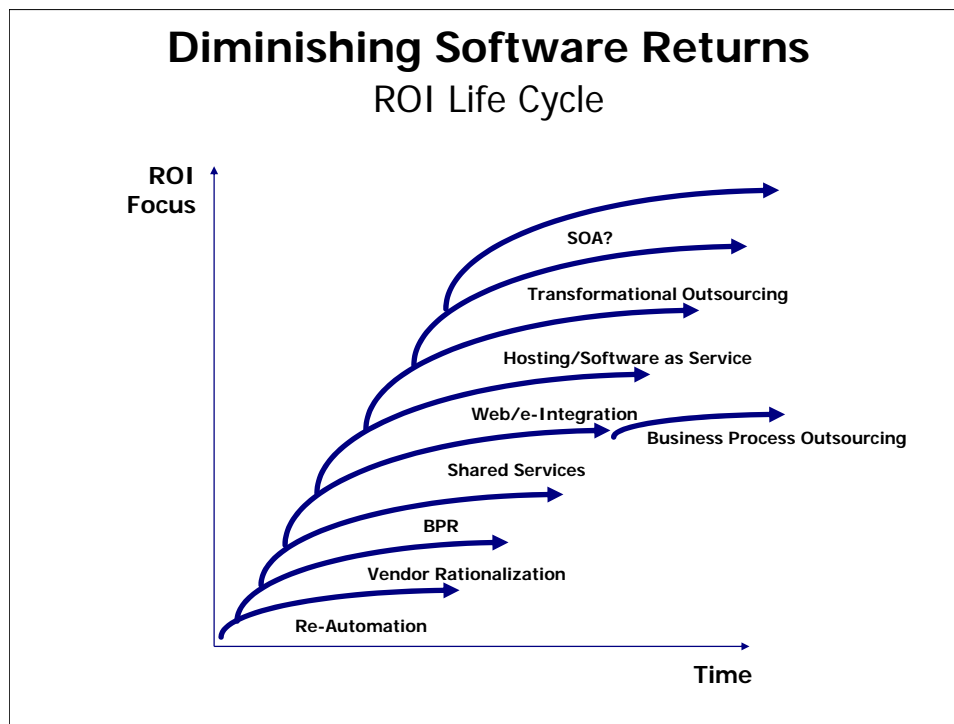


Figure 4

CIOs and Bundled Outsourcing

IT complexity has changed massively over last 2 decades yet many executives of large and small firms may not fully comprehend how complex it has truly gotten.

Think back a few years ago. Most companies had one computer. It was either a mainframe or a mini-computer that ran the back-office applications and a couple of custom built operational systems.

Today, the sheer number of applications, computers and technology platforms that IT must support is staggering. Besides the back-office, IT now supports:

- ▶ Front-office applications (e.g., CRM)
- ▶ Desktop applications (e.g., Microsoft Office)
- ▶ Variety of databases and file access methods
- ▶ UNIX, LINUX and proprietary operating systems
- ▶ Web based applications, client/server applications, PC applications and possibly some green screen applications
- ▶ Handheld devices
- ▶ Numerous telephony solutions (e.g., VOIP, voice mail, collaboration, etc.)
- ▶ Etc.

In addition to all of the kinds of technologies that IT must now support, CIOs must also support these in more geographies than ever on an ever changing mosaic of devices. Remote users, laptop users, etc. in unsecured areas on public networks just add to the headaches.

During this same time frame, CIOs have been under unrelenting pressure to reduce IT support costs. Research and Markets recently reported that average IT budgets as a percent of sales will decline slightly in 2006 with more declines occurring in 2007-2009. A January 2006 survey of 100 North American CIOs by Merrill Lynch showed 57% of CIOs reporting flat or declining budgets. With a reduced headcount and limited resources, CIOs and their IT departments are finding it harder and harder to delight their constituents. Simply put, most IT groups have too few skilled personnel and budgetary funds to cover massively broad needs.

CIOs will likely look favorably on Bundled Outsourcing as it makes a company more nimble and agile without tying up critical IT personnel and other resources for long-periods of time. For a CIO under pressure to reengineer, upgrade or replace back or front office solutions, Bundled Outsourcing can get it done in a fraction of the time that a conventional ERP project would take and it can achieve a significant degree of process improvements. In this situation, Bundled Outsourcing is a big win for CIOs by delivering big systems & process improvements fast and without distracting from other IT initiatives.

CIOs are also being pressured to innovate and add value to their firms. Many of these CIOs are challenged to do this since a large proportion of their IT budget is dedicated to “keeping the lights on” for current operations. With limited budget, resources and management bandwidth to focus on innovation, handing some IT operations over to firms that specialize in this frees CIOs and their best talent to focus on creating more business value.

The value proposition for Bundled Outsourcing includes:

1. **Deeper competency in many Finance, HR, technology and other areas.** Your firm can access far greater numbers of experts within a given area instead of the part-time or limited resources you currently possess.
2. **Lower compliance costs.** Compliance activities, such as those driven by SarbOx, are spread over more customers. Compliance and regulatory actions are also significant in Payroll/HR processes, too. The costs to comply with FICA, FUTA, SUTA, EEO, etc. are major costs that be lessened via the scale economies present in Bundled Outsourcing.
3. **Options to use a variety of service locales for your business.** You can choose near-shore, Indian, follow-the-sun, in-country and other options depending on what your business requires and your firm’s risk profile.
4. **Access to solutions that have already been configured for world-class processing levels.** The days of spending months or years to reengineer business processes, select new software, configure new software and hardware, train users, etc. may be coming to an end. Many Bundled Outsourcing offerings are operational in 30-90 days.
5. **Lower up-front costs.** Because this is a service, your firm does not incur a massive development and capital outlay up-front. Costs are billed as incurred and as services are rendered.

6. **Low risk labor acquisition in lower cost countries.** For companies with little expertise in establishing new processing centers in low cost labor markets, a Bundled Outsourcing firm can provide immediate, low risk expertise in these locales. Whether it is acquiring talented personnel, leasing facilities or dealing with local authorities, Bundled Outsourcing firms make these tasks a core competency. If it isn't already a core competency of your firm, it may never need to be.
7. **Usage-driven costs.** Your costs are a function of your size and business needs. If either of these change, your costs change in proportion. This is in stark contrast to internally developed and maintained solutions where a significant portion of costs are fixed (e.g., software maintenance fees) and others are in addition to these (e.g., bug fixes, enhancements).
8. **Newer technology that stays new and current.** Bundled Outsourcing providers, to remain competitive, must keep their solutions current. Beyond bug fixes, they must also provide leading-edge solutions that help keep their operating costs low, user satisfaction (and renewal rates) high and offer competitive advantage to them. To earn your business, they must constantly re-invent processes, identify and implement new technologies and refresh hardware.
9. **Better technology.** Not surprisingly, many firms are attracted to Bundled Outsourcing providers because the technology they offer may be better than the solutions currently in-house. If your technology solutions are several years old, there is a good chance your solutions are outdated vis-à-vis those of Bundled Outsourcing providers.

The Bundled Outsourcing Journey

While a generalized evolutionary path for Bundled Outsourcing exists, one often sees companies exercise a different and much more difficult path to achieve it.

This alternate journey often has these characteristics although the sequence may vary by company:

1. **First, a firm consolidates numerous redundant IT and functional operations into a few shared facilities.** This reduction in locations, software licenses and hardware often results in quick economies of scale. Labor savings may also be achieved.
2. **The next step in this journey often involves a focus on procurement.** Here, consolidated cost data is used to winnow the number of vendors and to negotiate steeper discounts from vendors. Again, additional short-term savings can be achieved.
3. **Third, the firm begins to consider lower cost labor markets as more appropriate places to locate their shared services center(s).** Labor arbitrage savings are possible here.

4. **Then, the firm can utilize these lower cost skills as well as the savings that have been generated by the above actions to drive applications standardization across various business organizations and process owners.** Many times, this is done by implementing a standard global ERP application.
5. **Finally, the company begins to redesign processes.** Tuning different processes to achieve higher efficiencies and effectiveness should generate some additional value.

If you're thinking that this sounds reasonable and should be of great benefit to any company, then ponder the following carefully:

1. **Consolidating data or functional processing centers is expensive and time consuming.** If there is any chance that these centers may be located in lower labor cost markets, this should be examined at the beginning of the journey. Doing twice as many moves is wasteful. This is also a difficult political challenge since consolidation generally crosses organizational boundaries that may not support the initiative.
2. **Process changes are hard on the affected constituents.** Employees, suppliers and customers abhor any change or disruption that affects them. When processes are changed, they need to be done once and only once. Process changes need to be identified at the beginning of the journey so that disruptions to others are minimized and to prevent redundant change costs. If your company is like most, change management is hard to successfully pull off. Why do it more than necessary?
3. **When processes are redesigned, companies may find that their software and hardware is not appropriate or even needed for the new process designs.** Why consolidate old software or hardware if it isn't going to be used in the near future?
4. **Procurement savings can often be significant.** These savings alone can pay for many of the journey costs; however, the timing of the procurement changes should be synchronized with the completion of a unified shared services design. Only when the locations, systems and process designs of the new procurement environment are known, should procurement processes be changed.
5. **Hiring different firms to assist with each of these journey steps virtually guarantees that the company will attempt to optimize costs/benefits of each event but not the long-term journey.** One firm may design optimal processes while another will find low cost laborers. This structure leads to lower costs for each individual process or function, but generally leads to overall sub-optimization for the company buying the services. You will probably be leaving savings and improvement opportunities on the table. But, who is responsible for delighting shareholders and other constituents when the effort is viewed in toto?

The journey for Bundled Outsourcing is like any great voyage. It needs a map or plan with a clear idea of the destination in mind. A plan made with lots of independent baby steps and no real concept of the final destination is doomed. If the parties involved ever make it to their destination, it will be due to luck not business acumen.

At a minimum, the journey requires the following:

1. Clear, shared executive vision of the end-state
 - a. Location(s) to be used
 - b. Desired cost structure
 - c. Service levels desired
 - d. Labor/Automation mix
 - e. Overall timeframe for effort
2. Understanding of the costs and benefits possible at each milestone
 - a. Benchmarks of current processes
 - b. To-Be Process designs
 - c. Performance metrics to be obtained
 - d. Expected transaction volumes post-reengineering
3. Clear roll-out plans
 - a. Change management plans
 - b. Upgrades or new technology requirements
 - c. Location of new technical and user centers
 - d. HR and staffing plans
 - e. Process maps
4. Comprehensive ROI plans
 - a. Benefit maps
 - b. Tying of specific benefits to process improvements
 - c. Timing of benefit realization

Bundled Outsourcing is not a 'project' but a destination. CXOs see it as a means to achieving a more nimble, agile and competitive firm. A piecemeal approach won't make you nimble, agile or competitive.

Ideal Timing for Bundled Outsourcing

Companies that choose a Bundled Outsourcing solution often do so to upgrade their: People/Talent/Skills, Processes, Technology and Business Agility.

Once implemented, the Bundled Outsourcing solution should deliver improvements in the above and do so with added quality outputs, increased service levels, demonstrable professionalism and higher value to all affected constituents.

When should businesses consider Bundled Outsourcing? Most major firms will need to seriously consider it within the next 2-3 years. How your firm answers the following questions may help you determine when Bundled Outsourcing is an option for your firm.

- ▶ **Are your firm's compliance costs high and staying that way?** Documentation and reporting costs are major cost drivers behind SarbOx and other compliance activities. The root cause behind many of these costs are: 1) poorly documented systems; 2) too many processes for exception handling; 3) manual processes; 4) too many redundant systems; and, 5) excessive process or IT complexity. Bundled Outsourcing providers bring a focused discipline to business processes. They should possess well-documented, highly standardized solutions and limit the amount of non-standard processing that drives up compliance costs.
- ▶ **Are your current costs for Finance, HR, CRM, etc. in the third or fourth quartile?** High cost operations are luxuries few firms can afford anymore. If your firm's costs for these activities are not close to or at first quartile, look into Bundled Outsourcing immediately. If you haven't benchmarked these processes recently, see how your costs as a percent of revenue compare. Anytime Finance costs are more than 1% of revenue (or HR costs are more than \$1,500 per employee), you need to consider Bundled Outsourcing solutions.
- ▶ **Is the application software for your front or back office solutions more than 8 years old?** Do not replace old application software without first entertaining Bundled Outsourcing solutions. The time and internal productivity hit that your staff will incur pursuing and implementing new technologies will be costly and significant. Add the material capital costs that your firm will pay for another internal solution and Bundled Outsourcing will start to look quite attractive.
- ▶ **Is the majority of your IT budget spent on "keeping the lights on"?** Do you have limited capacity to innovate in your business? Most companies feel pressure to innovate in IT just to keep up with their competitors. The fewer resources they have available for innovation activities, the greater the risk and challenge of falling behind in your marketplace.
- ▶ **Have there been (or do you anticipate) material changes in the business?** If any major divestitures, acquisitions, geographic expansions, etc. are in your firm's 18-month planning horizon, you'll need solutions that quickly scale, up or down. Bundled Outsourcing solutions are far better suited to this dynamic or volatile business environment than internally managed and developed solutions.
- ▶ **Could your company benefit from greater working capital, faster inventory turns, enhanced retention, etc.?** The business (not IT) outcomes of a Bundled Outsourcing transaction can have a dramatic impact on return of assets, share price and operational performance. If your procurement costs, cost of goods sold or other operational factors are below those of competitors, then talk to a Bundled Outsourcing provider and inquire as to how their solutions improve these business needs.
- ▶ **Is the executive team being distracted by too many non-value added issues with back office systems, processes or personnel?** If your executive team is spending too much energy dealing with aspects of the company that are not close to the customer, helping grow top-line revenue, etc., then use Bundled Outsourcing to remove these distractions and get management re-targeted on the business.

- ▶ **Are plans being made to make major enhancements or upgrades to existing application software?** Before agreeing to these significant cost outlays, see if Bundled Outsourcing is a better deal financially.
- ▶ **Does the market require your company become more nimble/agile?** If your firm must be faster in connecting to new suppliers, contract manufacturers, business partners, etc., shouldn't your internal systems and processes have a faster change capability? If the future is less fixed than before, make your processes and solutions more variable, flexible and scalable, too.

Best Approaches for Choosing a Bundled Outsourcing Provider

There are three groups of decisions your firm should embark upon when evaluating a Bundled Outsourcing provider. These are:

- ▶ Macro Factors
- ▶ Pre-Selection Considerations
- ▶ Selection Considerations

Each of these is discussed below.

Macro Factors

Large and small firms benefit from utilizing a *large* Bundled Outsourcing provider. Size does matter in this space as larger firms will be better capitalized, understand big firm issues better, provide deeper specialty skills, etc.

More specifically, you should choose a vendor of scale, probably global. You may want to avoid vendors with operations exclusively located in just 1-2 countries (especially if any of those locales are in countries with questionable protection of intellectual property and/or unstable politics) or that are highly specialized in a single business function or technology. Understand what your comfort zone is and ensure potential providers meet your needs.

Your corporate risk profile must be evaluated against that of potential Bundled Outsourcing providers. While you may have been willing to take chances on small, bleeding-edge technology firms in the past, you cannot afford to do so in this decision process. In fact, you will likely want to use your firm's risk profile as the *minimum* standard to measure potential providers. Why? The data that you entrust with them contains bank account, customer, supplier, tax and other personally identifiable information on your constituents. This information must be protected by a very responsible party with deep pockets. When the SEC or other regulator comes knocking, you will want a substantial firm standing beside you to discuss how your processes work, how controls are monitored, etc. You do not want a firm with little or no expertise in your regulatory needs being your Bundled Outsourcing partner.

Partner is a good word to focus on as that is what you will want. You don't need a vendor or a supplier. You will need to trust this firm as the stakes are now much higher. While Bundled Outsourcing is a service, it is actually a much larger, more significant grouping of services, processes, technologies and experts. If you approach this decision like you are choosing an office supplies vendor, you will likely err in the selection. Business partners, unlike vendors, are chosen on more factors than just low cost and availability.

A business partner:

- ▶ Does things *with* your firm not *to* it
- ▶ Retains flexibility in their arrangement so that their solutions continue to adapt to your changing business requirements. Remember: some of these changes will be driven by external forces (e.g., governments, economy, etc.) and not just internal business factors.
- ▶ Complements your firm's long-term business strategy and not just your transactional needs of the moment

When you choose a business partner, **you** must make the choice. Do not pass this decision off to a third party or to a low level person within your firm. While others may 'vote' or offer input into the process, these decisions should usually rest with the CEO, COO or CFO.

Many external advisors are skilled in negotiating outsourcing decisions but not necessarily Bundled Outsourcing arrangements. Some external advisors are lawyers adept at converting outsourcing arrangements into contractual terms and conditions while other advisors are specialists at negotiating or procurement processes. In any situation, no one advisor or internal person is necessarily the best for making this decision. However, you should utilize each party's skills to craft an arrangement that is:

- ▶ **Fair to all parties.** A lopsided economic deal will never last as one party will surely seek to prematurely terminate the relationship.
- ▶ **Economical although it may not be the lowest cost.** Suppliers of this service should offer competitive pricing but structure their relationship so that each side can adjust requirements and services as the business changes. As with any purchase, be particularly attuned to potential cost add-ons post-contract signing. A low, come-on price has been used for some function outsourcing services over the years. While initial pricing looks favorable, the additional costs charged to you for items you 'believed' were part of the deal can get very expensive.
- ▶ **Designed for the long-haul.** Once outsourced, companies may find that the return of these processes to their firm (or to another Bundled Outsourcing provider) can be an expensive and laborious task. These movements could also prove disruptive to your customers, employees, suppliers and other constituents. Pick your business partner well as you may be with them for at least a decade or more.

When contracting for Bundled Outsourcing capabilities, be sure to consider the broadest scope of processes possible. This advice is warranted on several levels. First, Bundled Outsourcing providers operate on scale and pass these scalar savings to their clients. If your firm only uses them for one process or function (e.g., accounts payable processing, payroll administration, etc.), then you do not take advantage of the economies of scale they offer in other process areas, technology, work force, global locations, etc. More precisely, a Bundled Outsourcing provider can get better reuse of technology, people and facilities with ever larger volumes of transactions moving through them. The same logic that motivates people to buy office automation and enterprise software suites applies here. Solutions with pre-built interfaces are less costly to implement and operate. If you artificially break up your shared services or outsourcing solution set into numerous pieces, you can expect to pay dearly for it.

There is an ever bigger and more personal reason to consolidate most of your service needs with one provider. You and your fellow executives will get sucked into a vendor management nightmare trying to coordinate activities, upgrades, service level changes, etc. across multiple Bundled Outsourcing firms. One of the major benefits you should demand is the reduced oversight role and management time commitment spent on processes that often are not vital or strategic to the company's future. As one CFO remarked, "If we're getting any strategic advantage from our fixed assets accounting, we must be doing something wrong!" If you have a number of Bundled Outsourcing providers, you may be trading the time spent doing the outsourced functions for time spent coordinating efforts between providers. Just imagine that one provider is materially upgrading its general ledger system. This will likely affect account validation rules, interfaces, management reporting and other activities from virtually all other systems. Your management team's core competency is probably running an excellent firm within your industry. It probably isn't program managing suppliers.

Pre-Selection Considerations

Before you begin the selection process, there are several activities that can be particularly helpful, if not illuminating, to you and your firm.

Every process area should be benchmarked. Find out how well your firm is doing before you call in Bundled Outsourcing firms. If you're already running an efficient, effective organization (i.e., a company in the first quartile for most processes), then your approach to selecting a Bundled Outsourcing provider should be focused on more strategic goals (e.g., increasing corporate agility) and less so on economic savings. On the other hand, if your organization has some hurting areas, it would be instructive to tell the potential providers this and learn exactly how they will improve service levels, reduce costs and enhance the quality of the outputs.

Every employee should be reviewed as well. Are there some stars within these groups? Are these people the ones who know your business better than any outsider ever would/could? You should have a point of view regarding the critical skills, functions and people that will remain with your firm after a Bundled Outsourcing deal is consummated.

A good provider will want to make job offers to a number of your personnel and in other cases will rely on its own experts to provide services to your firm. If you really need or value some person's capabilities, then:

- ▶ Identify them now
- ▶ Determine their future roles and career path
- ▶ Engage your HR organization to enable a smooth transition process for all affected (i.e., retained, transferred or terminated) personnel
- ▶ Arrange for stay pay, if warranted

You should also identify which functions or processes are in/out of scope. Pragmatically, it makes sense to make these breaks along process boundaries (see Figure 5).

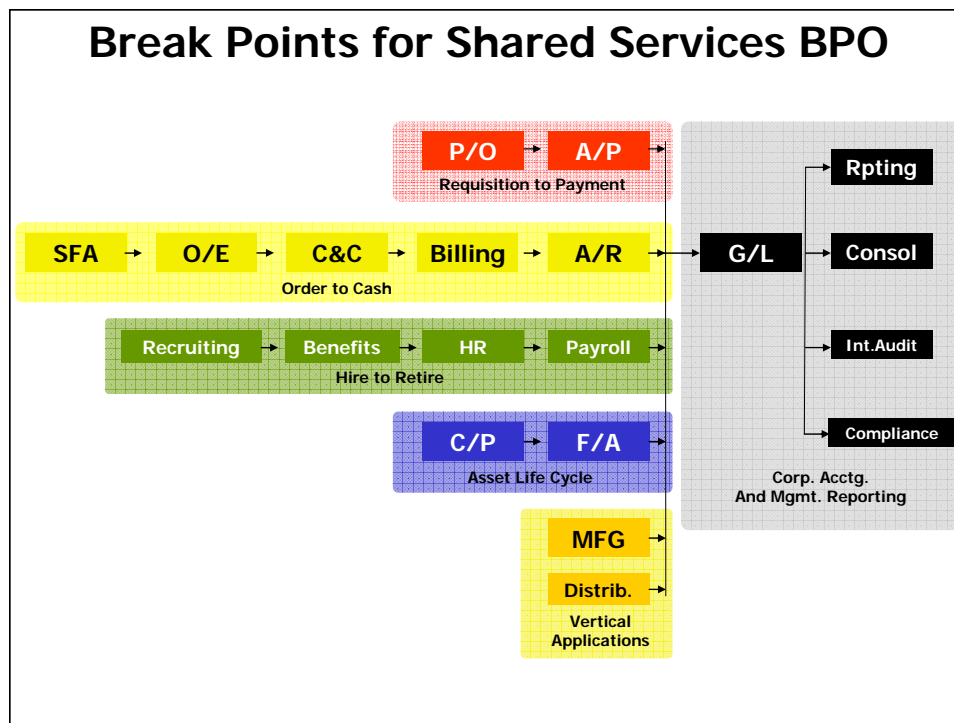


Figure 5

Bundled Outsourcing providers should be able to offer you well configured solutions along most of the above processes. Their solutions should also include many supplemental technologies (e.g., Interactive Voice Response (IVR) for annual employee benefits elections) that may be absent from ERP software suite solutions. These supplemental technologies should be well-tested, highly integrated and increase productivity for the provider and your firm.

You must decide what functions/processes will be in-scope and which ones will remain in-house. Internal Audit is an interesting functional area. While some firms have outsourced this, it may not be prudent to let the same company that provides the bulk of your financial and accounting services also act as your internal auditor. When evaluating scope, ensure adequate checks and balances exist between your firm and the Bundled

Outsourcing provider. Some regulatory and compliance functions may stay entirely within your firm (e.g., SarbOx) while others may be split or completely handled by the outsourcer (e.g., 1099, W-9 or W-2 reporting).

You will likely have some process or software uniqueness that an outsourcer should be aware of prior to vendor selection. Your idiosyncrasies will either be:

- ▶ Important, necessary business requirements that are essential to the proper disposition of orders, regulatory requirements or vertical industry needs
- ▶ Nice-to-have capabilities that may or may not have a valid business need still supporting them
- ▶ Quirks that satisfied prior system deficiencies or user needs
- ▶ Differences of no apparent or current market advantage

Bundled Outsourcing providers will strongly encourage (if not outright challenge or demand) that you forgo all of these uniqueness points except the most critical ones. Because unique processing costs extra, your firm will need to perform some important self-examination to identify what is truly necessary. If you aren't familiar with how different your processes and systems are from 'industry norms', you may find some nasty pricing surprises once the due diligence phase of the contract discussions begin.

There may be some systems or processes that your firm will want to keep in-house. Proprietary pricing algorithms, sales optimization tools, etc. are examples of applications that are not appropriate for a Bundled Outsourcing solution. If you have any doubt about what should or should not be included within the scope of one of these relationships remember that tactical processes are the most amenable to standardized services.

The best candidates for any shared services environment, internal or via bundled outsourcing, are those functions or processes such as corporate accounting, procure to pay or hire to retire. These activities do not provide sufficient competitive or strategic differentiation for the company nor do they require unique capabilities to complete. For example, fixed asset accounting is virtually the same from one company to another. The processes that are not well-suited for shared services or bundled outsourcing are often those that:

- ▶ *Uniquely* identify a company with its customers. While many customer contact functions may be good candidates for outsourcing, some functions that are of particular importance to the customer/company relationship often remain in-house.
- ▶ Provide competitive advantage
- ▶ Are not accommodated via commercially available package software

Selection Considerations

No executive briefing paper can do justice to the myriad of factors one may need to investigate in choosing a Bundled Outsourcing provider. The following suggestions are intended to promote dialogue within your firm as to some of the more critical areas your team will want to explore.

Global means different things to different people. You, however, cannot allow any ambiguity to exist when your firm engages with a Bundled Outsourcing firm. Clarity around this word is key. Does your definition imply:

- ▶ Numerous local language personnel providing phone support to customers, vendors, etc. in developing nations?
- ▶ Regulatory reporting will be available for your industry (e.g., FERC reports) in each country where you operate?
- ▶ Multiple sets of books can be simultaneously viewed to see the effect of U.S. GAAP accounting treatments versus those required of EU or other localities?
- ▶ Etc.

Some of your legal entities (e.g., a real estate entity, small sales offices, remote businesses in developing nations, etc.) may not be practical for a shared services or bundled outsourcing implementation. If these are not in scope, how will their activities be incorporated in the consolidated financial statements?

A considerable amount of historical data may require cleansing prior to a cutover to a third party provider. Who will perform this activity and how costly will it be? Could an outside firm convert and clean this data adequately, accurately and cost-effectively?

How will you decide what's more important in evaluating Bundled Outsourcing providers? Is it:

- ▶ Vendor reputation and references
- ▶ Application software
- ▶ Speed of conversion
- ▶ Global reach
- ▶ Etc.

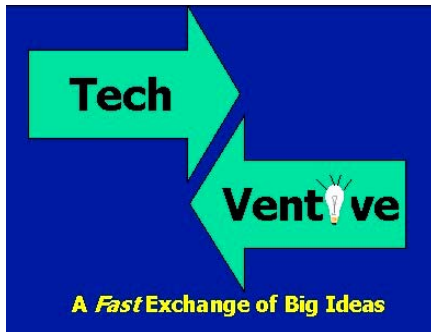
As it turns out, the application software may be a far less important issue than you might guess. Chances are, your city outsources its residential trash collection. Do you know or care what make and model trucks they use or what fuel they burn? Probably not.

When external service providers enter the picture, you should care more about the *result* than the *tool*. The only, and we should stress only, time that software choice matters is when your firm has a significant investment in vertical applications (e.g., CAD, refinery operations, machine control software, etc.) that are tightly integrated with an ERP solution (e.g., SAP). In this scenario, you may need the provider to have the ERP solution installed and ready for another instance of it loaded for your firm.

Results are what really matter. Can your employees access the software and its data over PCs, on remote laptops, over wireless networks, etc.? Will your suppliers find it easier to do business with you? Will your customers place more orders with you? Bundled Outsourcing is about changing outcomes and delivering a different set of results.

When the time is right, change your business outcomes. Your shareholders will applaud your action.

About TechVentive



TechVentive, Inc. was founded in 2001 to provide strategic guidance and content on the technology sector. Some of TechVentive's recent clients included Progress Software, Intel, SAP, Primavera Systems, Workday and many more leaders in the technology sector.

TechVentive has published a number of thought leadership pieces on the BPO, project management and professional services sectors. This paper is another example of relevant expertise in the space where technology, people and business intersect. Guidance, a newsletter for technology CEOs, is another TechVentive publication.

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