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Inside Outsourcing™



Inside with: Jeff Rich, CEO- Affiliated Computer Services

Special points of interest:

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Jeff Rich, CEO, ACS

Branding makes a difference

Offshore Outsourcing, a different view.

From the Editor.

Welcome to our fourth issue!

Inside Outsourcing's goal is to provide you with articles of interest and with a forum for the exchange of information in this rapidly evolving industry.

Future issues will have "Inside With", a Q&A with different outsourcing leaders.

Affiliated Computer Services, Inc. is a global company delivering comprehensive business process outsourcing and information technology (IT) outsourcing solutions, as well as system integration services. The Company operates in three business segments: commercial, federal government and state and local governments. For the nine months ending 3/31/03 revenues rose 28% to \$2.83 billion.

LJ: How do you see the competitive landscape in BPO?

JR: The competitive landscape is quite diverse due to the fact that the BPO market is extremely large, and highly fragmented. Gartner predicts the market will be \$234 billion dollars in 2005, however, we think that the potential is much larger. Corporate America spends an average of 2% to 3% of its revenue on IT, 7% to 10% on SG&A, and 5% to 20% on other back-office services. The revenue from the Fortune 1000 is approximately \$8.4 trillion, which means the BPO market is between \$1 and \$2.5 trillion dollars, or 4 to 10 times larger than the IT outsourcing market.

The BPO market is fragmented into a collage of different markets across geographies and services. There are a variety of companies competing in the BPO services market and each approaches BPO in different ways. Large IT outsourcers are trying to get into BPO, but only if there's a significant system integration component involved. The consultants focus on reengineering or transforming the process, but typically don't deliver continuous improvements over a long period of time effectively on an on-going basis. There are industry-specific or process-specific companies, often referred to as niche providers, who deliver one service quite well such as check processing, credit card transactions, or payroll transactions but don't support the end-to-end BPO needs of multi-national companies. At the end of the day, winning competitors will have to have a full range of BPO solutions across multiple industries.

There are only a few end-to-end BPO providers like ACS who can support a broad range of processes with workflow systems, reengineering expertise, global production facilities, productivity based compensation plans, and scaleable workforces. ACS delivers end-to-end BPO solutions in accounting operations, human resources solutions, claims processing, and payment operations as well as industry-specific solutions in healthcare, government, transportation, manufacturing, insurance, education and others. We firmly believe in end-to-end BPO solutions, multiple services, and multiple industries.

LJ: How does the industry view the recent announcements at ACS?

JR: Our clients love them and our competitors cringe. ACS is on a mission to be the leading BPO provider in the world and our recent announcements are a reflection of our efforts. ACS is becoming synonymous with BPO.

Inside with: Jeff Rich, CEO-ACS (cont.)

It's a tough economy, but ACS continues to outperform others in our industry because we are delivering real value to our clients in all sectors. We recently announced that we've joined the Fortune 500 and that is important because the Fortune 500 is our client base. We recently opened the New Jersey EZ Pass Service Center, which was a real accomplishment given the problems that the State experienced with a previous vendor. Forbes magazine ranked us as the number one best of the web BPO company for the second year running, and we have been ranked on their Platinum list for the past three years.



HRO Today has featured stories on our BPO business since the inception of the magazine and recently cited our landmark HRO deal with Motorola as the trendsetter in the industry. Washington Technology just ranked ACS as the number one provider of BPO and IT services to state and local government for the second year running. Almost anywhere you look you see that ACS is delivering value added BPO solutions to its commercial and government clients.

LJ: How does offshore outsourcing emerge as part of your service offerings?

JR: ACS was a pioneer in offshore outsourcing. We have global production facilities all around the globe and globalization is a reality.

Everyone is looking for faster, better, and cheaper and globalization is one way to get there

Global production capability is a key component of our strategy and we were the pioneer in offshore outsourcing. We began launching offshore operations in 1994. Today, we have more than 10,000 ACS employees offshore and we're delivering end-to-end BPO services from locations such as Mexico, Guatemala, India, Jamaica, Spain, West Africa, India, China, Malaysia, and Singapore.

Globalization is a reality in today's market. Businesses are looking to gain the benefits of higher productivity, faster cycle times, improved quality, and lower costs by leveraging offshore workforces. We let our clients determine what offshore location and strategy is best for them. Their business objectives come first and we can deliver a full-scale offshore solution or just move select functions offshore.

LJ: Does the shared services model have a role in ACS' initiatives?

JR: Absolutely! Many of the finest shared service organizations in the world are ACS clients, and some clients hire ACS to implement shared services within their organization for the first time. Shared services are the natural evolution of the back office to conform to the front office. Large corporations have evolved from regional to national to global operations. The back office is now following that same path to leverage economies of scale.



There are significant economies of scale to be achieved across clients in all shared services areas such as Human Resources, Finance and Accounting, Procurement, Customer Care Centers, Logistics as well as Information Technology

“Why Executives Should Care About Brands”

(Excerpted from “How to Build a Brand that Sells” by Richard Crespin, The Delve Group)

What do we mean by “a brand”? Let’s start with what a brand is *not*. A brand is not your corporate name, logo, website, or brochure. These are elements of your corporate identity, and they are ways you can help build a brand, but they are not *the* brand. If you were to think of a brand on personal terms, your brand would be your self-image and character.. More important than your self-image alone, though, is how your image and character play out in relationships. Similarly, your brand plays an important role in corporate relationships: How customers see you as a provider, how suppliers see you as a customer, how employees see you as a place to work, and how investors see you as a steward of their wealth, and how prospects see you as a potential solution.

Brand, from the buyer’s perspective, acts like an insurance policy. A brand on the side of a soda can says, “I’m going to taste the same every time.” In clothing, a brand on a tag says, “even if you don’t have taste, you’re still in fashion.” In B2B sales, the buyer often doesn’t know what he wants or what she’s buying. As a result, a brand says, “Even if you don’t know what you’re buying, you can count on us to help you figure it out in a way that’s going to benefit your company... *and* oh, by the way, we helped others and they kept their jobs – or got promoted.” A B2B brand, from the buyer’s perspective, insures the buyer against needing to know everything *before* they buy and it insures them against risks *after* buying.

Brand from the seller’s perspective, is to help educate the potential buyer and reduce the impact of price on the purchasing decision. Clearly *Coca-Cola* and *Pepsi* deliver the desired effect. Consumers regularly pay more for a *Coke* than for *Shasta Cola*. But will a CEO really pay more for a service because it comes from a well-known company? Clearly the answer is yes. The largest consulting firms – Accenture, IBM, PwC, EDS – even in these difficult times extract greater margins than lesser known competitors.

Doubters of brand value will argue the real reason behind the greater margin is better quality of service, or reduced risk based on track record. No doubt, these come into play. At the same time, alumni from these companies will attest that the differences are not as great as might be imagined. The bigger difference occurs at the margin – and in terms of “permission”.

THE FIVE PERMISSIONS

Clients regularly give well-branded firms more permission – greater allowances, more opportunities – than their lesser-known competitors. Clients let these firms have:

Access. Any one who’s ever tried to get into to see a C-Suite executive knows half the challenge is simply getting in the door... and anyone who’s ever bought complex services or technology knows half the challenge is letting the right people in the door. Executives set up rules – some written, some unwritten – their staffs use to filter in and filter out people vying for attention.

Latitude. Many companies are no better than their last project. Clients place more trust in well-branded firms and let them extend themselves beyond their own stated capabilities. Clients let these firms take on projects of greater size, which may be due to their greater scale, but they also place a greater level of trust in these firms. Trust, an intangible quality, is directly related to the level of brand permission these firms enjoy. Lesser-known firms are often limited to their existing qualifications. If the company hasn’t done the precise project for a precise peer-client, the company is not given permission to take on the challenge.

Recovery. The willingness to let a company “experiment” on the client’s dollar is very low, especially today. Clients want to pay for tried and true experience. Nevertheless, even when working with a large firm with the precise experience the client seeks, mistakes *do happen*, and failures *do occur*.

Scale. This is very tricky. Many people will hue and cry that the permission to scale (and the permission to set standards, see below) is more a factor of size and track record, than brand.

Set Standards. Often, companies will invest in emerging technologies and new services simply because they come from someone because they believe will eventually set a standard.



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Offshore Outsourcing, *a different view.*

Four states are considering legislation to ban outsourcing of state data. Deloitte Consulting's recently released global outsourcing report estimated that 500,000 US financial services jobs are likely to be lost due to outsourcing.

New Jersey, Maryland, Connecticut and Washington are considering the measure to curb the lost of jobs, as the Deloitte report expects 4 million services jobs across all industries to be exported from developed economies to emerging nations in the next five years.

Companies in their drive to cut cost have embraced the outsourcing wave, as it is sometimes called. 10 years ago, General Electric, the giant US conglomerate, started the trend with its bold decision to shift thousands of back office jobs to India.

"If China is becoming the workshop of the world, India is the world's back office," says Chris Gentle, a director at Deloitte Consulting.

It is too early to speculate on the exact consequences of such legislation but considering that most of the revenues currently generated by consultancies come from outsourcing contracts, it might mean that the industry is in for another shock while it is struggling to recover from the IT slump.



" In the business world, the rearview mirror is always clearer than the windshield".

-Warren Buffet