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Inside Outsourcing™



Inside with: Clarence T. Schmitz

Chairman and CEO of Outsource Partners International

Special points of interest:

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ACS in Hawaii

Holiday Greetings

From the Editor.

Welcome to our current 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.

Outsource Partners International, Inc. (OPI) is a leading business process outsourcing firm specializing in finance and accounting services. OPI offers clients the ability to outsource either all or selected portions of their internal accounting functions, such as accounts payable, accounts receivable, payroll and financial reporting.

LJ: What is your view of the competitive landscape in the BPO Outsourcing space?

CS: The landscape in the BPO space, and particularly in the Finance and Accounting, or FAO, segment, is changing rapidly. We do not believe that there really are very many viable players in this space today, though there is no shortage of companies who want to jump on the band wagon. Most of the large systems integrators and IT outsourcing companies have either jumped into FAO or are trying to do so. While many of these companies have significant technology skills, they don't generally bring the same disciplined approach to finance and accounting processes, including internal controls, that we do.

In addition to the IT-based competitors, we are also seeing a significant number of new competitors from off-shore, particularly Indian companies. Many of these new providers also have IT roots but a number are call center operators who are trying to "morph" into the FAO space. Many of these companies believe that they can effectively "forklift" complex accounting processes off-shore but have found that CFO's are appropriately skeptical.

One of the key changes that we have seen in the past two years is the exit of most of the large accounting firms from the FAO market. This has been driven by a number of factors, but largely by the great difficulty that these large, geographically dispersed firms had in growing their FAO practices while maintaining their independence with respect to their audit clients.

LJ: What are the changes taking place in F&A strategy and how do you see this evolving in the future?

CS: F&A Outsourcing (FAO) has only recently gained recognition as being a function that can successfully be outsourced. Still in relative infancy compared to the IT and HR outsourcing markets, we nonetheless believe that the FAO market has a high growth potential with the promise of exponential growth in the next few years. Some of the factors that will spur this growth are the continued need to cut costs and enhance productivity. While the U.S. economy may have turned the corner and be in growth mode again, we are in a truly global economy and U.S. companies will continue to examine any alternative that delivers lower costs and high quality. Outsourcing also enables organizations to bring in experienced help to review and reshape their business processes and do so without distracting scarce management talent from other higher value initiatives.

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Chairman and CEO of Outsource Partners International (cont.)

Offshoring of finance and accounting functions has been a relatively recent change, but one that has come on strongly. We believe that this will continue to be a major component of many outsourcing proposals, though we believe that the providers who believe that any process can be done effectively off shore will not be successful and will eventually either fail or come back to OPI's strategy – combining an offshore processing center for some functions with an onsite team to perform the balance of the outsourced functions. Recent high profile failures of outsourced offshore call centers will also make outsourcing buyers much more concerned about the communications between offshore locations and their own personnel.

LJ: What do you see as the hurdles to success in F&A BPO?

CS: The FAO environment is still relatively new with a number of new vendors only recently being able to offer these services to enterprises. Some of the hurdles faced are:



- Overcoming the cultural barrier to outsourcing F&A functions
- Fear of losing control over business processes
- Fear of losing in-house expertise around business processes
- Concern about quality of service
- Fear of losing customer or other proprietary information

Many companies, even those that have outsourced many other functions, are reluctant to outsource finance and accounting. Somehow, it just seems closer to the core. It's only when you really analyze these functions that you can easily see how you can not only outsource, but actually take parts of these functions offshore. And you can do it without investing in expensive new technology implementations or losing control of either critical information or processes. The vast majority of companies will experience substantial improvements in their finance and accounting processes and at a lower cost.



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One key to our success is the fact that our management team is composed of CPA's. Many of us joined the company with the acquisition of KPMG LLP's U.S. BPO practice in 2002. We not only understand the intricacies of accounting processes and the importance of internal controls, but we are also very sensitive to the importance of data security. Our process ensures that no data is stored outside the U.S. and normally it's stored in our client's own data centers.

LJ: How does having an offshore presence benefit your abilities to be competitive in the BPO space?

CS: Having our own offshore processing center, in Bangalore, India, enables OPI to provide both cost reductions and significant process and cycle time enhancements. We leverage this center for high transaction volume work while maintaining the more knowledge intensive processes on site at our client's locations. This addresses many of the concerns about loss of control and the security of data. We also have a competitive advantage in that all of our people, whether based in the U.S. or in India, are part of a single team.

Other service providers are now positioning themselves to offer offshore BPO services to clients by making investments in delivery centers in countries that have a strong pool of skilled labor, a labor cost advantage, and relatively sophisticated telecommunications and network infrastructures. India is, of course, a prime destination because of its strong educational system, the prevalence of English speakers and its low cost labor. OPI's center in Bangalore has been in operation for three years – giving us a lot of valuable experience. It will take others some time to get up to speed on the nuances of operating a business in India, let alone how to integrate such operations with the U.S. "front ends."

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LJ: What are the most common misconceptions regarding BPO?

CS:	The BPO option is only for reducing costs	It only works for simple bulk, non-core activities
	It does not affect or increase shareholder value	It leads to loss of control
	It is tactical rather than strategic	It does not work well as the relationship with the provider is not flexible

Unfortunately, some of the misconceptions related to BPO are founded on the mistakes that have been made in the past and by the approaches some providers take with their prospective clients.

Outsourcing does reduce costs but can also have many other significant advantages including but not limited to the following: allowing management to refocus time on more value added activities and away from day to day and more tactical process management; transformational benefits that come with actually measuring the results of processes and driving on-going improvements; benefits associated with have better information and more timely information with which to make management decisions; and improved working capital through improved cycle times on billing and collections and improvements in the purchase to pay processes.

Outsourcing is frequently perceived as negatively impacting “control”, though people who express this thought are often unable to explain what this means. The facts normally suggest that outsourcing actually increases control. First and foremost, with outsourcing you have a third party partner whose long term success is dependent on its ability to deliver high quality results. Secondly, we track performance at a very detailed level, providing real insight into how well a process, and indeed individuals are performing. These process measures are frequently implemented by our team – and are the subject of contractual performance requirements -- providing information to assess and improve operations. The client gets better control of these processes by leveraging our expertise, using us to drive change and keeping our eye on the ball through both contractual terms and our interest in ensuring that we have very happy clients.

LJ: What are the top qualities that you would look for in a potential BPO partner?

CS:

- The right cultural fit
- Ability to build a strong relationship and ensure a flexible working environment
- Ability to structure the relationship as a win-win situation
- Choosing the right business model
- Ability to maintain good communication channels
- Structured workflow
- Track record of successfully serving clients

We think that culture is very important to each client situation and we also know that each client is unique. We do not try to modify our clients' environments to suit the way we do business. Rather, we customize the way we deliver services to each client. This is particularly important with respect to our on-site component – that portion of our team that literally sits down the hall from the client's management. We think that this on-site component is critical to understanding our clients' and the way their business are operating and changing.

We know that outsourcing arrangements have to be flexible and must be based on solid relationships. Why? Because no matter how thoroughly a contract is prepared, it is only a document and will have to be updated with changes in the clients' business. Since it is hard to predict how business will change, both parties need to be flexible to change when required and both parties need to trust the other party to fairly adjust the economics of such changes.

Integrated Search Solutions Group



We are a retainer-based executive search firm that has a global presence with specific expertise in outsourcing. We have been involved in outsourcing as a discipline for over seven years. Our experience includes Information Technology, Business Process (Human Resources, Finance & Accounting, and Marketing), and Telecommunications.

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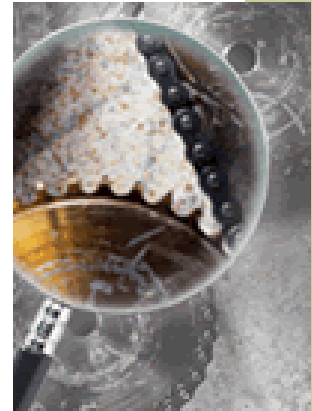
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ACS Signs Expanded IT Outsourcing Contract With The Queen's Medical Center

DALLAS, Dec. 22 /PRNewswire-FirstCall/ -- ACS (NYSE: ACS –News), a premier provider of business process and information technology (IT) outsourcing solutions, announced today that it has expanded the scope of services of its IT outsourcing contract with The Queen's Medical Center (QMC), Hawaii's largest private hospital located in Honolulu. Under the terms of the expansion, ACS will increase its IT infrastructure support and application services to include The Queen's Health Systems (QHS) and affiliates of both QHS and QMC, while continuing to provide a full spectrum of IT solutions for QMC.

ACS has been a valued IT outsourcing partner to QMC for more than 2 years, providing a comprehensive range of IT infrastructure and application management services. ACS' infrastructure support services include desktop support, server management, help desk operations, and networking services. ACS' application management services were added about six months later and include applications support for all administrative, clinical, and financial software systems within QMC.



We wish you and yours a beautiful holiday season filled with the warmth of friends and family with a promise of a happy new year.

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