

January 19, 2006

Inside Outsourcing™



Inside with: David Schnitt, President, IQ BackOffice

**Larry Janis' interview
with:**

David Schnitt,

President, IQ BackOffice

IQ BackOffice is the leading Client-Centric Business Process Outsourcing Company, specializing in Finance & Accounting processes. They assist their clients by managing their business processes to world-class standards, while saving 25% to 50% annually and allowing them to focus on much more important activities. IQ BackOffice is a division of R.C. Baral & Co., one of the innovators in the outsourced accounting field, with almost a quarter of a century of service to widely recognized clients such as Walt Disney, Time Warner, Universal, Fox, as well as many other mid-sized firms. With over 60 clients and a large staff with deep expertise in all facets of back office operations, IQ BackOffice can serve the needs of clients of any size.

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

DS: IQ BackOffice is focused on providing Finance & Accounting BPO services to the upper end of the mid-market, which we define as companies from \$250 million to \$5 Billion in sales or any public company that needs to meet Sarbanes Oxley requirements in their Finance & Accounting processes. This market is still in its infancy of Finance & Accounting BPO adoption.

In our market, we don't see nearly the competition that exists in the large company space where Accenture and IBM nor in the small company space where little Finance & Accounting outsourcing firms (many from overseas) are performing basic bookkeeping services. Most of our clients are public companies that require sophisticated Finance & Accounting process solutions either for one or multiple processes. These outsourcing deals are generally too small for the large outsourcing firms given their overhead and too complex for the small firms, but they are right up our alley!

Fortunately as well, many of the start-ups in the Finance & Accounting BPO market (primarily venture backed firms) have either gone out of business or have been bought-out, leaving a base of good BPO firms with solid clients that can provide excellent references. This has made it much easier for a client to feel comfortable outsourcing their Finance & Accounting processes.

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.



Inside with: David Schnitt, President, IQ BackOffice

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

DS: Finance & Accounting strategy continues to evolve in the direction that has been predicted for years, although on a slower timeframe than was first envisioned. CFO's are gradually outsourcing non-value added, transactional Finance & Accounting processes to focus on providing leadership and value to their organizations.

Finance & Accounting BPO among very large firms (those with over \$5 Billion in sales) is now something every CFO has either already done to some extent or is considering. I believe this is due primarily to the sophistication of these CFO's and their need to focus on more important strategic issues. Pure cost reduction, the primary driver, has been achieved and CFO's are now looking for improved processes resulting in further reductions in corporate spend and revenue enhancement.



In the mid-market where adoption of Finance & Accounting outsourcing has been slower, we definitely see mid-market firms actively looking to outsource. In general, they are following the same trend, outsourcing at first primarily for cost reasons and then to achieve improved performance. At IQ we have been fortunate to find quite a few smart clients that are outsourcing primarily for strategic reasons. And once those clients have outsourced one process successfully, they are looking to outsource additional processes. We are focused on being able to add significant value to our clients' processes and they certainly appreciate it.

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One interesting thing we see among our clients is that they now realize the *value of the best practice processes IQ provides* and *relative lack of value in the ERP software* they spent so much to purchase and implement. In other words, they are now asking: How come we were able to outsource and gain so much value while reducing costs at the same time but had to spend so much money and resources to buy and implement software that forced us to adopt business processes that weren't appropriate for our business? Over time, outsourcing firms will buy their own ERP software and bundle it (i.e., give it away for free) with business processes for specific industries. We already do this with some of our own proprietary software we and our clients use together to manage our outsourced processes.

LJ: What do you see as the hurdles to success in Finance & Accounting BPO?

DS: Probably the biggest hurdle occurs when companies that outsource Finance & Accounting processes take a vendor-based approach instead of a partnership approach. Both parties have to work together to be successful, just as if the processes were performed in-house. And the outsourcing provider has to be adequately compensated for the value that they provide so they can continue to innovate and add additional value.

Similarly, if the outsourcing provider is adding value, that means they are implementing change. Companies that outsource therefore must be amenable to change and support it through all of the phases of implementation which have their ups and downs.



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LJ: What are the most common misconceptions regarding BPO?

DS: In the mid-market there are two major misconceptions: that BPO results in the CFO's loss of control and authority or status and that Finance & Accounting processes cannot be improved or do not need to be improved.

Many mid-market CFO's have a fear of loss of control that is quite deep and emotional. Unlike a CFO at a very large company, a mid-market CFO knows many of the junior staff members and clerks in the accounting area personally and may have even hired them when he or she was the Controller. They are used to going down the hall and asking Susie the status of a bill that is overdue. They equate control and status with being able to manage a large group of people and get answers whenever they want by asking.

Unfortunately, mid-market companies do not have the resources to develop best practice Finance & Accounting processes and as a result not only frequently have processes that perform poorly but also cost much more as a percentage of sales compared to large companies. So while the CFO thinks he or she is in control by being able to ask someone the status of an item, in fact they are frequently out of control due to poor business processes. But very few CFO's actually gather metrics on their business processes to understand their performance. Most think, for example, that Accounts Payable is Accounts Payable and nothing can be done to improve it. Outsourcing improves control greatly by providing a better business process and allowing the CFO and his or her team to focus on strategic initiatives that matter.

One key issue is that many mid-market CFO's still equate their status with the number of people that report to them. Reducing this number makes them feel like their status is being reduced. Its easy to see by asking a CFO their view on outsourcing IT or HR and then comparing that with their view on outsourcing Finance & Accounting processes. Fortunately, this is improving as more and more firms outsource.



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

DS: Companies should look for excellent references from existing clients, a cultural fit and stability. Hearing from existing clients about their experience both in implementation and ongoing service is critical to ensure that the outsourcing firm can actually perform with the highest quality. Providing Finance & Accounting BPO services is very difficult; outsourcing firms have to do many things well and not all can meet the standards necessary.

Working closely together, the client has to feel comfortable with the people at the outsourcing provider and know that any issues can be resolved smoothly and rapidly. Additionally, each client's employees will work closely with members of the outsourcing provider's team. The only way to ensure this is a commonality of culture to provide a foundation for the partnership. (continued on next page)



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Office Locations:

New York
Florida
London
Belgium

Phone: 516-767-3030

email: janis@issg.net

www.issg.net

Members of: HROA, SBPOA, BPOAdvisory Board

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Stability is important because a company can not afford to entrust their Finance & Accounting processes to a provider that may run into problems. I am not talking about the size of the outsourcing company, as all companies have to start somewhere. I am talking about corporate governance and continuity of management at the outsourcing provider. In the mid-market there are still quite a few venture-backed outsourcing providers that have had the common malady of most venture-backed firms, rotating management as the CEO does not meet their optimistic sales projections or they fail to raise their next round of funding. If the outsourcing provider is part of a larger company, it is important to understand how committed the parent entity is to the Finance & Accounting BPO business and whether management of that division has been stable or seems to change with the seasons. Some of the largest outsourcing providers have suffered from a lack of management and continuity that has resulted in very unhappy clients.

LJ: What are the unique aspects of IQ BackOffice that allows it to be successful?

DS: IQ has several advantages over our competitors that allow us to be successful in the marketplace. We truly have best practice business process that are Sarbanes 404 compliant and a league ahead of our competitors. Our quality, service levels and processing speed are world-class. Our clients also utilize IQ's state-of-the-art software to authorize or view the status of any financial transaction in real-time over the web. In addition to providing improved business processes, we also typically save our clients 20% to 50% on an on-going basis versus keeping Finance & Accounting processes in-house.

We have great references from our clients, most of whom are large public companies that have engaged us to provide a variety of Finance & Accounting processes. Lastly, we are quite stable, as I and my partners are the owners and managers of our firm; before IQ we all had much success founding both public and private companies. We have been capturing more than our share of the growth in the Finance & Accounting BPO market and appreciate the opportunity to work with our terrific clients.

"You can't build a reputation on what you're going to do."

Henry Ford