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Inside Outsourcing™



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From the Editor.

Welcome to our current
issue!

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

Hewlett-Packard Company (HP) is a technology solutions provider to consumers, businesses and institutions globally. The Company's offerings span IT infrastructure, personal computing and access devices, global services and imaging and printing. Product and service categories include desktops and workstations; notebooks and tablet personal computers (PCs); printing and multifunction; handheld devices; monitors and projectors; fax, copiers and scanners; digital photography; entertainment; storage; servers; supplies and accessories; networking, and software products. As of October 31, 2003, HP organized its operations into six business segments: the Imaging and Printing Group, the Personal Systems Group, the Enterprise Systems Group, HP Services, HP Financial Services and Corporate Investments.

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

MS: The marketplace has accepted outsourcing of finance and accounting business processes for a long time. Accountants have been routinely engaged for bookkeeping, and payroll has been a well established outsourced service. Specific processes such as billing, collections and check processing also have a long history of being outsourced.

The F&A BPO market we discuss today includes a full set of finance and accounting services required by a company that is competing in the global market. Companies themselves are working toward organization alignment around the world, and this is critical to getting an agreed upon scope of services that can create value for the company. Another hurdle is the lack of clarity around Sarbanes Oxley. Companies are not clear on the required processes for continued compliance.

While there are many additional hurdles in a customer's organization, and the provider's ability to demonstrate the value proposition associated with outsourcing, most companies have recognized that they can obtain value for their shareholders by effectively partnering with a BPO provider. Through detailed due diligence of a providers ability, companies are beginning to get comfortable that the risk reward ratio for F&A BPO is quite favorable, and that is reflected in today's increased market activity.



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

MS: The most significant change we are seeing today is the requirement for a global solution. Companies continue to build on one of the original ERP value propositions. Timely visibility into global operations will enhance their ability to manage.

Companies that operate in a number of countries have a certain level of decentralized management. As they have matured, the cost saving and management visibility achieved through a certain degree of centralization can be a differentiator.



There can be significant value creation through a centralization effort. Successful solutions, however, maintain a strong focus on keeping key processes local for superior customer service, employee service, language, statutory and regulatory reasons. The successful F&A outsourcing partner is one that understands these business opportunities and business constraints, and is able to assist their customers in developing a world class solution.

LJ: How does offshore outsourcing emerge as part of a BPO offering?

MS: HP operates throughout the world, and as many companies have resources in a number of countries. Providing services in labor advantaged markets is part of an overall business solution for a customer. HP has consistently operated where it makes good business sense, and this is similar to our BPO solution offerings. Most world wide competitive solutions today require Process Redesign, Technology Enhancement and Labor Arbitrage. A company must focus on all three in order to keep competitive in a global market.



LJ: What are the most common misconceptions regarding BPO?

MS: The educated buyer of BPO services understands that the long term success of working with a partner is the ability to get increased value from that partner over the life of a BPO contract. Often a customer focuses on the immediate savings that can be contracted for and not on the long term benefit.

The ultimate success in an F&A BPO arrangement is creating business value in addition to the value created by labor arbitrage. A company, when it selects the right business partner, can take advantage of economies of scale, economies of place and economies of technology to create value for itself through the right BPO business arrangement.



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LJ: How does HP differentiate itself in the BPO marketplace?

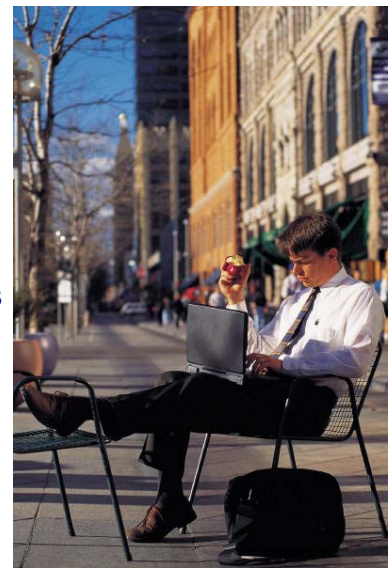
MS: HP is a global company with a highly effective F&A business model that serves HP well and is serving our F&A BPO customers well. HP operates in 160 countries. Our F&A BPO operations have 5600 people, with major processing centers in India, Costa Rica, and soon to open in Eastern Europe. We have a regional network of centers in Northern China, Singapore, Barcelona, and Guadalajara, Mexico. Additionally we have small country offices in 56 locations for language, statutory and regulatory matters.

HP has transformed a deeply decentralized operation into a global shared services operation to meet the needs of a truly global company. We have standardized and simplified our processes; we have implemented enabling technology and have continued to put operations in places that give us the greatest advantage.

As we discuss our capabilities in the market, P&G and others have recognized that we have built a world class cost effective model. Our capabilities to Transform and Transition, grounded in the methodologies developed and refined in combining HP, Compaq, Digital and Tandem, have also given business partners confidence in our ability to design and implement the best solution for them.

The key HP BPO differentiator is our value proposition. Our customers benefit from solutions which include labor arbitrage, process redesign, and technology enhancement over the term of our business partnership. The benefits that are achieved through labor arbitrage are constantly changing given the world markets. HP consistently adjusts its model based on the changes in the world markets, and our customers will also benefit as additional value is created.

The ongoing benefits of a BPO arrangement with HP come from ongoing enhancements in quality and cost that result from process redesign and technology enrichment. Based on the scale of our HP operations, we have the ROI incentive to continue investing in the process redesign and technologies that will continue to add value over time. This aligns the business objectives of our customers with ours. Value creation is a shared motivation, with all parties sharing in the benefits.



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Investing in Outsourcing

By Jeremy MacNealy December 20, 2004

Outsourcing carries with it a lot of baggage in today's politically charged environment. Regardless of one's opinion on this global phenomenon, there's no denying it has become a major economic force; **Infosys Technologies** writes as much in its latest financial statement: "Offshoring has become a megatrend."

As in any economic endeavor, there will be companies profiting from the enterprise. Based in India, like its competitor **Wipro**, Infosys is one of many companies in this industry seeking to help corporations keep costs in check, while maintaining a high level of quality in their businesses.

Its customers are some of the largest and most well-known companies in the insurance and financial sector (Infosys' highest revenue stream comes from this market), the telecom industry (its second-highest revenue stream), and manufacturing (its third-highest source of revenue); discount retailers are also major customers. A few corporations taking advantage of this trend include **IBM**, **Electronic Data Systems** and, most recently, **Microsoft**. Infosys alone added 32 new clients in its most recent quarter; 70% of its customers are based in the U.S. and outsource operations to locations in other countries.

Infosys was a \$20 stock last year, but it now trades in the \$70 range. Have investors missed the party? For 2005, the company is expecting earnings growth of 42%, and it projects sales growth of 46% to 47%. Its price-to-earnings ratio of 34 is reasonable, given the estimated growth rate.

Looking closer, it has produced \$279 million of trailing-12-month (TTM) With \$335 million in cash and no long-term debt, Infosys carries an enterprise value of \$18.2 billion, or 65 times its TTM SFCF. From a cash flow analysis perspective, Infosys is selling at a premium. But consider its net profit margins of 25% and returns on equity and investments above 40%, and it's obvious the company is operating with premium performance. Outsourcing is a major trend, and in many respects it appears to be in its infancy. If the market provides an opportunity to buy Infosys on weakness sometime over the course of 2005, you may have a serious market-beating investment on your hands.

"If all the economists were laid end to end, they'd never reach a conclusion..."

George Bernard Shaw