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# Inside Outsourcing™



## Inside with: Michael Gantt

President & CEO of Ephinay

### Special points of interest:

Inside with:

**Michael Gantt**

Keys to successful outsourcing

Offshoring

### 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.

Ephinay is a full-service finance and accounting business process outsourcing provider (BPO) for Fortune 2000 companies. Our aim is to provide BPO services with a focus on your company's finance and accounting functions, which result in substantial cost savings, value creation, and a positive customer service experience.

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

**MG:** The competitive landscape for BPO is exciting and will become even more so. Companies of all sizes and descriptions are entering the fray. The competition will be fierce and the customers will benefit, since only the best providers will survive this environment.

New BPO providers are cropping up from every corner. In India alone, it seems at times that there are more BPOs than there are people! Of course, in the US, all the legacy ITO players lay claim to BPO capabilities. There will be massive shakeouts in the market, but in the end, the strong will prevail. The development of the competitive landscape will make for great business history.

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

**MG:** Most observers believe that the F&A outsourcing market (or, as it's coming to be called, FAO) is the second major BPO sub-market to take shape after HR BPO. Corporate scandals and Sarbanes-Oxley are causing companies to look at F&A in a different way. Ultimately, this will lead to far more outsourcing of F&A functions to F&A experts. In the short term, it may cause decision cycles to slow down. The slow down is a result of the uncertainty companies feel about this new accounting environment. The ultimate result of increased outsourcing is inevitable, though, because the increased demands on F&A departments will drive companies to take advantage of a supplier community with more F&A expertise and a lower cost structure.

Suppliers are developing into three distinct categories. First, there are the generalists (who include the legacy ITO players) who say, "Sure we can do F&A because we do IT, HR, and umpteen other things." Then there are the niche specialists who perform specific F&A functions (e.g. Accounts Receivable or Accounts Payable). Lastly, there are the full service F&A providers who take on all functions of F&A but steer away from other domains such as HR. All three categories are experiencing success.

## Inside with: Michael Gantt

President & CEO of Ephinay (cont.)

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

**MG:** Providers have to be able to respond to the customer's need for control. The customer's concern about control is real and relevant. A quality provider will be able to give the customer MORE control than when the function was insourced – but it will take time for the customer to be able to comprehend and accept this as reality.

Another hurdle is the newness of the market place. Standard pricing mechanisms, value propositions, contract language – all these aspects of deal-making are taking shape as the market grows.



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

**MG:** Having an offshore presence gives us, at Ephinay, the capability to deliver services to the client optimized for cost and control. I would not attempt to put together a BPO without a significant offshore capability. In fact, I've said that one could consider the "O" in BPO as referring to offshore because no BPO in today's economy can be successful without having an offshore capability. We are in the midst of a secular trend towards outsourcing, but we are simultaneously in a secular trend toward globalization of services. Technology in general, and the Internet in particular, have created a context in which many forms of service work are no longer bound by geography. As a result, labor markets from all over the world which previously had been dormant have now become alive and relevant to specific service industries.



A company without an offshore delivery component will not be price competitive in the long run. Therefore, purely domestic BPOs have numbered days no matter how young they may be.

However, there is more to the story of offshore than just having it. There is the issue of how you deploy it. If a company simply says "We can do your work wherever you want it done," they may at least be price competitive. Value, though, comes from performing the specific task (i.e. each part of the process) in the location in which the greatest value is provided. Cost is just one component of this value. Other value components related to geography include cultural and chronological proximity and level of integration among operation centers located in different parts of the world. Therefore, not every multi-shore (or right-shore or best-shore) delivery model is created equal. The superior model delivers each process in a globally-optimized way.

### LJ: What are the most common misconceptions regarding BPO?

**MG:** BPO is an emerging industry that is taking its place as the appropriate next stage of evolution in outsourcing. Think of ITO (Information Technology Outsourcing) as version 1 of Outsourcing. For approximately two decades, this has been the largest and most prominent aspect of outsourcing activities (although many minor functions have been outsourced along the way). BPO is version 2 – and it is a radical new version. In ITO, the tool is preeminent (as in, "IT is the solution, what is your problem?"). In BPO, the focus is on a specific business domain (such as HR, F&A, and so on), and the tool is subservient to the needs of that domain. Thus, IT is a very important part of BPO but not the preeminent part. ITO tends to pave pre-existing cow paths; BPO enables new, more direct paths to be cut. The next two decades will reveal the power of outsourcing through BPO that could not be fully manifested with ITO.

Many providers who found success in ITO are attempting to succeed in BPO, but they will be hindered by their technology bias. When all you have is a hammer, everything looks like a nail. However, when what you care about is building a house, then a complete toolbox is what you will want to have. The competitive landscape is going to be interesting to watch as true BPOs begin to demonstrate what is really unique about BPO – greater fulfillment of the true promise of outsourcing – in other words, world class performance at functions that are important, but not competitive differentiators for the customer.

## Vertical Skills, Cultural Alignment Both Key to Successful Outsourcing, Says META Group; New IT Outsourcing Vendor Evaluation Report

STAMFORD, Conn.--(BUSINESS WIRE)--Jan. 14, 2004---META Group, Inc. (Nasdaq: METG) today announced the availability of its newest METAspectrum (SM) In Depth report, covering the leading outsourcing vendors in North America. This market comprises vendors providing or integrating information technology and business process services. Leading vendors provide a range of commodity infrastructure services: application configuration, development, and maintenance; integration with business services; and management consulting to pull together disparate technology and business services.

"IT organizations can successfully engage in service agreements with any vendor in this evaluation. Each is technically competent," said Dean Davison, vice president with META Group's Technology Research Services and lead author of the report. "More important will be vertical skills, cultural alignment, business objectives and other less tangible characteristics."

Outsourcing solutions are evolving toward integrated business and technology solutions. Competitive differentiation will center on vertical expertise and alignment as well as the ability to be competitive across the complete spectrum of technology solutions and integrate management consulting and business expertise.

"Purchasers of outsourcing will increasingly become combined task forces of business and technology personnel. Vendors must streamline technology offerings and shift sales organizations to sell and maintain credibility with both business and technology professionals," said Davison. "Because technology is both an enabler and a cost against business operations, optimal use of IT will increasingly impact business results. Failure to leverage technology will become a competitive disadvantage."

### Key Findings and Guidance

The Top IT Outsourcing Vendors: North America report evaluates 15 vendors in this market. All the vendors in this market are successful and each approaches the market with a unique value proposition. This evaluation focuses on the commercial market and excludes strong government providers. The analysis found that brand value and market reputation are greater contributors to success than solution delivery.

-- Leaders possess a full range of technical capabilities and business/vertical market expertise. Brand name is extremely important and leading vendors are investing in customer service.

-- Challengers generally work in technology. Some focus on specific niches such as offshore, while others primarily deliver applications or use an integrator model.

-- Followers are made up hundreds of niche providers. Although some vendors target specific vertical markets or geographical locations, others service only small/medium enterprises. A follower can be technically competent without widespread brand-name recognition or global delivery.

-- Through 2007/08, each vendor will have to develop the following: 1) price-competitive infrastructure solutions, 2) global resource delivery, 3) vertical market depth and specialization, 4) integrated solutions, 5) ability to be an integrator of services, 6) selling models that reach small and medium enterprises in a cost-effective manner.





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## 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.

We have a proven track record with established Fortune 500 companies as well as venture capitalized start-ups.

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## Overseas Outsourcing in India Generates Concerns

DURHAM, N.C., Jan. 16 /PRNewswire/ -- While the controversy around Outsourcing heats up, the push for banks and other financial institutions to send call centers overseas is on the rise. U.S. citizens are angered about the slimming job pipeline for blue collar workers, and there are fears in India that the U.S. government may impose regulations designed to prevent jobs from moving overseas, according to a recent Wall Street Journal article. The article states that approximately 170,000 new jobs have been created in India over the past few years, and the number will grow to about 1.1 million by 2008. "India has become the location of choice for many financial services firms," said Elio Evangelista, author of the report and senior analyst at Cutting Edge Information. "Besides the lower cost of labor, companies find higher employee retention rates in India where customer service jobs are held in higher esteem than in the U.S."

For most companies, outsourcing initiatives improve organizational performance and increase company strength. "Companies save critical resources and spend more time on core competencies through carefully planned, strategically sound outsourcing," said Cutting Edge Information senior analyst, Jason Richardson. "Companies must rapidly determine what to outsource, which vendors to use, and how to continuously improve to stay ahead of the competition."



*"The price of greatness is responsibility"*

Sir Winston Churchill