

Does Your Outsourcing Strategy Give You the Resiliency to Thrive in a Down Economy?

May 6, 2009

$MAY E R \bullet B R O W N$



AMSTERDAM CHICAGO LONDON NEW YORK SAN FRANCISCO STAMFORD TORONTO

Agenda

"Positioning Your Company for Future Growth with a Flexible Back Office"

- Archstone Consulting

"Ensuring Flexibility through Effective Outsourcing Contracting"

- Mayer Brown LLP



Introductions

Maureen Piché - Principal

Ms. Piché leads Archstone Consulting's BPO Practice and specializes in business process outsourcing, shared services, process improvement and merger integration. Prior to joining Archstone, Maureen was SVP, CIO/CPO at Genuity, a Vice President at Bell Atlantic and a Vice President at NYNEX. Ms. Piché has led a shared services organization responsible for IT, procurement, process engineering, real estate and construction and outsourced a number of functions. Ms. Piché holds an MBA degree from New York University and a Bachelor of Engineering degree from Manhattan College.

Mark Woessner - Director

An accomplished outsourcing professional with international experience, Mr. Woessner advises Archstone's clients on all aspects of their sourcing alternatives. Mark brings expertise in effectively developing service delivery and contracting strategies and managing outsourcing contracts, including contract management, negotiations and contract risk mitigation. His experience includes development of pricing models, service level agreements with post-implementation performance reviews, resets, renegotiation and governance. Mr. Woessner holds a B.S. degree in Finance from the University of Wisconsin-Madison.



3

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Rebecca focuses her practice on business and technology sourcing and outsourcing, information technology transactions, privacy and security. Rebecca has represented clients in complex global and offshore technology and business process outsourcing transactions, including information technology, finance and accounting, human resources, procurement, customer relationship and call centers, and development and transformational outsourcing. She also has experience with re-structuring and re-negotiating outsourcing transactions, in-sourcing, managing acquisitions and divestitures in outsourcing transactions, and termination of outsourcing arrangements.

Paul Roy - Partner

Paul has represented national and international firms in a broad range of outsourcing transactions, including the sourcing of IT services and support, application development and maintenance, telecommunications services, help desk services and support, business processes and functions, facilities management services, procurement, and e-commerce transaction processing and support. He has represented established and emerging companies in many different industries, including manufacturing, financial services, consumer products, chemicals, telecommunications, pharmaceuticals, insurance, health care, banking, life sciences, real estate and information technology.



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Today's Discussion

Archstone Overview

Assessing the Right Service Delivery Model for Your Company

Outsourcing Benefits

Balancing Outsourcing Benefits and Risks



Archstone Consulting at a Glance

A Strategy and Operations consulting firm

- Founded in 2003 by leading partners and professionals from top-tier management consulting and strategy firms
- Provides independent advisory services in industries and service areas where we have deep expertise
- 200 consulting professionals worldwide serving leading global organizations (including 24 of the top 100 companies, 58 of the top 500, and 65 of the top 1000 according to the latest Fortune rankings)
- Headquartered in Stamford, Connecticut with offices in New York, Chicago, San Francisco, Toronto, London and Amsterdam

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6

Outsourcing Advisory Services Thought Leadership

Archstone Consulting has been at the forefront of leading thinking regarding the market for Shared Services and Outsourcing and the market changes in this industry.

- International Association of Outsourcing Professionals — Selected as a Top 20 World's Best Outsourcing Advisors
- Black Book for Outsourcing Selected as a Top 10 Boutique Outsourcing Advisory firm for the second consecutive year
- Recent Publications and speeches featuring Archstone
 - Duke University Offshore Research Network —"2007 Service Provider Survey Report"
 - Business Finance Magazine "BPO Deals in the Downturn"
 - 2008 Sourcing Interest Group —"Lessons Learned and Considerations for Business Process Outsourcing"
 - 2008 International Association of Outsourcing Professionals — "Developing Retained Organization"
 - GMA Forum —"Outsourcing in CPG"
 - Industry Week—"Offshoring in Reverse"





7

Assessing Your Company's Service Delivery Model

As companies evaluate their delivery model for their back office functions, there is no "one size fits all" model. Successful organizations use multiple approaches to meet their service delivery needs.

- Companies are using outsourcing, in-house centers of excellence, and in-house shared services groups to deliver functions that span the spectrum of operational complexity and strategic value
- Outsourcing has matured as a key business tool with the development of a standard vocabulary to define common processes, metrics, and contractual expectations
- Companies are "leap frogging" the development of internal shared services and going directly to an outsourcing model
- Internal centralization and centers of excellence will continue to be part of the overall service delivery model as will outsourcing





Outsourcing Adoption is Growing Steadily

- Outsourcing of F&A and HR functions have grown, respectively, at compounded rates of 35% and 54% annually since 2003; Procurement Outsourcing spiked 20% in 2008¹
- The growth rate for IT enterprise application services is forecast to be up to 8% annually through 2011¹

Why are they outsourcing?

- Leverage low cost labor pools
- Standardize business processes and applications
- Access to scarce technical resources
- Provides a flexible back office to support future change
- Seeking an opportunity to "leap frog" shared services

What are they outsourcing?

- Finance & Accounting
- Human Resources
- IT Infrastructure
- IT Application Development & Maintenance
- Procurement
- Facilities Management

1 - Source: AMR April 2009



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Common benefits of outsourcing

- Average savings: 20-45%
- Average payback: 1-3 years
- Ability for companies to focus on core business competencies
- Access to provider best practices and expertise
- Flexible back-office with business process and application standardization



Balancing the Benefits and Risks of Outsourcing

Companies can reap tangible benefits but also must manage associated risks with outsourcing back-office operations to 3rd party service providers.





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Benefit: Reduced Cost of Operations

Archstone's clients have experienced cost savings through several key drivers:

Labor Arbitrage	Labor costs in off-shore countries are 40- 60% lower for IT ADM and F&A activities	A consumer goods company outsourced Finance & Accounting and realized a 40% reduction in labor cost from in- house F&A resources
Reduced Cap-Ex	Clients are able to leverage the capital investments of service providers, which benefits the client's balance sheet	A global hospitality company outsourced IT infrastructure, ADM and helpdesk operations, which is estimated to obtain 20% savings
Leverage Existing Tools	Clients can also use service provider's existing platforms and tools to reduce operating expenses	A CPG company leveraged the service provider's existing Procurement ASP platform, which eliminated the need to develop a custom solution
Lower Facilities Costs	Facilities costs may be reduced or eliminated through moving resources to a centralized service provider location	A healthcare company was able to reduce the lease costs for buildings used for F&A and HR by moving to a centralized location





11

Benefit: Increased Operational Flexibility

Our clients have benefitted from operational flexibility through:

Transaction Pricing	Transactional pricing based on pre- negotiated ranges of volume allows for costs to shift with changing market conditions	A global CPG company outsourced procurement transactions with per-unit pricing to accommodate volume fluctuations
Flexible Staffing Levels	Service providers have the ability to increase or decrease resources according to market conditions and changes in the client's business activities	A chemical manufacturer leveraged the provider's standardized processes and flexible staffing to enable efficient handling of acquisitions and divestitures
Available Talent Pools	Ready access to a talent pool that is available for client project work	A CPG company used a pool of available service provider development hours to work on applications at any time without securing additional in-house resources
Rate Cards	Project work is priced based on pre- negotiated rate cards	A manufacturing company outsourced HR administration to enable a cost- neutral increase of 60% of transactional volumes
	ary and Confidential	Archstone



Benefit: Increased Process Maturity

Our clients have experienced cost savings through several key drivers:

Global Processes	Service providers supply proprietary tools and global delivery centers to implement a common set of processes company-wide	An global CPG company had 15 different F&A systems, and used outsourcing to centralize operations and standardize their processes and platforms
Documented Procedures	Service providers are responsible to document processes and procedures	A consumer foods manufacturer who had grown through acquisitions used procurement outsourcing to leverage established procurement best practices
Best Practices	Process improvement through access to industry leading practices	A consumer chemical producer used outsourcing to standardize user desktop clients, which reduced application support requirements
Continuous Improvement	Creation of continuous improvement programs by utilizing world-class quality initiatives (e.g. Six Sigma)	A global financial services provider outsourced IT ADM operations to achieve a 15-25% improvement in operational quality

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13



Risks of Outsourcing Faced by Companies

While the rewards of outsourcing can be great, companies also face some unique organizational and scale challenges for successful execution





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Organizational Risk Operational Risk "Do I have the right scale?"		
Upfront Costs to Execute Outsourcing	The cost of transition from in-house operations to 3rd party provider, including severance, may impact operating profits in the initial year(s). Companies must also continue operations during the transition to the service provider.	
Cross Disciplined Staff	Individual FTEs may perform multiple functions which complicates the outsourcing solution, as removal of work may lead only to removal of fractional FTEs	
Client Prioritization	Companies may receive less attention post-contract signing from global service providers who target multi-national firms to anchor their client portfolio	



Key Business Questions to Consider before Outsourcing

What	Drivers: Addressing goals beyond cost savings
What to Outsource	 Portfolio: Determining which processes are best suited; i.e., maturity, sequencing, control and efficiency
	Preparation: Documentation of process definition, interdependencies, risks
Where Onshore Offshore Near-shore Captive	 Time: Outsource existing 'mess for less' or optimize internally first? Complexity: Where is the best location now, and what is the migration path? Scalability: Why are some processes best kept in-house, but offshore?
Why Financial Proof of What and Where	 Costs: Are the total costs of process ownership well understood? Service Levels: Are the costs of failing to meet standards well understood? Metrics: Determining what is important to measure and how to measure it
How How to Measure and Manage the Service Provider	 SLAs: Measures of internal processes not enough to manage a provider Management Costs: What is the right amount of governance expense? Improvement: Drive process improvements and cost reductions past year 1



Today's Discussion

Mayer Brown Overview

Getting Greater Value from Existing Deals

The Benefits of Multi-Sourcing

Mayer Brown at a Glance

- 1000 Attorneys in US, 500 in Europe and 300 in Asia
- Serving Fortune 500 and mid-market companies in virtually every industry
- Business and Technology Sourcing(BTS) Group has 50 attorneys worldwide who focus on helping clients buy products and services, including outsourcing services
- Our BTS group has done collectively over 260 deals with over \$90 billion in total contract value
- Chambers (top legal reviewer) ranks Mayer Brown's BTS practice at the top for technology and BPO sourcing.



18

Thought Leadership

Mayer Brown is a market leader in Sourcing and Outsourcing

- Chambers and Partners Top Ranking in Technology and Business Process Outsourcing category for last five years.
- International Association of Outsourcing Professionals - Selected for The World's Best Outsourcing Advisors list for The Global Outsourcing 100TM.
- Black Book for Outsourcing Top 5 Legal Advisors
- Recent publications and speeches featuring Mayer Brown BTS
 - 2009 Sourcing Interest Group "Ways to Cut Costs in Troubled Times"
 - 2009 International Association of Outsourcing Professionals - Contracting Process Chapter Lead and Sponsor



Optimizing and Reducing Costs in Existing Deals

- In this environment, there are ways to save money under existing deals
- These are also topics to consider for new deals

Careful Examination of Existing Contract Terms

- * What is working
- * What is not necessary
- * What might have driven higher costs into the Provider's price

Targeted Discussions with Providers

- * Planned approach and structure for discussions
- * Re-negotiations and Restructuring



Optimizing Contract Terms: Our clients have experienced cost savings through several methods

Reduce Cost	Discuss ways in which to reduce Provider's cost of provision of services	Providers typically will not share cost information, but should be willing to discuss ideas to eliminate cost from your existing deal.
Relax Require- ments	Examine service levels, reporting, prescriptive standards, equipment and software requirements, staffing requirements	Contract requirements that are not delivering value to the Customer are costing the Customer money
Off- shoring	Discuss which functions may be appropriate for offshoring	Consider shared savings arrangements in permitting a Provider to take onshore functions offshore
Reduce Provider Risk	COLA provisions, currency fluctuations, termination for convenience rights, benchmarking pricing.	Risk in deal terms becomes part of the price – risk reduction may offer a chance for reduced prices

Optimizing Contract Terms: Our clients have experienced cost savings through several methods

Scope Review	Eliminate services that you do not need, and consider adding new services that you may need	Customers can reduce costs by eliminating unnecessary services – adding services allows a Provider to spread fixed costs
Cost of Money	Review payment terms and re-consider capital cost responsibilities to save money	Capital expenditures in deals are often structured in fixed cost or "one size fits all" terms. Customers can avoid "over-buying" by taking back cap ex costs
Use Contract Rights	Consider audits, benchmarking clauses and pricing adjustment clauses to revisit pricing where appropriate	Many Customers "grow" deals without considering volume price impacts – review contractual rights and use (or waive) them appropriately for value
Selective re-sourcing	Consider insourcing, re-sourcing or terminating parts that are not delivering value	Exercising flexibility to insource or resource keeps Providers focused on service delivery – multi-sourcing positions Customers to do this quickly

Overview of Multi-Sourcing as a Strategy

What		
	What is Multi- Sourcing?	 Multi-process outsourcing means outsourcing multiple inter-related business or IT functions to one or more suppliers in one or more transactions.
Which		
		 Application Development (Source projects to multiple competing providers)
	Examples of	 Related Functions like Procure to Pay (F&A and Procurement) or HR and F&A (Payrall and data avarlance)
	Functions	(Payroll and data overlaps)Multiple Towers to One Provider
Why		 Allows centralized management of provider relationships, consistency and
		knowledge-sharing across an organization
	What Benefits	Lowers Customer governance costs
		 Avoids lack of responsibility by multiple providers (finger-pointing instead of
		issue resolution)
How		 Consistent terms with multiple providers
	Framework	 Allows for quick sourcing of new scope and built in base for competitive sourcing
	Agreements	 Requires providers to commit to working in a shared services model, with
		competitors working together
23		





Center of Excellence with oversight of all client Governance Organizations.

Client Governance Organization

Sourced functions having governing contract



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