



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

May 6, 2009

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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.



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## Rebecca Eisner - Partner

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.



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## 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

### DEFINING A NEW AGE IN CONSULTING<sup>SM</sup>



## 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.

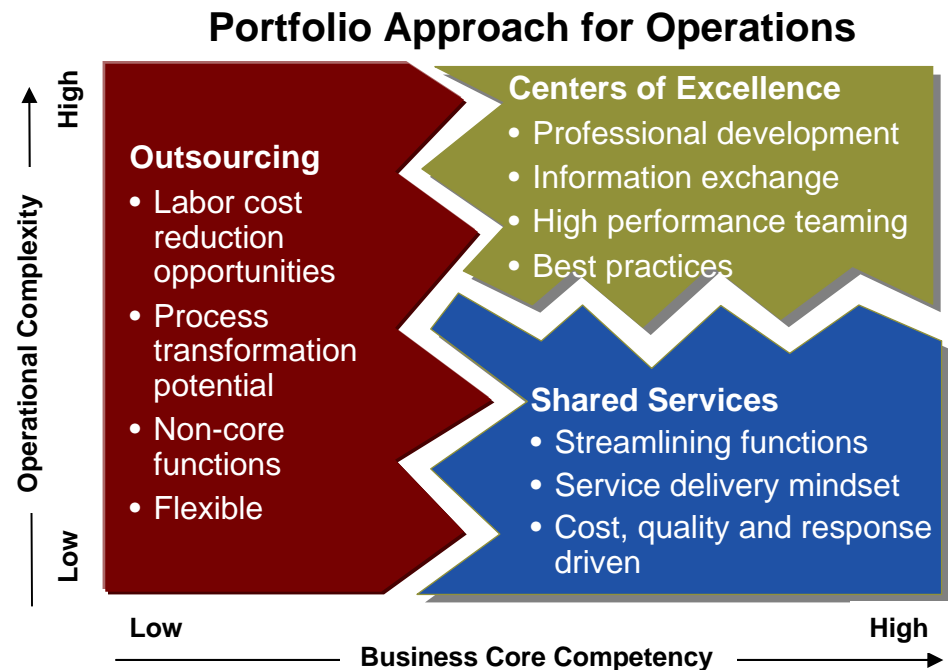
- ✦ **International Association of Outsourcing Professionals** — Selected as a Top 20 World's Best Outsourcing Advisors
- ✦ **Black Book for Outsourcing** — Selected as a Top 10 Boutique Outsourcing Advisory firm for the second consecutive year
- ✦ **Recent Publications and speeches featuring Archstone**
  - 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”



## 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 2008<sup>1</sup>
- The growth rate for IT enterprise application services is forecast to be up to 8% annually through 2011<sup>1</sup>

### 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

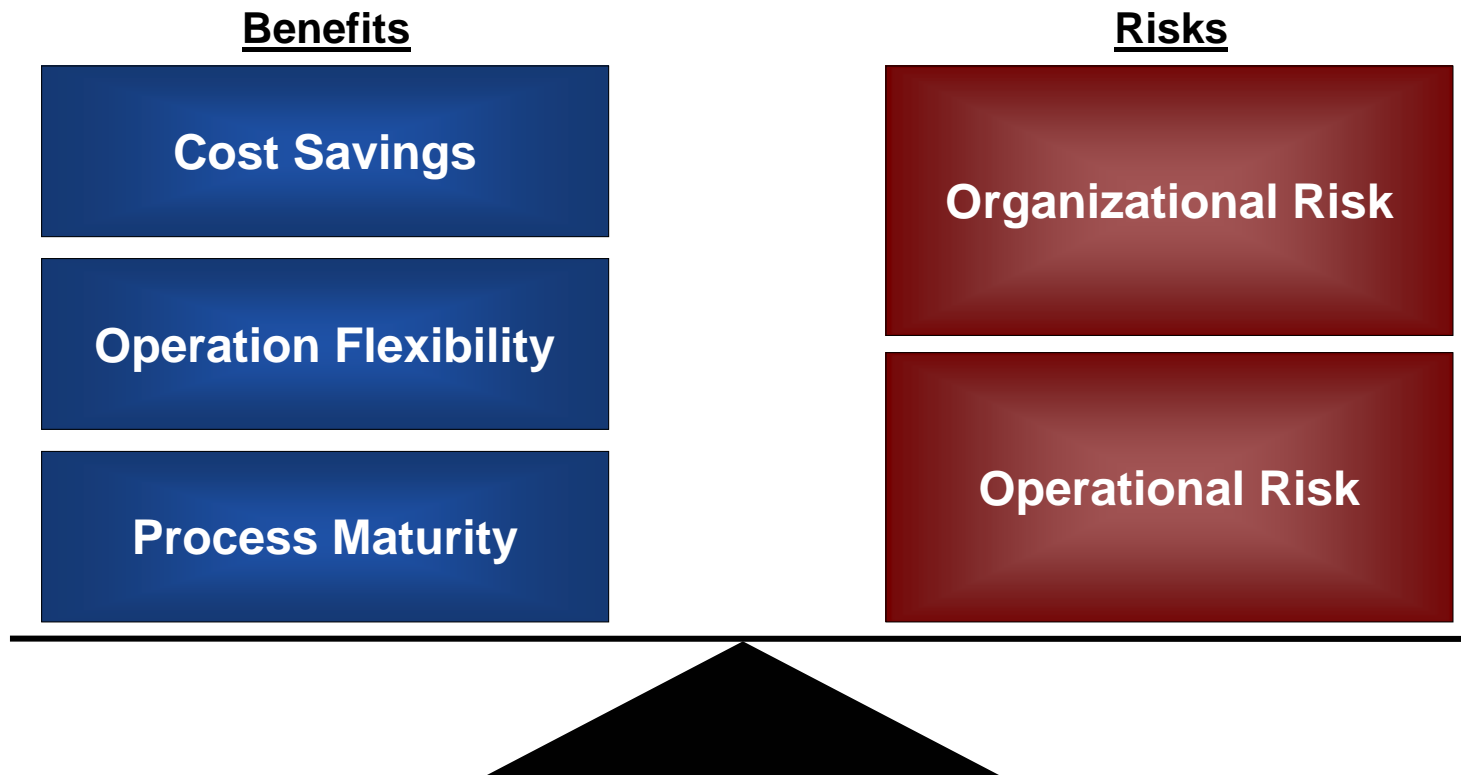
### Common benefits of outsourcing

- 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

1 - Source: AMR April 2009

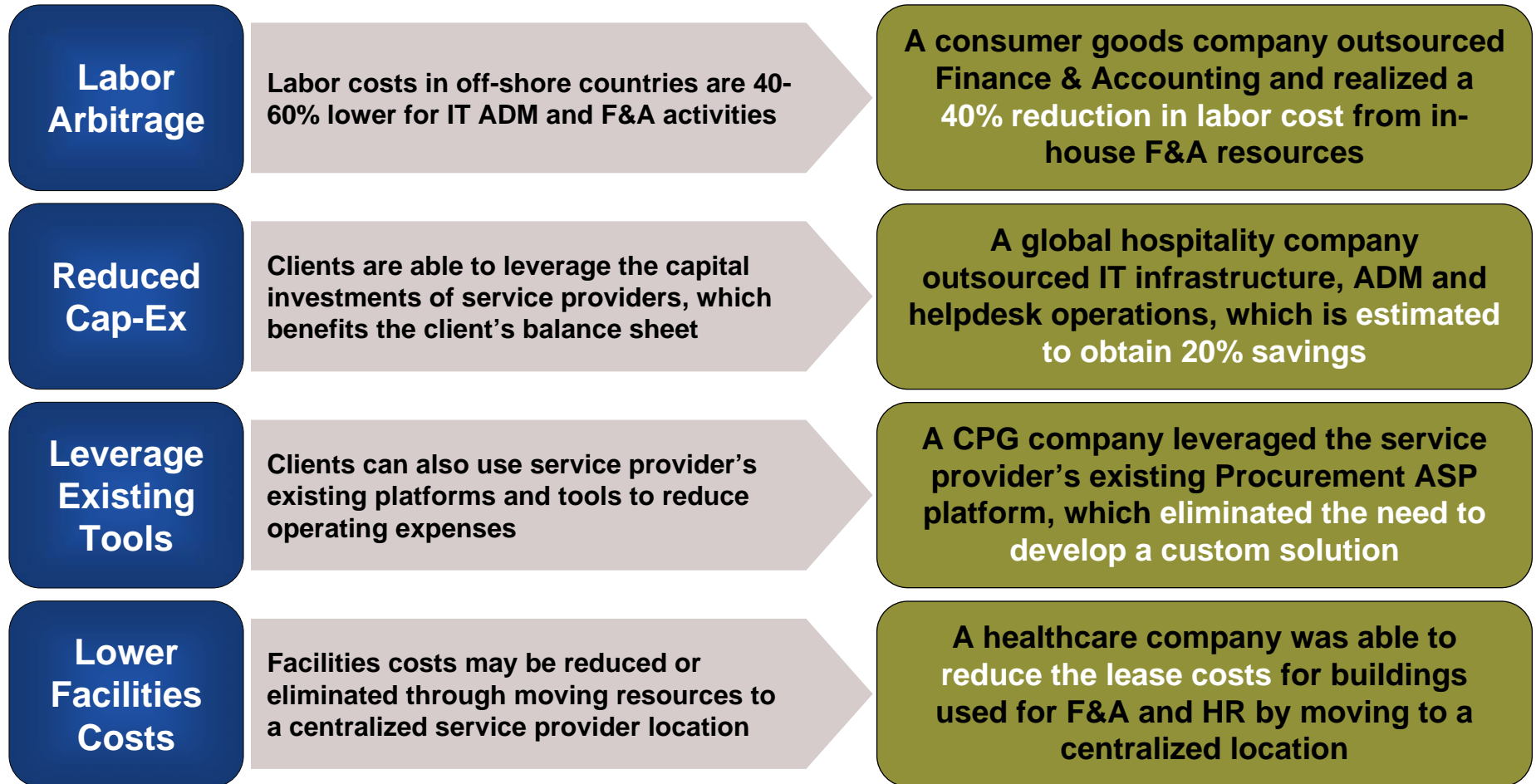
## Balancing the Benefits and Risks of Outsourcing

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



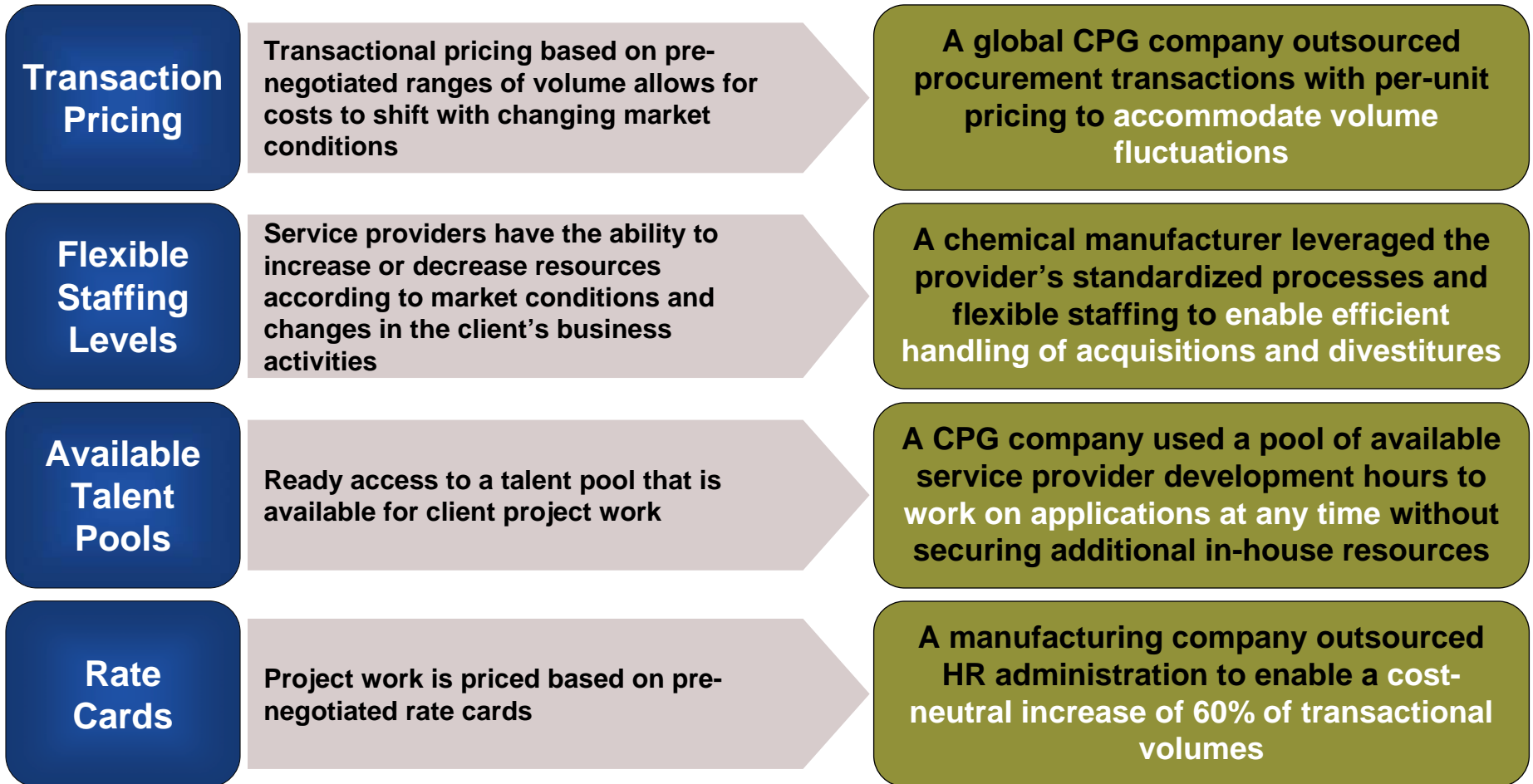
## Benefit: Reduced Cost of Operations

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



## Benefit: Increased Operational Flexibility

Our clients have benefitted from operational flexibility through:



## Benefit: Increased Process Maturity

Our clients have experienced cost savings through several key drivers:



## 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

**Organizational Risk**  
“Do I have the right staff?”

**Operational Risk**

**PMO Resources /  
Capabilities**

Companies may not have dedicated PMO teams / capabilities that are required to drive RFP process, service provider selection, and transition

**Governance**

Managing an internal delivery model requires different skills than managing an outsourcing relationship with a service provider. Retained organization should consist of both current and future leaders.

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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

### *What to Outsource*

- **Drivers:** Addressing goals beyond cost savings
- **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

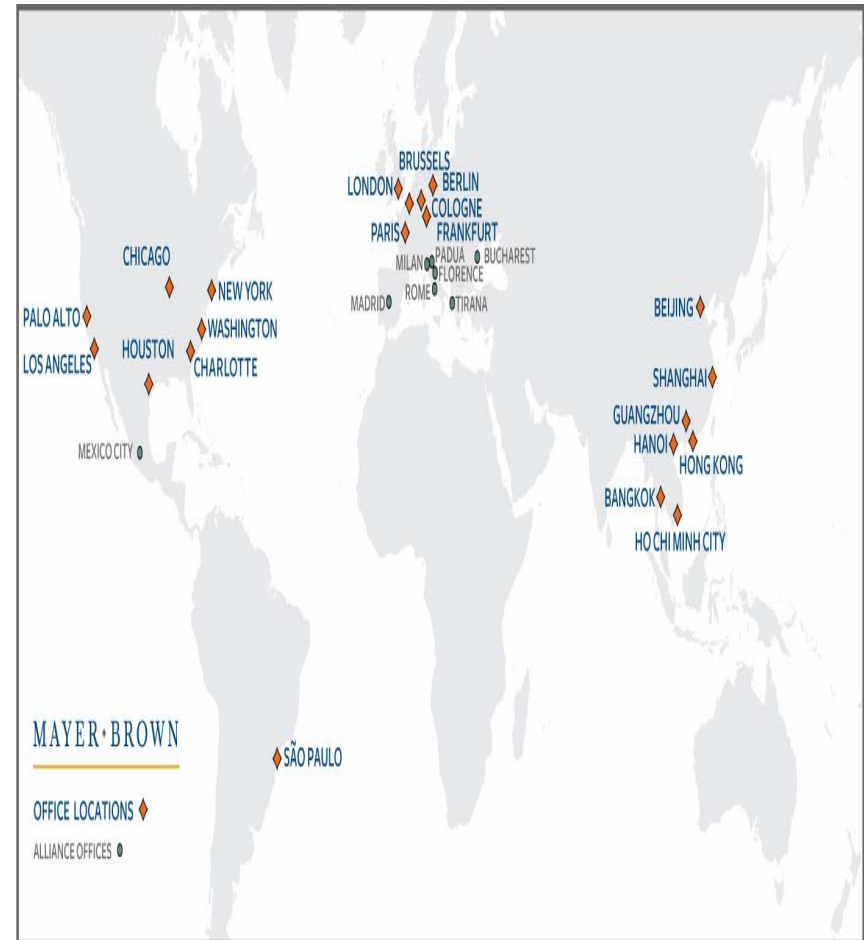
Mayer Brown Overview

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.



## 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 100™*.
- ❖ **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

**Cost Reductions**

## 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 Requirements

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

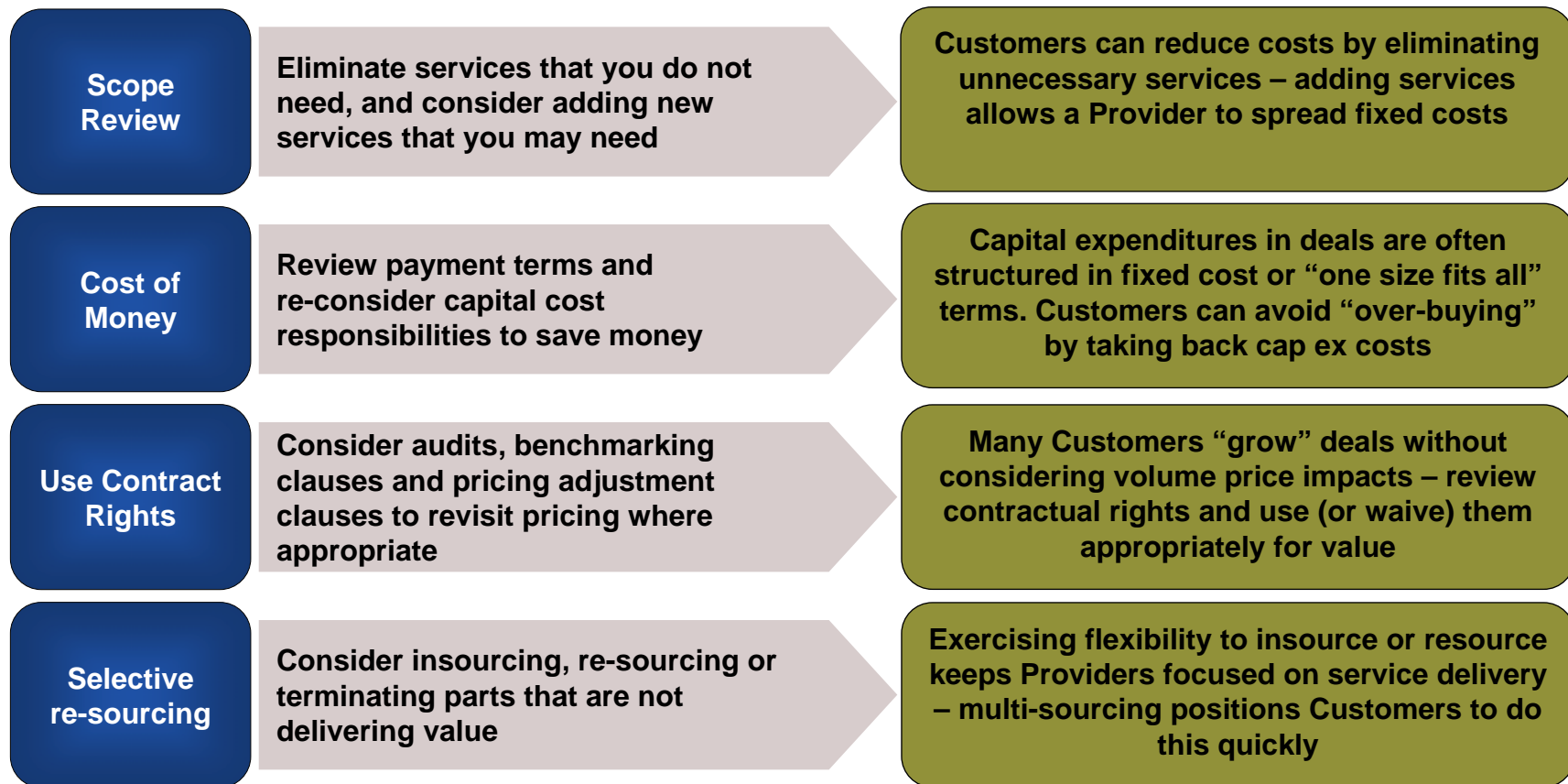
Consider shared savings arrangements in permitting a Provider to take onshore functions offshore

### 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*



## 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

#### *Examples of Functions*

- Application Development (Source projects to multiple competing providers)
- Related Functions like Procure to Pay (F&A and Procurement) or HR and F&A (Payroll and data overlaps)
- Multiple Towers to One Provider

### Why

#### *What Benefits*

- Allows centralized management of provider relationships, consistency and knowledge-sharing across an organization
- Lowers Customer governance costs
- Avoids lack of responsibility by multiple providers (finger-pointing instead of issue resolution)

### How

#### *Framework Agreements*

- Consistent terms with multiple providers
- Allows for quick sourcing of new scope and built in base for competitive sourcing
- Requires providers to commit to working in a shared services model, with competitors working together

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Client Governance Organization



Sourced functions having governing contract



IT



ADM



Net



HR



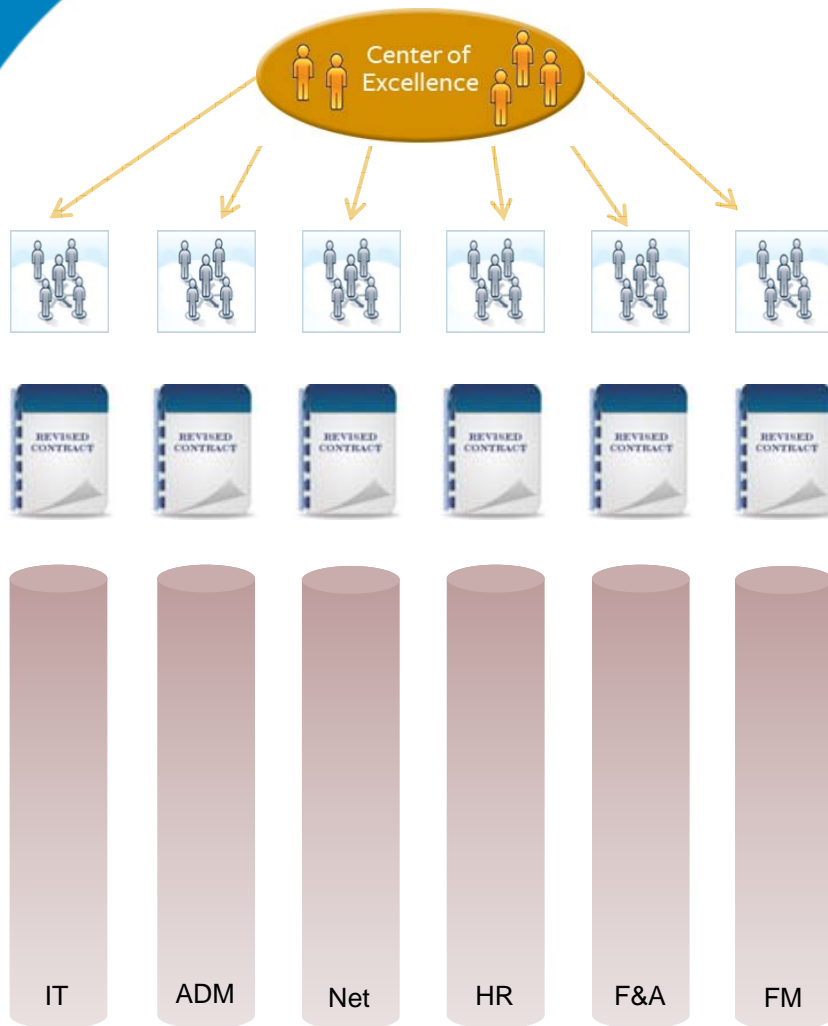
F&A



FM



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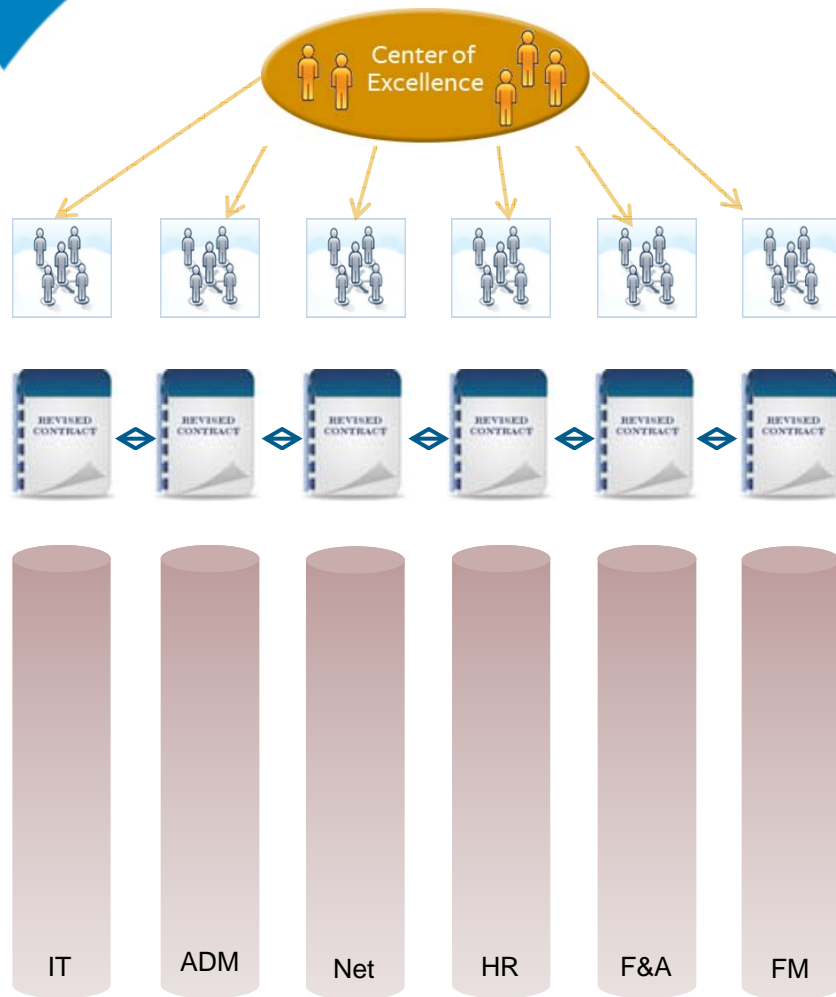


Center of Excellence with oversight of all client Governance Organizations.

Client Governance Organization

Sourced functions having governing contract

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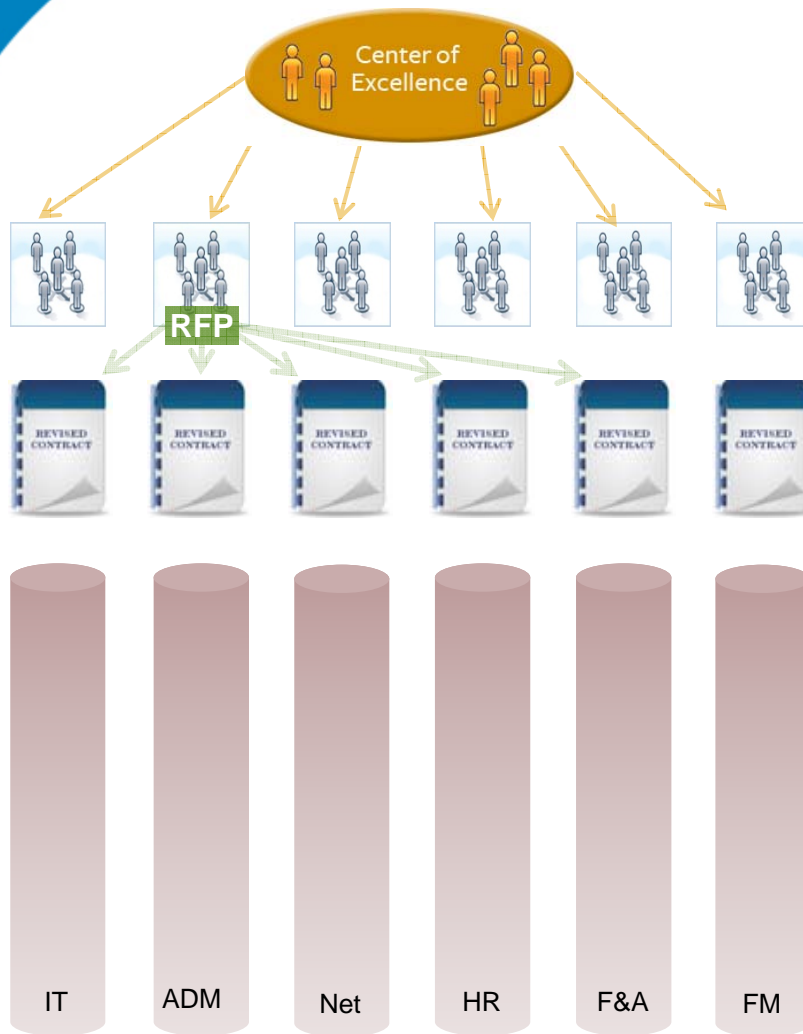


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