

Capgemini Demonstrates the Benefits of Business Process Outsourcing

The biggest messages resounding at a recent outsourcing forum in San Francisco: BPO can now be applied to the majority of business functions, and partnering with the right service provider is key.



Despite a blizzard that blanketed the East Coast with snow the day before, the majority of registered guests made their way to San Francisco during January 24-25 for a forum on business processing outsourcing (BPO), sponsored in part by Capgemini.

More than 200 attendees, mostly senior executives and decision-makers who led procurement, human resources, finance and other crucial departments at companies across the US, came for answers to their questions about BPO initiatives within their organizations. Some of them worked for companies that had yet to initiate any outsourcing, while others had already outsourced their IT departments and were exploring the possibilities of doing the same with other business functions. Most of them had done everything they could internally to improve efficiency and save money, but they now realized they needed other tools to

redefine themselves in an increasingly competitive corporate landscape.

They were given answers by BPO analysts, industry experts, executives who had already guided their companies through the trenches, and the service providers who had helped them with the transitions. Capgemini executives and clients also presented their stories, including:

- Bill Frech, Capgemini's Vice President of BPO, who spoke about the potential returns beyond cost savings that companies can achieve through BPO.
- Jeffrey Smith, Finance Manager for Hydro

"This conference provided reaffirmation to the attendees that they are not the only ones seeking answers about BPO. Because they're in some mode of evaluation, they want to get another perspective beyond their vendors. They got to have dialogues with their peers and colleagues about the evolving industry and its leading drivers. Our pulse survey reinforces that and also gets them thinking about their needs for BPO."

- Chris Carrington, Capgemini Leader of BPO Services for the Americas



One, who offered his first-hand experience of using BPO in the Finance and Accounting (F&A) area.

- Chris Carrington, Capgemini's North America BPO Leader, who shared survey results showing that BPO is becoming more of a key component in long-term corporate strategy.

From cost-cutting to competitive advantage

The first order of business was to underline the fact that BPO is becoming increasingly considered for a growing number of business functions within the corporation. Most early adopters turned to BPO solutions in order to focus on their core business and, in return, improve efficiency and save money. But as the economic climate continues to shift,



Capgemini's Bill Frech presents "Achieving High-End Returns on Your BPO Investment Beyond Cost Savings."

organizations are now forced to think long-term and more holistically.

Today, they're looking for more ways to redefine themselves in the market through the creation of business strategies that integrate BPO solutions at the heart of their organization. Business functions now deemed suitable for BPO include human resources, procurement, customer care and F&A.

A pulse survey of the conference attendees conducted by IDC and Capgemini showed that even though approximately one-quarter of the companies have faced internal challenges such as inadequate change management strategy and management resistance, most have already outsourced their IT (32%), HR (26%) and F&A (14%) departments. "That trend will continue into 2005, with another 25 percent of companies planning to outsource their HR departments, 19 percent outsourcing their customer care departments, and 14% expecting to do the same with their F&A," said Chris Carrington, Capgemini's North America BPO Leader. "They realize that the strategic thinking growth and streamline their processes."

Surprisingly, the lowest cost is not the top priority when selecting a BPO provider, since only 19% of respondents chose cost as the most important criteria. Nearly a third of attendees said cultural fit with their BPO provider was key, while another 30% agreed it was the ability to offer transformation service plus operating capability. This was good news for Capgemini as they are leaders in transformational outsourcing and are focused on building collaborative relationships with their clients. For complete survey results, go to: http://www.us.capgemini.com/ind_serv/services/outsourcing/news_IDCBPO-survey012505.asp

Finding the right partner

In every session during the two-day conference, speakers emphasized the importance of finding a BPO service provider that meets all of the company's needs. Partners need to be selected holistically - not solely for cost consideration, but how well their values and cultures mesh with the company they will assist.

Yet companies must treat their vendors as 'partners' and not merely as short-term consultants or contractors who have no real stake in the business. "'Partners' and 'vendors' are not the same thing," said Kevin Campbell, Solutions Business Leader of HR Outsourcing and BPO at Hewitt Associates, a Capgemini partner. "You must understand which title will

"It's good to meet other companies involved in actual outsourcing and hear their experience. I'm also giving support to other companies who are new to the process and telling them the pros and cons. These sessions fit well with the theme of the conference."

- Ruth Greey, Contract Manager at Hydro One, Canadian electricity provider

"We're in the formal assessment plan of outsourcing right now. The speakers answered my process questions, and I learned many lessons, both from the people who went through BPO and those who provide it. This meeting provided us with a database to answer our questions, both from a process standpoint and capabilities needed."

- Walter Rhodes, VP and Chief Procurement Officer of Entergy, energy provider in five Southern states

"I was really impressed with the conference speakers, and the meetings were small enough to interact. A lot of these are new subjects to me, so the intimacy of the conference made the experts more open and closer at hand."

- Jim Postma, Senior VP of Meijer, grocery retail chain based in the Midwest

be tolerated in the culture of your company, and then draw up a contract to reflect that." Campbell also advised companies to refrain from becoming obstacles to their BPO partner by meddling too much in the processes or harping on small minutiae during the course of a contract. "When you outsource your business function, truly outsource it," Campbell said in his presentation, The Myths of Outsourcing HR. "You have to really let them do their job, and then step back and simply evaluate or monitor. If you don't do that, you can't take advantage of what outsourcing can do for you."

Beyond cost savings

"My clients now ask me, 'What else can I get out of BPO besides lowered costs?'" said Capgemini's vice president of BPO Bill Frech.

In his presentation, he shared the other returns of great value beyond cost savings that can be achieved through strategic partnerships. Based on his views, companies should also consider BPO so they can:

- Move their valuable human capital from doing time-absorbing administrative work to focusing on strategic thinking and the improvement of their core competencies
- Gain efficiencies and best practices by leveraging the experience of its BPO service provider
- Manage their risk more safely with better controls and a clearer understanding about what their tolerance levels are and
- Gain access to the most cutting-edge technology used to perform various business functions.

Frech also emphasized the importance of companies finding BPO partners with a good fit. “The key thing when looking to outsource is picking a partner with a cultural similarity to yours, since you’ll be working with them for a few years,” he said.

Flexibility and a solid governance structure are key drivers when drafting service level agreements. “You both need a stake in the outcome by devising an appropriate risk/reward structure that suits both parties,” he said. “And you need to ensure that the governance model works on all levels, from front-line employees to middle management up to the senior executive level.”

Frech shared results of successful BPO partnerships between Capgemini and various companies:

- After it took over the customer care business from TXU Corp., an energy company in Dallas, Capgemini improved the average call time from two minutes to 15 seconds in the call centers.
- Through a limited agreement with Shell, Capgemini offered divestiture support by running a business that Shell eventually wanted to sell but didn't want to manage while it looked for a seller. Capgemini managed the back office, which kept Shell's books clean until it sold the business.
- For a global process manufacturing company, Capgemini took over the F&A function and improved debt collection,

reduced the number of days it took to receive payment from debtors, cleaned up internal and external audits, and improved overall expense control.

Managing the farm

Frech's primary case study focused on Capgemini's relationship with Dairy Farm, a leading retailer of fast-moving consumer goods in the Asia Pacific region. It earns over \$8 billion in annual revenue, and employs 60,000 people in ten territories. Dairy Farm owned three independent businesses - a grocery chain, a health and beauty product line, and a convenience store chain. The business challenge was to consolidate them as one business unit within the Dairy Farm family so it could then focus on its core competencies of warehousing and logistics. Dairy Farm also wanted to reduce costs while expanding its footprint in Asia.

Seven years ago, Dairy Farm partnered with Capgemini to help meet those challenges. Within nine months, Capgemini executives were able to support Dairy Farm's goals. It relocated the three businesses to a common location. A single ERP solution for General Ledger, Accounts Payable and Fixed Asset systems was introduced. Capgemini also implemented improved management reporting, and reduced costs in the Finance and the Non-Trade Procurement departments. During that time, more than 125 stores were opened, but the cost of finance per store dropped by 30 percent.

There were significant personnel changes at all management levels in Dairy Farm's Hong Kong operations during the two years that the outsourced finance function completed its transition, but the struggles were outweighed by improvements made to the internal and control framework. Dairy Farm's external audit report stated, “We believe that the overall caliber of staff has improved, and that there is greater clarity and openness within the finance function.”

Shareholders' financial expectations were greatly exceeded, and Frech said even he was impressed. “I was astounded by how quickly it took to get these results,” he told the audience. “Everyone got on board, so the speed to benefits was tremendous.”

A Capgemini client's perspective

In the first session of January 24th, a



Jeffrey Smith, Hydro One's Director of Finance, presented “Structuring and Managing Your F&A Outsourcing Contract for Enterprise Advantage.”

Capgemini client explained how the delicate and complex undertaking of outsourcing the F&A function reaped tremendous results through thoughtful planning and execution. Jeffrey Smith, finance manager for the Canadian energy company Hydro One, offered attendees his advice about how to draft a service contract, get through the transition phase, and optimize ongoing contract management.

Hydro One is wholly owned by the province of Ontario, with \$4 billion in annual revenues, 4,000 employees and a total franchise size larger than the state of Texas. In 2002, the company looked at outsourcing some of its division, and ultimately signed a 10-year, \$1 billion deal with Capgemini (the largest of that time) to run IT, customer care, payroll, supply chain, and F&A. Hydro One transferred 925 employees to the new company run by Capgemini, and retained ownership of its assets.

Smith advised those looking to outsource functions to do their research in order to come up with a concise, factual explanation that can defend against those resistant to outsourcing. “Come up with an ‘elevator story’, a short, snappy explanation that articulates why you are doing this deal,” Smith said. “We had to

boil down into a few sentences why outsourcing was the perfect way for us to manage and reduce our risk. You'll have to say it 500 times because there will be naysayers all around you."

The real work begins when the transition starts. Smith shared his recommendations for keeping one's sanity during this time.

- Try to keep units and measures to monitor down to a precious few, and don't sweat the small stuff. "I don't harp on the little details," Smith said. "I don't care when vendors print the checks. I just care that people get paid on time."
- Ensure participation by a wide variety of shareholders, which is especially helpful when it comes time to collect data, and make sure the people on the front lines are on board. "The key to success is front-line managers who are doing the work," Smith said. "Enlist their help and give them a sense of ownership. Your deal will be successful in the long term because they have a stake in it and are not ruled by decree."
- Maintain continuity from the original deal team and keep someone on board who was there from the start of the deal. That ensures information is passed down to contractors, part-timers and others close to exiting the company, and ultimately not lost.

In regard to managing the deal, Smith says the partnership with Capgemini is going well because, again, he doesn't focus on the minutiae. "In real estate, it's 'location, location, location,' and in outsourcing, it's all about 'relationships, relationships, relationships.' That's all that matters," he said. "Squabbling over details is a waste of time. If you're willing to work with the provider, the provider will succeed, but if you argue every point, it's going to be a long, long deal. As long as they meet targets for customer service and serve internal clients well, I'm happy."

Smith said it's also important to recognize and celebrate the BPO service provider's success, because they have as much of a stake in the success of the partnership. "It's easy and simple to say something nice and congratulate them," he said. "Praise for them goes a long way, especially if you say it in front of the VPs." Those last words went a long way indeed, especially to the appreciative Capgemini VPs sitting in the audience.

Representatives from 103 companies attended the two-day conference including:

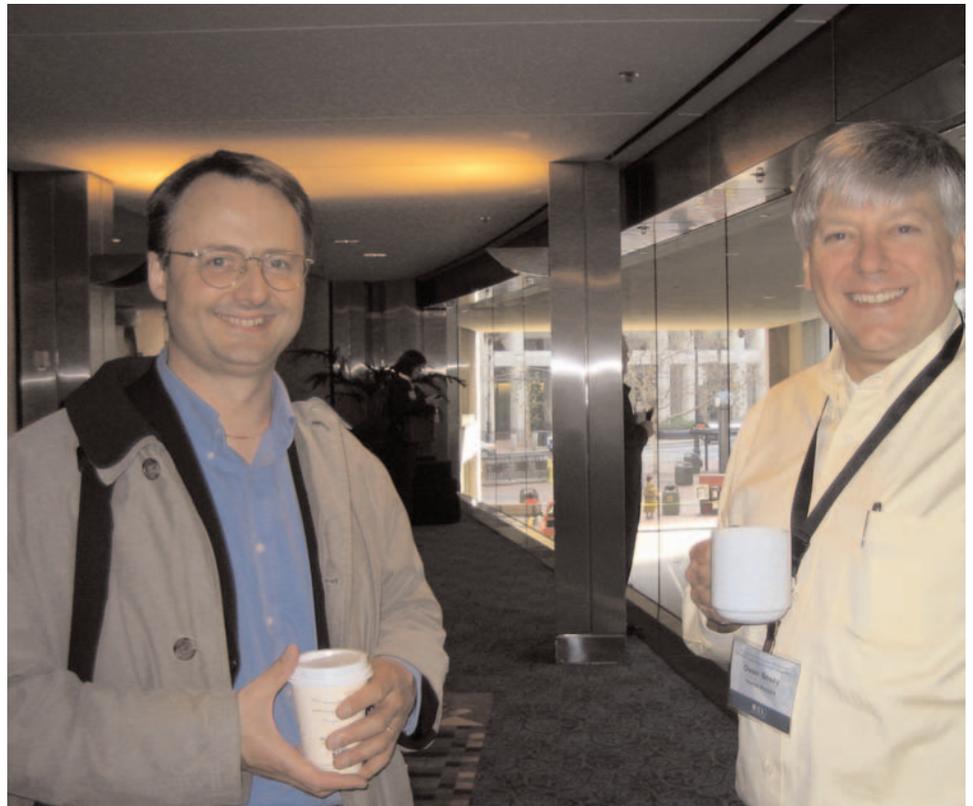
A.G. Edwards, AC Transit, Accredited Home Lender, ACS, Agilent Technologies, AgreeYa Solutions, America Online, American Airlines, American Standard, Ameritrade, Avaya, BPO Management Services, Brainhunter, Capital One, Capital One Financial, Ceridian, Charles Schwab, Cisco Systems, Colt HR, Convergys, CSC, CSE Insurance Group, CyberU, eLance, Entergy Services, EquaTerra, Exodus Alumni, Falcon Strategic Group, Fireman's Fund Insurance Co., General Mills, Goldman Sachs, Greentech LLC, Hanna Insurance Solutions, HCG, Hewitt Associates, Hewlett Packard, HR.com, Hydro One, I2I Meeting, ICG Commerce, Inflection Partners, Intel, International Network Services, ISS, JC Precision Manufacturing, K/P Corporation, Keane, Kohler, Liberty Benefit Insurance Services, Linkage, MacCorkle, McGuire Real Estate, McKesson Corporation, Meijer, Mercer HR Consulting, Merit Resource Group, Merrill Lynch, Milbank Tweed, Mitchell Madison Group, Motorola, NCO Group, NeoDimensions, neoIT, NIIT – USA, Oce Business Services, Orange County Teachers Financial Credit Union, People-Trak,

PlutoWox, PriceWaterhouseCoopers, Prometheus Real Estate Group, Prudential, PwC Saratoga, Red Herring, Resume Mirror, Saybrook, Shaw Pittman LLP, ShopKo, Silver Consulting, Startek, Sun Microsystems, Sutherland Global Services, Syntel, Takahiro Omuro AS, TCS America, The Buying Triangle, The Heritage Group, The Lincoln National Corporation., The Monterey Group, The Move Management Center, TPI, Transmeta, United Health Group, USI Insurance Services of Northern California, VentureForward, Vertex Customer Management, Washington Mutual, WEA Consulting, Wells Fargo Securities, Western Healthcare, Yahoo!

Special thanks to Capgemini attendees:

Christopher Carrington, Tom Compernelle, Bill Frech, Suzanne Graf, Joseph Gutierrez, Peter McKenzie, Nanda Rajgopal, Rajesh Shahi, Jean-Claude Viollier, Mike Wallesen, and Gary Wasslen.

For more information, please contact
Suzanne.Graf@Capgemini.com
(312) 395-5350



Capgemini's Jean-Claude Viollier enjoys a coffee break discussion with HP client, Owen Snoey.

Cappgemini team workshop with IDC analysts.



Chris Carrington presents BPO Pulse Survey results.



Cappgemini sponsored dinner at Palio d'Asti.



Cappgemini speaker, Bill Frech, with event moderator and IDC analyst, Lisa Rowan.