

BUSINESS PROCESS OUTSOURCING

PROCESS, STRATEGIES, AND CONTRACTS

Second Edition

JOHN K. HALVEY
BARBARA M. MELBY



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BUSINESS PROCESS OUTSOURCING



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For my friend and colleague Kurt P. Ross, who made much of this possible and whose common refrain: “Well sir, please respond” is and will be missed

—JKH

For Grayson and Garrett

—BMM

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ABOUT THE WEB SITE

As a purchaser of this book, *Business Process Outsourcing: Process, Strategies, and Contracts*, 2nd Edition, you have access to the supporting Web site:

www.wiley.com/go/Business2E

The Web site contains files for the appendices that appear in this book (see Contents). These appendices are provided in Word format.

The password to enter this site is: business

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PREFACE

The boom in business process outsourcing (BPO) that was anticipated at the time of the first edition of this book has, for the most part, been realized as we prepared this second edition. At this point, virtually every standard business process—human resources, procurement, finance and accounting, project management, legal, research and development, customer care, and acquisition—has been outsourced to some extent as Global 1000 enterprises search for new ways to reduce costs, improve processes and methodologies, and remain competitive. Indeed, there seems to be no limit to the scope and breadth of what can be outsourced and where it can be outsourced to. In addition to the now-“traditional” types of information technology and BPO services, BPO now includes more esoteric services, such as the outsourcing of hedge and mutual fund administration, research and development departments, and the interpretation of Magnetic Resonance Imaging (MRI) reports. In many respects we are now living and working in an outsourced economy:¹ one where the principal tenet of corporate operations is to leverage the outsource model for all but an increasingly core number of corporate functions and where competitive differentiation comes not necessarily from the products and services the company sells but instead from the selection and array of functions outsourced and the skill with which such outsourced functions are managed. As a result, “the world has gone flat,” as Tom Friedman’s recent book on globalization noted,² and outsourcing is very much at the forefront of an intensifying debate about the balance of free trade and protectionism across the globe.

This debate has led to increased scrutiny of the outsourcing product’s operational effectiveness and to a more fulsome examination of the social, political, and economic ramifications of outsourcing on a widespread scale. Hardly a day goes by without national and international publications like *The Wall Street Journal*, *The New York Times*, *BusinessWeek*, *Time*, and *The Economist* discussing outsourcing from a strategic, legal, and geopolitical point of view. From the now-infamous list kept by CNN’s Lou Dobbs during the last presidential election of American companies “exporting” jobs overseas,³ to the dozen federal bills and resolutions that are or were meant to curb offshore outsourcing,⁴ and the

1. Service Mark, Milbank, Tweed, Hadley & McCloy LLP.

2. Thomas, Friedman, *The World Is Flat: A Brief History of the Twenty-First Century* (New York: Farrar, Straus and Giroux, 2005).

3. *Lou Dobbs Tonight* Web site, at www.cnn.com/CNN/Programs/lou.dobbs.tonight.

4. The list of proposed federal anti-outsourcing legislation includes, among other measures, bans on offshoring federal contract work; reporting requirements for companies considering offshoring jobs; consumers’ right-to-know measures for offshore call centers; restrictions on outsourcing-related work visas for foreign nationals; and ending the tax deferral for American companies’ overseas profits. Global Sourcing Information, Table

many states that introduced anti-outsourcing legislation of one type or another,⁵ outsourcing has become part of the business and social lexicon of our age to an extent that could not have been foreseen when this book was first published. Examples of the ever-increasing expansion of the concept of outsourcing can be found everywhere:

- “Students ‘Outsource’ Their Homework to Experts on the Internet” (*Wall Street Journal*, January 18, 2006)
- “‘Homeshoring’—the Use of U.S. Workers’ Homes—for Customer Service Jobs” (*BusinessWeek*, January 23, 2006)
- “U.S. Catholics ‘Outsource’ Prayers to Indian Clergy” (*New York Times*, June 13, 2004)
- “‘Outsourcing’ of Due Diligence on Investment in REFCO Emblematic of Issues at Thomas H. Lee” (*Wall Street Journal*, December 21, 2005)
- “Northwest ‘Outsources’ Flight Attendants” (*Wall Street Journal*, October 26, 2005)
- “‘Outsource Torture’—U.S. Use of Secret Detention Sites Abroad” (*Wall Street Journal*, December 4, 2005)

Clearly, as these examples illustrate, the outsourcing industry must find a way to rationalize its assertion that outsourcing is a critical component of the new global economy with the negative connotation that has become associated with it in this and many other countries. Yet however one looks at the debate as to whether outsourcing is a principal driver to global economic growth or simply a manifestation of corporate self-interest, there is no doubt that outsourcing is here to stay and that there will be more of it across a wider array of business processes.

Perhaps the best evidence of this dynamic is the explosive growth in BPO being provided from offshore locations such as India, with “pure-play” offshore service providers competing directly with U.S.-based multinationals offering increasingly offshore-centric solutions. Other regions—most notably, the People’s Republic of China—have expanded into the IT outsourcing market and are seeking to develop expertise in particular aspects of BPO. Although outsourcing of manufacturing to offshore locations is not new to U.S. companies,⁶ it is predicted that China’s outsourcing services industry will “surpass its role as the world’s manufacturing base.”⁷

Tracking State and Federal Global Sourcing Legislation, National Foundation for American Policy Web site, atwww.nfap.net/researchactivities/globalsourcing/appendix.aspx.

5. The list of proposed state anti-outsourcing legislation includes, among dozens of other measures, bans on offshoring state contract work; restrictions on consumer information being sent offshore; consumers’ right-to-know measures for offshore call centers; extending insurance benefits to workers who have been displaced through outsourcing; and advance notice to employees before their jobs can be sent offshore.
6. *BusinessWeek* noted “outsourcing of manufacturing to China has become almost standard practice” (Editorial, “*Learning to Live with Offshoring*,” *BusinessWeek* Online, January 30, 2006).
7. International Data Corporation (IDC) press release, December 31, 2005.

The rise in outsourcing has not, however, made doing an outsourcing deal any easier. As noted, the political, regulatory, and legal environment is becoming more complex. A company thinking about outsourcing a business process offshore must consider a myriad of legal and regulatory issues, including: (1) contractual provisions, (2) privacy laws and regulations, (3) taxation issues, (4) export control regulations, and (5) local laws of the countries implicated in the transaction. To take privacy laws as an example, a number of different laws could potentially be applicable to the collection, transmission, disclosure, and/or use of private information in connection with an outsourcing transaction, including, among others, the Communications Act of 1934, as amended by the Telecommunications Act of 1996 (the Telecom Act); the Gramm-Leach-Bliley Act and the Right to Financial Privacy Act of 1978; and the Health Insurance Portability and Accountability Act of 1996 (HIPAA). The applicability of these laws may depend on the company's industry, the nature of the applications or functions being outsourced, and the type of information those applications or functions are used to process, so each regulation would need to be evaluated individually and complied with to the extent applicable to the company seeking to outsource. The position becomes even more complicated when addressing offshore privacy rules, such as the European Union Data Protection requirements. Assessing the potential implications and risk of international legal and regulatory compliance is not an easy task to undertake.

To master the outsourcing transaction and to then manage the outsourcing relationship requires a combination of both strategy and process. Companies will need to focus on their core competencies (e.g., the sale of a specialized good or service) and efficiently outsource all noncore elements of their business. The competitive differentiation for most global organizations will be the ability to manage multiple outsourced relationships effectively. And in this regard, they will need even greater assistance from their advisors. Managing an outsourced relationship involves having the right contract governance and management procedures in place, using effective communication, and dedicating the time, resources, energy, and commitment to leveraging the most from the outsourced relationship. Only through this process will companies be able to maintain their competitive advantage.

This new edition hopes to bring the reader up to date with changes and developments in outsourcing transactions and the process of doing outsourcing transactions in the past six years. During this time, BPO has evolved from the province of early-adopter corporate departments in need of an out-of-the box answer to their business process needs, to the solution of choice for the enhancement of an increasing number of business processes for an increasing number of Global 1000 companies. The "practice" of BPO has evolved in step with this movement from back office to front office and is now more complex, more challenging, and, potentially, more rewarding. As with the previous edition, this book is not a substitute for legal, technical, financial, or accounting advice but, instead, a guideline to effectively manage an outsourcing transaction.

OVERVIEW

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1.1 THE EMERGING MARKET

Over the past 40 years, only 5 percent of Fortune 500 companies have grown revenues in excess of the rate of inflation.¹ Business process outsourcing (BPO)—the management of one or more specific business *processes or functions* (e.g., procurement, finance, accounting, human resources, asset or property management) by a third party, together with the information technology (IT) that supports the process or function—is the next generation of outsourcing aimed at providing companies with more robust cost containment and more revenue-generating tools. As IT outsourcing services become more “commonplace,” companies are looking to BPO as a means to revitalize their business processes and methodologies, reduce costs, and transform their organizations.

The BPO trend is supported by predictions like the one from IDC that BPO spending will increase globally to 13.9 percent per year over the next five years.² Perhaps the most accurate predictor of the impending growth in the BPO services marketplace is that the Kennedy Information Research Group estimates that the worldwide BPO consulting marketplace will grow from \$4.8 billion in 2005 to \$7.5 billion in 2009.³ McKinsey has predicted that global BPO will amount to over \$500 billion by 2008.⁴

1. L. Sanford and D. Taylor, *Let Go to Grow* (Upper Saddle River, NJ: Prentice Hall, 2005), p. 224.

2. *Consulting*, May/June 2006, p. 54.

3. *Ibid.*

4. V. Agrawal and D. Farrell, “Who Wins in Offshoring,” *The McKinsey Quarterly*, 2003 Speech Edition; *Global Directives*, p. 37.

It is easy to understand how most people involved in the outsourcing marketplace regard the potential revenue that can be generated from outsourcing business processes as being significantly greater than that generated by more traditional forms of outsourcing. For the customer, the outsourcing of various business processes is the next step in the process that started with IT outsourcing by allowing the customer to focus on its core competencies, while having a qualified third party focus on and add value to noncore processes. For the typical vendor, BPO, a natural extension of IT outsourcing, offers a possible means to expand its primary service offering, with the opportunity to introduce innovative service and pricing structures (and, it is hoped, realize higher pricing margins) in an emerging market. “Outsourcing’s popularity derives largely from the huge cost savings it can bring and the value it can create.”⁵

As noted, analysts are looking at the potential revenue to be generated from BPO transactions and are making astounding growth predictions for the BPO market in the next few years. If these predictions prove even remotely correct, the BPO market will dwarf the IT outsourcing market in the near future. Examples of some of the bold expectations for the BPO market include:

- Forrester predicts that by 2015, approximately 3.3 million U.S. business process jobs will have moved abroad.⁶
- McKinsey estimates that there is \$3 trillion worth of business functions that could be performed remotely.⁷
- *BusinessWeek* observes that “work processes in practically every big department of a corporation can now be outsourced and provided to some degree offshore.”⁸ Some of the biggest sectors in terms of global spending in 2005 were:

Analysts	\$12 billion
Human Resources	\$13 billion
Finance and Accounting	\$14 billion
Engineering	\$27 billion
Customer Care	\$41 billion
Info Tech	\$90 billion
Logistics and Procurement	\$179 billion

While BPO is emerging as a market in and of itself, it has also become more common for legacy IT outsourcing vendors to market business process services, such as internal business process management and business process transformation, as part of a comprehensive IT outsourcing deal or separately. It is likely,

5. “Getting the Measure of It,” *The Economist*, July 2, 2005, p. 59.
 6. Agrawal and Farrell, “Who Wins in Offshoring.”
 7. Agrawal, Farrell, and Remes, “Offshoring and Beyond,” p. 30.
 8. “The Future of Outsourcing,” *BusinessWeek*, January 30, 2006, p. 55.

REGION	CENTRAL AND EASTERN EUROPE	CHINA AND SOUTHEAST ASIA	LATIN AMERICA AND CARIBBEAN	MIDDLE EAST AND AFRICA
Market Size	\$3.3 billion	\$3.1 billion	\$2.9 billion	\$425 million
Top-Ranked Countries	Czech Republic, Bulgaria, Slovakia, Poland, Hungary	China, Malaysia, Philippines, Singapore, Thailand	Chile, Brazil, Mexico, Costa Rica, Argentina	Egypt, Jordan, United Arab Emirates, Ghana, Tunisia
Up-and-Comers	Romania, Russia, Ukraine, Belarus	Indonesia, Vietnam, Sri Lanka	Jamaica, Panama, Nicaragua, Colombia	South Africa, Israel, Turkey, Morocco
Emerging Local Providers	Luxoft (Russia), EPAM Systems (Belarus), Softline (Ukraine), DataArt (Russia)	NCS (Singapore), Bluem, Neusoft Group, BroadenGate Systems (China)	Softtek (Mexico), Neoris (Mexico), Politec (Brazil), DBAccess (Venezuela)	Xceed (Egypt), Ness Technologies (Israel), Jeraisy Group (Saudi Arabia)

EXHIBIT 1.1 REGIONAL ANALYSIS OUTSOURCING

Source: "The Future of Outsourcing," *BusinessWeek*, January 30, 2006, p. 55.

therefore, that on a going-forward basis, most outsourcing deals will include some aspect of business process series and IT series in the next few years. As a result, the conventional IT vendor has been forced during the past five years to realign its organizational structure, marketing strategies, and resource capabilities to account for the market's interest in business process and IT outsourcing services.

Exhibit 1.1 shows that the BPO market is now truly global.

1.2 WHAT IS BPO?

As discussed earlier, BPO is clearly the hot topic in the outsourcing industry, receiving a good deal of attention in the press as well as outsourcing and industry-specific seminars. But what is covered by the term *business process outsourcing*?

The typical IT outsourcing deal focuses mainly on the IT component of business operations, such as data center and desktop operations. The outsourcing of a data center, for example, provides back-office support to a number of business functions, thereby providing a service that is shared by several, often unrelated, business functions. Rather than providing IT support to multiple functions, BPO refers to the outsourcing of one or more specific *business processes, methodologies, or functions* to a third-party vendor, together with the IT that supports it. BPO focuses on how an overall process methodology or function is

effective—from manager to end user—rather than on the technology that supports such process or function. IT is only a component of the overall business process. A formal definition of BPO is set out in *The End-User Executive's Guide to BPO*, which defines BPO as “the delegation of one or more IT-intensive business processes to an external provider who, in turn, administrates and manages the selected processes based upon defined and measurable performance metrics.”⁹

One of the challenges of discussing BPO is that it refers to the outsourcing of any “business process,” which covers a wide spectrum of possibilities, from procurement, to accounting, to human resources, to asset and property management. In the next section, we place some parameters around the general categories of business processes that companies have focused on as potential targets for outsourcing.

1.3 BPO CATEGORIES

(a) **GENERAL CATEGORIES.** Business processes that have come under close examination as potential candidates for outsourcing typically fall within one of seven categories:

1. Finance and accounting
2. Investment and asset management
3. Human resources
4. Procurement
5. Logistics
6. Real estate management
7. Miscellaneous (energy services, customer service, mailroom, food processing)

These categories have been established to facilitate the discussion of the general types of business processes that are the subject of consideration for outsourcing. Because in many cases a business process touches different areas within an organization, customers and vendors may categorize certain business processes under different headings depending on the organization's internal structure. For example, in some companies, payroll is considered a human resource function, while in others it is considered a finance function.

As the BPO market evolves, customers and vendors will undoubtedly identify more business processes than can—and will—be outsourced. The potential reach of BPO is evidenced by the scope of what is even now being considered for outsourcing. Business processes targeted for outsourcing are expanding beyond the traditional corporate support functions into the supply chain. For example, an increasing number of companies are considering outsourcing their customer service functions. The voice behind that toll-free customer service number may not

9. G2R, TPI, and Milbank, Tweed, Hadley & McCloy LLP, *The End-User Executive's Guide to Business Process Outsourcing* (1998), p. 9.

be an employee of the manufacturer but an employee of a third-party outsourcing vendor.

(b) FINANCE AND ACCOUNTING. These functions may include:

- General accounting
- Payroll
- Treasury/cash management
- Accounts payable
- Accounts receivable
- Credit
- Fixed assets
- Contract maintenance
- Collections
- Financial systems
- Tax and regulatory compliance
- Budgeting
- Securities and Exchange Commission and regulatory reporting

Since business processes that fall within the administration category are generally not considered core to a company's operations, more companies are examining processes such as tax compliance and internal auditing to assess whether they should be outsourced. Tax compliance has been the subject of outsourcing for longer than most other business processes. Companies have historically outsourced some or all of their tax compliance function to outside accounting firms. Because taxes, in many ways like the practice of law, require being constantly apprised of the laws, regulations, and rules in multiple jurisdictions, many companies have found it more efficient to rely on outside firms to manage this process.

Companies that do outsource all or part of their finance function often want to turn over managerial and operational responsibility of a finance function in conjunction with the reengineering of their financial methodologies and systems. Such reengineering may involve the development and implementation of new methodologies and/or systems or customization of off-the-shelf or standard third-party methodologies and/or systems (e.g., a SAP or Oracle implementation). Outsourcing transactions that include business process reengineering and BPO are more complex, often involving multiple documents and requiring the parties to address issues such as cross-termination and cross-default.

(c) INVESTMENT AND ASSET MANAGEMENT. An area that financial services organizations, particularly hedge funds and mutual funds, are considering for outsourcing is investment and asset management. If, for example, an investment company manages a small amount of certain assets as part of a larger service offering or in order to market itself as a full-service company, it may consider

outsourcing the underlying business process to a more experienced company with larger portfolios of such assets and greater infrastructure and resources to manage them. An issue that arises with investment and asset management outsourcing is the extent, if any, that permission from or notice to the outsourcing customer's clients is necessary. Such an approval or notice requirement may dissuade some financial service institutions and investment companies from outsourcing for fear that clients may find it more cost effective to do business directly with the outsourcing vendor. This trend is reflected in a number of recent deals between financial institutions, such as the recent hedge fund administration outsourcing transactions between JPMorgan and Paloma Investments. In this deal, which is emblematic of the broader trend of outsourcing in the mutual fund and hedge fund space, JPMorgan acquired the back-office assets and trading platform of Paloma and entered into a long-term contract to provide it with hedge fund administrations services.¹⁰

(d) REAL ESTATE MANAGEMENT. Although investment and asset management outsourcing has just begun to gain attention, property or real estate management operations have been the subject of outsourcing for some time. The management of property or real estate typically involves responsibility for such noncore functions as physical security, maintenance, customer service, cafeteria, parking, leasing, rent collection, and disaster recovery. Since in many cases the real estate owners purchase property for investment purposes, they often are eager to turn over management responsibility to a third party.

As with other types of outsourcing, choosing the right service provider is vital. Service contracts typically run from three to five years and the costs can range from \$100,000 to \$15 million per year, depending on the services provided and the type of facility. The stakes are especially high with facilities management because it can affect so many different aspects of the business, and failure to hire an experienced and reliable service provider can lead to significant down time, unproductive employees, dissatisfied customers and finally the loss of business.¹¹

(e) HUMAN RESOURCES. Human resources is the aspect of BPO that has gotten the most attention in the past few years and where there have been the greatest number of transactions. What is covered by the term *human resources* (HR) varies from company to company. For example, some companies consider payroll to be a HR function; others consider it a finance function. For the purposes of this discussion, the HR category covers all employee-related functions, from recruitment to benefits management, claims administration, and payroll.

Today it is increasingly common for companies to outsource the entire HR process to one vendor; until recently, however, it was more common for a company to identify particular functions within the HR process for outsourcing

10. Finextra.com, February 13, 2006.

11. "And Outsource the Buildings Too," *Global Services* (April 2006): 42.

COMPANY	SUPPLIER	EMPLOYEES COVERED	CONTRACT LENGTH (IN YEARS)
BASF	Fidelity	20,000	5
BT	Accenture	97,000	10
Dana Corp	IBM	70,000	10
Delta	ACS	N/A	7
DuPont	Convergys	70,000	13
Duke Energy	IBM	N/A	5
Eastern Kodak	IBM	N/A	5
Marriott	Hewitt	133,000	7
Mervyns	Hewitt	29,000	7
Nisource	IBM	N/A	10
Omnicom Group	Hewitt	N/A	8
PepsiCo	Hewitt	107,000	10
PHH Corp.	Ceridian	8,000	N/A
Rockwell Automotive	Hewitt	15,000	15
Thomson Corp.	Hewitt	28,000	5
Wachovia	Hewitt	90,000	7
Whirlpool	Convergys	68,000	10

EXHIBIT 1.2 TOP HRO DEALS

Source: "The Top HRO Deals," *HRO Today* (January/February 2006): 47.

to different vendors, largely because different vendors have different areas of expertise. For example, if a company wanted to outsource payroll, it might consider a vendor with particular expertise in that area, such as ADP; if it wanted to outsource benefits management, it might consider a vendor with more expertise in Employee Retirement Income Security Act (ERISA) and insurance, such as Hewitt. Nearly every BPO supplier has begun to develop expertise in this area, including industry leaders Accenture and IBM.

According to a number of surveys, HR functions are among the most common business functions outsourced (see Exhibit 1.2).

Customers (and vendors) considering an arrangement that involves the outsourcing of one or more HR functions will need to consult representatives from a variety of disciplines. Such disciplines typically include, at a minimum:

- Legal
- Audit
- Personnel
- ERISA
- Tax
- Privacy

(f) **PROCUREMENT.** The types of goods and services that may be included in the procurement outsourcing arrangement depend largely on which goods and services the customer considers nonproduction goods and services. In some

instances, the customer focuses the outsourcing on specific goods and services, such as office supplies or office equipment. In the typical procurement outsourcing transaction, the customer typically is looking to the vendor to standardize supply options and offer cost savings based on efficiency and economics of scale. Examples of the key procurement processes that have been outsourced are:

- Strategic sourcing
- Requisition and approval
- Order management
- Receiving, inventory, and invoicing
- Fixed asset management
- Accounts payable
- Financial reporting and analysis

(g) LOGISTICS. An area that is receiving significant attention, particularly in the vendor community, is procurement outsourcing. Procurement outsourcing covers some or all aspects of noncore purchasing and supplies management, including:

- Product selection
- Acquisition
- Delivery
- Inventory
- Packing
- Warehouse management
- Installation
- Moves, adds, and changes
- Refreshes
- Maintenance
- Help desk services

Because logistics outsourcing typically involves the acquisition, handling, and/or transportation of goods, a number of legal and regulatory issues specific to such services may arise, such as warehouse liens, security interests, insurance, and allocation of risk during transportation. As with any BPO transaction, the customer and the vendor should consult legal and other counsel, as appropriate, to flesh out all of the applicable legal and regulatory issues and assist in identifying the risks and benefits of the transaction.

(h) MISCELLANEOUS. In addition to the general business process categories already discussed, companies are beginning to consider a number of other, less easily categorized processes for outsourcing. Such business processes include energy services, customer service, mail and copying services, and food services

(which, in some cases, may fall under the category of property management). The spectrum of business processes that are the subject of outsourcing will likely grow as companies identify noncore areas that may be managed effectively by a third party or, if outsourced, will lead to a reduction in costs.

1.4 REASONS FOR OUTSOURCING BUSINESS PROCESSES

For the past five years, vendors have been marketing BPO as an alternative to the typical IT outsourcing deal, encouraging customers to identify noncore processes that are inefficient, too costly, or difficult to manage. The entire process (except, in most cases, a high-level management position or positions) is then turned over to the vendor, who, in turn, typically agrees to productivity, customer satisfaction, and cost savings commitments.

As the IT outsourcing marketplace becomes more standardized, BPO customers are looking for innovative ways to increase the efficiency and quality of an entire business process through value-added services, customer satisfaction, and, ideally, a direct, quantifiable impact on cost. Some of the key business drivers for customers considering BPO include:

- Transferring the entire function (not just the IT component) to a qualified supplier
- Enhancing/improving methodologies
- Benefiting from industry knowledge or experience
- Streamlining or standardizing processes across the organization
- Sharing resources or technologies
- Committing less up-front investment to new methodologies or technologies
- Obtaining flexibility with respect to the roll-out of methodologies or technologies
- Increasing productivity
- Quantifying savings or benefits
- Tracking customer satisfaction
- Enhancing shareholder value

Obviously, objectives for outsourcing one or more business processes will vary on a deal-to-deal basis. The objectives are typically shaped by management's overarching goal in outsourcing (e.g., transition to new methodology or technology, reduction in costs or expenses).

1.5 INTEGRATION: MAKING BPO FIT

As customers are beginning to outsource one or more business processes, a number of issues are emerging with respect to the integration of the services and systems provided by the BPO vendor with those used in connection with other business processes provided internally or by a third party. Some of these

“integration” issues are:

- *Systems integration.* As part of the BPO transaction, the BPO vendor often introduces new, state-of-the-art systems and methodologies that are specific to the business process being outsourced. The customer will need to consider how these systems will interrelate with the systems and methodologies being used in connection with other business processes. How will BPO impact the customer’s move toward standardization?
- *Existing IT outsourcing arrangements.* What impact will the BPO transaction have on existing outsourcing, particularly IT outsourcing, arrangements? Will there be a reduction or termination of services under existing outsourcing contracts? How do the customer’s other outsourcing contracts deal with such reduction or termination?
- *Vendor management.* How will responsibility be allocated among the outsourcing vendors if there is a service failure? How will the various outsourcing vendors be managed?

1.6 BPO VENDORS

When identifying vendors to provide BPO services, the customer’s spectrum of possible vendors will depend on the particular process under consideration as well as the scope of the outsourcing. In most cases, for example, the vendor pool for HR will be different from the vendor pool for procurement outsourcing. Similarly, the customer may consider one vendor to simply continue the operation of an existing process service but another for a more complex outsourcing that requires the development, implementation, and management of new methodologies and/or technologies. Another factor to consider when selecting possible vendors is the geographic scope of the outsourcing. For multinational transactions or transactions in foreign countries, the customer should identify vendors with resources in the locations under consideration for outsourcing.

Many of the leading vendors in the BPO industry have capabilities and experience in process-related services (e.g., business process reengineering, management consulting, change management, consulting) as well as technology services. Often the BPO transaction is preceded by or entered into in conjunction with a reengineering or transformation project. To be able to provide the full scale of services that the BPO customer desires, many vendors are looking outside their own organizations to other companies with established service experience. The vendor who seeks to be a full-service BPO outsourcer may acquire the resources and experience offered by such an outside company through an outright acquisition or some type of teaming or “strategic alliance” relationship. For example, in recent years, Hewitt acquired Exult, a niche provider of human resource outsourcing (HRO), to enhance its ability to offer HR services; IBM acquired Dasch Corp., an Indian-based provider of financial accounting outsourcing (FAO); EDS and Towers Perrin formed a joint venture to offer a wide range of HR

CUSTOMER	VENDOR	PROCESS CATEGORY	ESTIMATED CONTRACT VALUE	TERM IN YEARS	POINTS OF INTEREST
Callas Group	PinkRoccade NV	Administration		5	Administration and its ICT infrastructure to PinkRoccade
Anchor Point Capital	SEI	Investment and asset management			Fund administration, accounting, and investor servicing for two new hedge fund of funds products
Barclays Bank	Land Securities Trillium	Real estate management			Property outsourcing
Federal Government of Australia	PwC	Real estate management		5	Global property management services to the Australian government's non-defense domestic and overseas properties, which include embassies, consulates, and residences in 62 countries
Henderson Global Investors	JP Morgan Hedge Fund Services	Investment and asset management			Operational services and fund administration for the hedge funds
Crestline Hotels and Resorts	Accenture	Finance			Payroll, finance, and accounting functions, including accounts payable, general ledger, and financial reporting
Malaysia Airlines	Kale Consultants Ltd.	Finance			Audit and cargo revenue accounting services
Network F.O.B., Inc.	API Outsourcing	Finance			Freight bill processing and payment services

EXHIBIT 1.3 BPO VENDORS AND EXAMPLES OF DEALS

CUSTOMER	VENDOR	PROCESS CATEGORY	ESTIMATED CONTRACT VALUE	TERM IN YEARS	POINTS OF INTEREST
Not Disclosed	GeBBS	Finance			Accounts receivable management services for insurance claims, along with assistance in appeals and audit follow-up
Nissan Senex Services Corp.	Genpact CSC	Finance Finance		3	Accounts receivable systems, accounting support, and related back-office services
Universal Insurance of North America CIBC	CGI Group, Inc. EDS	Finance Human resources	\$45-\$75M	7	Policy and accounting services HR services including payroll services, benefits administration, pension administration, benefits administration, pension administration, occupational health services, expat services, relocation management, HR program and project management, HR financial controls and call center operations
Circuit City Stores, Inc.	Exult, Inc.	Human resources		7	HR services including payroll, benefits administration, compensation, and employee contact center services
Lockheed Martin Corp.	ACS	Human resources			Benefits and payroll processing, help desk, pension services, and retirement support activities.
Marriott International	Hewitt Associates	Human resources		7	HR services including workforce administration, benefits, compensation, recruiting, domestic relocation, and learning and development services