

## Best Practices in Managing

# OUTSOURCING RELATIONSHIPS

**As a consumer of services in America, it's hard not to be disappointed. In general, employees act like they are doing you a favor by doing their jobs. So, you take notice when a company not only does its job well, but actually goes the extra mile.**



INTRODUCTION BY PETER BENDOR-SAMUEL  
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Last year many of our buyers faced Herculean business problems. When they faced the unthinkable, their outsourcing suppliers stepped up and literally saved the day. The stories this year were almost as gripping reading as *The Da Vinci Code*. For example:

- A faith-based hospital fell on financial hard times. Its IT supplier, realizing IT is the lifeblood of care at any hospital, suspended its payments until the hospital regained its financial equilibrium. In other words, the supplier worked *for free* to ensure patient care wasn't compromised.
- A devastating fire destroyed a San Francisco company's headquarters, which had outsourced its phone and Internet. The fire was Friday night. By Saturday morning the supplier had routed everyone's business phones to their cells. The buyer had a new phone system 24 hours after it moved to its new facility. "From our customers' perspective, *nothing happened*," says the CEO.
- Hurricane Wilma's wrath wiped out a Fort Lauderdale company's entire operation, shutting it down for 15 days. It had outsourced its disaster recovery, which worked flawlessly. But the company didn't miss a beat because its supplier also provided a temporary headquarters far from the storm for its beleaguered buyer. Eleven key employees flew to the supplier's headquarters the night before the hurricane leveled their building; they were literally at work *during the hurricane*.
- There were multiple instances where a buyer's very survival depended on the outsourcer meeting impossible deadlines. Here offshoring to Indian application development suppliers allowed the joint development team to work literally around-the-clock to make it happen. In each case, the buyer won the business, which allowed them to keep their doors open.

Contrary to the opinion of Lou Dobbs, we discovered that saving the day allowed U.S. employees to keep their jobs because the companies were able to continue making their payrolls. In every case, the buyers eventually began to bloom, *hiring more U.S. employees*. Here are real stories where offshoring applications and development work to Indian suppliers actually *created* new jobs for Americans.

All in all, this year's Outsourcing Excellence Awards nominees told us that their outsourcing suppliers were there for them for better and for worse. In each case, crises brought out the best in everyone. This year's awards winners are featured in the following pages. Read the winners' full stories in the August issue of the *Outsourcing Journal* ([www.outsourcing-journal.com](http://www.outsourcing-journal.com)).

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# UNISYS HELPS CITY OF MINNEAPOLIS BECOME A WORLD-CLASS VIRTUAL CITY

## OUTSOURCING EXCELLENCE AWARD WINNERS

### BEST PARTNERSHIP: BT/ACCENTURE HR SERVICES

BT, a British information and communications technology company, outsourced its worldwide HR administration, covering 102,000 employees and 182,000 retirees. As the telecom environment became more competitive, BT had to cut costs to reinvest in new areas; outsourcing freed up the capital, cutting costs 30% over the 10-year contract. Accenture's expertise reduced annual sick absences by £24 million and cut absence rates by 27%.

### BEST ITO: VANGUARD CAR RENTAL/PEROT SYSTEMS

Vanguard, the parent of National Car Rental and Alamo Rent A Car, had filed Chapter 11 bankruptcy. It outsourced every IT process to make an immediate financial impact. Vanguard's 100 full-time IT employees now number eight (with the help of 300 Perot associates). Another challenge: integrating the two companies. The IT department couldn't do it in five years; Perot delivered in nine months. The successful U.S. relationship, which cut IT spending in half, is now expanding to Europe and Asia.

**T**he City of Minneapolis had a vision: to become a world-class virtual city that would serve its businesses and 400,000 citizens and businesses 24 hours a day, 7 days a week, while saving millions of dollars. In 2002, the city took its first step toward achieving that goal by outsourcing its technology infrastructure to Unisys. Today it is well on the road to success.

"Four years ago, about 60% of my budget and management energy went into just keeping the infrastructure alive," says Minneapolis' Chief Information Officer Karl Kaiser. "We needed to automate processes and step up to citizens' expectations by moving as many city services as possible to the Internet. Our support structure did not allow for that. We just did not have much capability to ensure uptime on a 24-by-7 basis."

In mid-2002, Minneapolis issued a request for proposal, emphasizing the need for a partner with strong capabilities and experience in outsourcing, as well as one with public-sector expertise. Unisys, which had already successfully partnered with the city to provide hardware and software support for moving applications to the Internet, won the seven-year deal.

Under the agreement, Unisys assumed ownership of all the city's technological assets, including its PCs, laptops, handheld devices, servers, network infrastructure and system software, and it now handles all upgrading. Unisys also provides help-desk support for the city's 4,000 employees, network and database monitoring and management, and disaster recovery services, which the city was lacking.

The deal has had an extremely positive impact on the city's IT budget, which has shrunk from \$25 million in operating expenses and more than \$10 million in capital costs in 2000 to \$18 million in operating expenses and more than \$3 million in capital spending this year, according to Kaiser. Four years ago, technology spending made up about 2.1% of the city's total budget; today, it represents 1.8% of the budget.

**"Outsourcing our technology infrastructure is just one of many ways Minneapolis is working to deliver more streamlined, efficient and cost-effective city services to our citizens." —Paul Ostrow**

Minneapolis' IT management organization is now free to concentrate on application development, strategic technology planning and business and application support to provide citizens with innovative new services. One such service is the new Unisys-implemented "One Call" 311 system, created to streamline municipal processes and provide the city's citizens and visitors with quick and easy access to municipal information and the city's non-emergency services.

"Outsourcing our technology infrastructure is just one of many ways Minneapolis is working to deliver more streamlined, efficient and cost-effective city services to our citizens," says City Council President Paul Ostrow. "It enables us to contain costs, use our tax dollars more efficiently, increase service levels to city employees and constituents, leverage economies of scale and gain access to additional skills and resources."

# EMPLOYEEASE DRIVES SUCCESS FOR KENCO LOGISTIC SERVICES

## OUTSOURCING EXCELLENCE AWARD WINNERS

### BEST BPO:

#### HUGHES NETWORK SYSTEM/ACS

Hughes is the nation's 15th-largest ISP, pioneering high-speed Internet access to remote customers who can't get cable or DSL. The company has its own call centers for customer troubleshooting. That worked fine, but not when Hughes added selling to the mix. ACS had 30 days to get the operation running. The task was doubly difficult because Hughes was introducing a new product at the same time. Outsourcing results: Sales doubled; costs fell 30%.

### BEST BUSINESS CHALLENGE: CITRIX SYSTEMS INC./HP SOFTWARE PUBLISHING SERVICES

Citrix, based in Fort Lauderdale, Fla., provides software and hardware solutions to help people access their applications on any device, anywhere, anytime. It outsourced its procurement and disaster recovery. Citrix can redirect its ordering system to HP with a flick of a switch. Hurricane Wilma shut the company down for 15 days. The night before the hurricane the 11-person order entry team moved to HP's New Hampshire site. "We didn't miss a heartbeat," says the SVP.

**C**all it a success problem. Kenco Logistic Services, one of the nation's top providers of outsourced public and contract warehousing services, operates 19.4 million square feet of warehouse space in 20 states and Canada and employs 3,300 people. The company has been in business for 55 years, and its growth and revenues have accelerated dramatically in recent years — by about 20% annually. Like many rapidly expanding companies, Kenco discovered that it had outgrown its existing HR infrastructure.

"We had at least 10,000 faxes coming into three different departments each year from our 90 field sites," says Scott Mayfield, Kenco's vice president of Human Resources and Payroll. "Our field HR administrators around the country and in Canada had to fax every HR-related change request to three places: the HR department, payroll department and the company's third-party administrator. Inevitably, documents and important HR information got lost."

Kenco considered creating its own HR and benefits system, but decided instead to focus on its core competencies and leave the administrative functions of its HR to a Web-based HR software from Employeease, a leading provider of on-demand HR, benefits administration and outsourcing solutions. Employeease would provide Kenco with a centralized solution to redefine the management and communication of employee information.

Kenco initially rolled out the Employeease Network to its HR staff in Chattanooga, its remote HR professionals. Users quickly replaced their manual faxing process and now log all life events, work events and other benefits changes online. On the other end, HR teams in Chattanooga have immediate access to that information, and easily pass it along to the company's various carriers and third-party vendors through connections in Employeease.

Kenco then extended access to the company's managers and employees. Managers enter and access important information about their own teams, such as performance evaluations, promotions, compensation changes and time off requests. Employees have greater control with the

## Employeease provides Kenco with a centralized solution to redefine the management and communication of employee information.

ability to choose benefits preferences online, either at a computer kiosk at their offices or at home with their families.

The company also maintains details about each employee's skill set in Employeease. As openings arise, HR searches the Employeease Network for the best match, thus helping the company promote from within. "We can now tap into our nationwide talent base to match the best internal candidates with open positions while building bench strength," Mayfield says.

"The efficiency we experienced with Employeease has allowed us to reallocate some of our HR responsibilities," he adds. "HR now focuses on finding and retaining the talent that will enable the company to achieve its growth goals. As we transition away from administration, HR is moving toward higher-level partnering in the organization and has a higher degree of credibility."

# BEST IT OUTSOURCING RELATIONSHIP: VANGUARD CAR RENTAL USA AND PEROT SYSTEMS

## OUTSOURCING EXCELLENCE AWARD WINNERS

### BEST OFFSHORE: DELTA AIR LINES/WIPRO

Delta sends 25% of its call volume to India. The airline decided to outsource after 9/11 when its revenues took a nosedive and it had to cut costs. Its challenge: it couldn't impact its customers' satisfaction, but it also couldn't afford U.S. salaries and benefits. It outsourced without cutting U.S. jobs by not replacing departing employees. Offshoring actually preserved U.S. call center jobs because the cost savings allowed it to keep its U.S. staff.

### BEST RELATIONSHIP IN THE EUROPEAN UNION: INVISTA/FREEBORDERS

Invista (formerly DuPont Textiles) was in a bind. The company, which owns brands like Lycra, had promised the industry an online fabric database incorporating 600 fabric mills in 40 countries using eight languages by a certain date. Its first outsourcer failed. "We were in a valley of despair," says the CEO. Freeborders stepped in; its Chinese coders finished the project three weeks early. Now Freeborders is an ASP and the library is generating income.

**W**hen Vanguard Car Rental USA Inc. purchased the National Car Rental and Alamo Rent A Car brands in 2003, the new management team inherited more than the usual share of business challenges. The previous parent company's management had changed four times in three years and the company was in bankruptcy. The internal IT department was torn by internal disputes and turf wars with the operating units.

"When it came to IT, the question really came down to whether we should outsource the whole function or keep some of it in-house," says Tyler Best, Vanguard senior vice president and chief information officer. "We decided to outsource everything. We needed someone who could make an immediate financial impact to help us come out of bankruptcy in a short period of time. Perot Systems had been in our industry for 15 years and had worked with our original company. We decided to go with them because we knew they could hit the ground running."

When Vanguard took over, there were 100 full-time IT employees. Today, there are eight people on the Vanguard payroll to help the CIO and 300 Perot Systems associates. Virtually all IT processes, data centers and infrastructure are handled at the Perot Systems technology center just outside of Dallas, Tex., or its Lexington, Ky., or Herndon, Va., facilities.

One of the first problems that Vanguard decided to tackle, with the help of Perot Systems, was integrating the back offices and reservation systems of National and Alamo. Although the two firms had merged five years earlier, they had never been able to agree on which system would lead the worldwide reservation network. It was a huge technical challenge, but Best committed to getting the job done in nine months.

"My job was to create one back office and one common reservation system," Best says. "I wanted this to be transparent to the customer — to ensure that there was always a car waiting for them, regardless of which one of our brands, National or Alamo, they reserved. I wanted to capture the synergies of sharing our fleet."

**"With Perot Systems, we have the best relationship on the planet. We've gone from five years of failure ... to making money in two years." — Tyler Best**

With Perot Systems' help, Best kept his promise. Two years after the Vanguard takeover, the National and Alamo operations are one company with two distinct brands operating with one fleet and one back office. Its ability to have vehicles to customers on time has risen to 99.6%, thanks to its ability to leverage its fleet across both brands. Perhaps, not coincidentally, the company is now profitable again.

"With Perot Systems, we have the best relationship on the planet," Best says. "We've gone from five years of failure to coming out of bankruptcy and making money in two years."

Eugene Pizinger, the Perot Systems client executive managing the Vanguard account, underscores the importance of the strong relationship that the two companies have forged: "At the end of the day, it's not about databases or applications; it's about maintaining a relationship based on mutual respect, a deep understanding of the business imperatives and an absolute commitment to succeed together."

# BEST FINANCIAL SERVICES: ALFINANZ AND CHANNEL LIFE

## OUTSOURCING EXCELLENCE AWARD WINNERS

### BEST FINANCIAL SERVICES: CHANNEL LIFE/ALFINANZ

Channel Life is a South African life insurance company. It had aging claims-processing technology and couldn't put out new products quickly; both hindered growth. Channel Life dedicated some of its own staff to Alfinanz on a partnership basis for 18 months, to ensure successful supplier implementation. Results: new products roll out in 15 days, not three months; IT costs fell 30%, and clients increased fourfold (from 150,000 to 600,000).

### BEST HEALTH CARE: ST. VINCENT'S HEALTH SYSTEM/ECLIPSYS

Four hospitals in Little Rock, Ark., make up St. Vincent's. Its IT department, tied to corporate goals like patient safety and financial performance, was out of control. It outsourced to control expenses, improve implementations and provide structure. Then St. Vincent's couldn't pay Eclipsys. Refusing to endanger patients, Eclipsys agreed to defer payments. "I don't know what we would have done," says the CIO. Results: IT is 2% of budget and customer satisfaction is at an all-time high.

## WEB DIRECTORY

### ALFINANZ

[www.alfinanz.com](http://www.alfinanz.com)

### EMPLOYEASE

[www.employease.com](http://www.employease.com)

### EVEREST GROUP

[www.everestgroup.com](http://www.everestgroup.com)

### PEROT SYSTEMS

[www.perotsystems.com](http://www.perotsystems.com)

[www.perotsystems.com/thoughtleadership](http://www.perotsystems.com/thoughtleadership)

### UNISYS

[www.unisys.com](http://www.unisys.com)

**W**hen executives at Channel Life, a top South African long-term life insurance company, took a hard look at how to improve its processes six years ago, they found that the company's growth was being hampered by aging technology and problems with new product development.

Cornie Foord, Channel Life's chief operating officer, recalls: "It was clear that we could not support business growth with our legacy systems. We knew we had to do something different to grow the company."

The company turned to Alfinanz, a leading offshore administration factory housed in South Africa that administers assurance financial products under a BPO or ASP model. Alfinanz was committed to building the first fully integrated financial services platform in South Africa that administers all products across all business lines.

"Our clients entrust a critical part of their business to us," Chief Executive Officer Marc Tison says. "We believe technology vendors are, and always will be, critical to the success of the business. At Alfinanz, we focus on doing what they do not do, rather than being all things to everyone. We have two strategic vendor partnerships:

- "MIP<sup>1</sup>, a software vendor whose development efforts are supported by a technical platform for rapid business applications development, supplied by NASDAQ-listed Progress Software Corporation, and which is rated as one of Progress's top ten application developers in the world.
- "Dimension Data<sup>2</sup>, with its subsidiary Internet Solutions, supplies our data processing and storage platforms and offers satellite-, fiber- and terrestrial-based Internet connectivity throughout Africa and the rest of the world."

It's a strategy that clearly works. Channel Life has cut the time it takes to develop a new product from six months to between 14 and 30 days, and development costs are a fraction of the previous cost. At the same time, customer satisfaction has increased.

"The Alfinanz solution suggested shareholder value from the onset. When we started with Alfinanz, we were number 42 in the market. We are now approaching the sixth position and were recently acquired by Sanlam," Foord adds.

Aon, another Alfinanz client, was seeking to turn its South African retirement-benefit operation around. "With Alfinanz's capability we can administer 7,000 members per staff member, the historic benchmark being 2,000," says Ian Young, the administration executive for Aon.

Today, Alfinanz has secured volume across life, health care, retirement benefits and investments and has become a significant player in the global administration factory race. For its efforts with Channel Life, Alfinanz was awarded the 2006 Outsourcing Excellence Award in the best financial services category by The Outsourcing Center. ■

1. Since 1989, MIP Holdings has developed software solutions for the financial services administration industry. Against stiff international competition from countries such as U.S.A., Canada, Australia and Europe, MIP's technology was chosen as the standard for the Boston-based Progress Corporation's current Internet development.

2. Founded in 1983, Dimension Data is a specialist IT services and solution provider. Thirty-two of the top 100 listed companies in the UK and 125 of the US Fortune 500 companies did business with Dimension Data in 2003: \$2 billion in revenue and over 8,600 employees in over 30 countries globally.