Enhancing Corporate Capabilities Through Outsourcing

EQUIPMENT LEASING & FINANCE FOUNDATION

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White Paper Methodology and Purpose

In 2007, The Equipment Leasing & Finance Foundation recognized the myriad competitive challenges facing the industry today and most assuredly well into the future. Consequently, the Foundation put a major emphasis on company operations and productivity issues. This effort included the commission of this special white paper, titled *Enhancing Corporate Capabilities through Outsourcing*.

This document is intended to neither support nor challenge the strategy of outsourcing. The fact is, however, outsourcing is growing in all sectors of American business and clearly provides a benefit to a wide variety of companies. These advantages – and how equipment leasing and finance companies use outsourcing – may lead the reader to think the author of this paper is a proponent of outsourcing. Please note the disadvantages and impediments of outsourcing also are examined.

Outsourcing is a broad topic, so this document primarily focuses on Business Process Outsourcing (BPO). This practice focuses on the workflow within an enterprise and how redesign and expert management attempt to optimize the efficiency and effectiveness of individual processes and the overall workflow.

The background research done for this paper indicates outsourcing has made limited inroads to replace internally performed functions, processes and technology. These inroads are discussed.

The findings presented in this white paper were derived from four sources:

1. An online survey of equipment leasing and finance professionals with various position responsibilities and working for a variety of companies. Their responses provided information on attitudes, beliefs, practices, experience and plans related to business process outsourcing.
2. Lengthy telephone interviews of leasing professionals in 14 diverse companies, as well as two software companies and two outsource companies that support the industry.
3. In-person meetings with teams of leasing professionals in five diverse companies in the industry, as well as one outsource company.
4. A review of current business process outsourcing literature.

This white paper looks at an equipment leasing and finance company's business workflow processes to consider how to improve the economics, productivity and technology of this workflow. It also addresses the changing roles and responsibilities of a company's personnel as it relates to business process outsourcing. The document sheds light on fears, myths and misconceptions that stand in the way of optimizing workflow management through outsourcing. In addition, the white paper addresses one of the most serious impediments to a successful BPO strategy – selecting and working with the right BPO provider.

Glossary of Common Terms

Outsourcing has its own language. The following are generally accepted definitions of terms the reader of this white paper will find helpful. Outsource providers and consultants have variations on the definitions, but this glossary seeks to capture the essence of the most important terms. In addition, when introduced in the document, each term will be followed by a brief description.

Applied Service Providers. ASP technology model in which software packages are on the servers of the software vendor and the single ELFC connects similarly as they do to a website. A BPO program can be built on the ASP model.

Benchmarking. The process of comparing the performance of select processes, outcomes or total enterprise performance. Results are used to make improvements. Benchmarking is ultimately a research, learning and change activity.

Best Practice. Practice / process that results from ongoing improvement. A best practice is based on standards, observation, comparison, interpretation and redesign. Best practices usually result from collaboration and wisdom either within an enterprise, or third-party-enabled expertise.

Business Process. A function or activity necessary to conduct business that can be observed and measured. The term business process refers to those processes involving the customer / end user.

Business Process Outsourcing (BPO). A higher level of outsourcing that pairs with business process management. The goal of BPO is to redesign processes to optimize their performance. This usually occurs by eliminating inefficiencies, streamlining steps, and increasing flexibility and capabilities. It nearly always involves the use of technology.

Business Workflow Process. The sequence of processes, including integration and interaction, necessary to conduct business.

Complexity. The condition of having many facets, handoffs, interactions and variables. In the context of this white paper, complexity applies to business processes.

Core. A process or set of processes in the business workflow, but it is not necessarily *important* or *essential*. Rather, it defines a business activity – a process – that meets the following three tests:

- It is unique to your company
- Adds evident value in the marketplace
- Provides a clear competitive advantage

ELFC. An equipment leasing and finance company.

Functional Process. Internal processes that have little or no relation to the customer / end user. These typically include human resources, facilities, travel, imaging and accounting.

Near source – Near-shoring. The outsource is near to the ELFC, usually in the same time zone – or at the most, within two time zones.

Offshoring. The outsourced processes or functions are conducted in another country.

Outsource. A third party (external to the enterprise) that provides activities or services based on its specialized capabilities, scale and knowledge. As used in this white paper, outsources range from general specialists in a wide range of business processes to narrow specialists, such as those providing titles, tax administration, asset sales or UCC filings. An outsource also includes IT providers.

Outsourcing. Arranging to buy an activity or service conducted by a third party rather than by the enterprise. An enterprise such as an ELFC transfers the day-to-day operation and management of one or more business processes or functions. The activity or service may be conducted externally or at the enterprise's location. Outsourcing utilizes the capabilities, scale and knowledge of external specialized providers to perform many or all of the enterprise's business processes.

Software as a Service. Also known as SaaS or On Demand Software. A model for delivering software in which the physical software and all responsibilities for running, updating and maintaining it remain with the software vendor. ELFCs access the software through a web browser and Internet connection for a monthly fee. The ELFC's only responsibility is to use it. In SaaS, the software is provided to many ELFC clients who share in the costs of running and maintaining the software and sharing in the learning and development results. This multi-tenant model provides that all users access the same software running on the same servers, but each ELFC has configurations separate from everyone else's. BPO can be built on the SaaS platform.

Selective Outsource. A company that provides a single function or process rather than a suite of business processes. Examples of a selective outsource include tax administration, titling, billing, payroll or UCC filings.

Risk. The level of potential loss or damage to the ELFC.

Introduction

It is ironic that the equipment leasing and finance industry – built on the mantra of "the value of equipment is in using it – not owning it," has historically been a slow adopter of outsourcing, particularly as it relates to business process outsourcing to optimize workflow. This is changing, however. Financial Services companies have actually been an early adopter of BPO to streamline operations and drive down costs. This approach is widely used where business functions are more generic. BPO is used for market and financial analysis, transaction management, records management and cash applications.

In our industry, outsourcing began with information technology – software operating systems and applications. Early operating systems for financial services providers did not have applications tailored to the nuances of equipment leasing, such as pricing, structuring, channel management and asset management. Most ELFCs did not have the internal resources to build IT systems. ELFCs worked with a few software developers to build generic systems and applications around equipment leasing needs as the business evolved. Over time, companies adapted these systems to build around their processes. As a result, many internally built legacy enterprise systems emerged. However, as described later, this software outsourcing contained BPO elements from the beginning that provided the advantages of outsourcing, most notably continuous improvement through collaboration and sharing. Also, improvements in the software, including new capabilities developed by the provider for one client, became part of the system available to all.

Outsourcing is not new. It is a fundamental concept in market economies – basic to specialization. It is based on the premise that value is created by doing what one does best or even better than others because of knowledge, skills, scale or resources. Adam Smith described it quite well: we live and work in a mutually dependent atmosphere where each individual and enterprise turns to the best and most appropriate provider of the goods and services needed, where free movement of goods and services is possible.

The question then is why are vertical companies, including ELFCs, organized to perform virtually every function in the business workflow process internally? They believe they benefit from more certainty – predictability – in process performance. Is this the correct operating decision? This white paper is designed in part to address that question for equipment leasing and finance companies. It is designed to evaluate the business workflow processes within the framework a successful ELFC.

Successful ELFCs do two things:

- Provide the greatest value to their customer at the lowest price;
- Receive the highest possible value from their customer for the lowest cost.

How an ELFC gives value and gets value involves many factors including the use of many business processes in a workflow. ELFCs' other businesses strive to balance the desire to mitigate risk with a desire to realize value. This is a key concept to keep in mind when considering every business decision, including BPO.

Neither *who* conducts these business processes nor *where* they are conducted is necessarily key to success. Some or all business processes may be done internally by the ELFC, while others may take place externally. Some may be done thousands of miles away, based on the competitive need to optimize quality, capability and cost. The key to success is more likely *how* to achieve the best business workflow practices and continuous improvement.

The World is Flat. Many business leaders have read *The World is Flat*, by Thomas L. Friedman. It describes a global society that greatly values efficiency. This raises living standards for many people around the world while, at the same time, causes dislocation and hard transitions for others. Work is completed where, how and by those who can offer the best output for the least input. This is a competitive advantage in all industries in an increasingly transparent world and is the essence of business process outsourcing. This reality is further engrained in service-oriented businesses, like ours, where digitization has significantly lessened concerns with distance and location in doing business globally.

The closer to the real world you get, however, the more terrain variations you encounter. Things look flat theoretically, but for each ELFC there is a set of conditions that cause one company's work flow processes to be different from another's. Independents, for example, have more latitude than banks when structuring deals. Parent companies have certain restrictions for their subsidiaries. Some companies are multi-line, while others are mono-line. They may be transactional, while others are deal-flow oriented. Economy of scale is another consideration. What's more, various business models may be used. That notwithstanding, there is no excuse for their leaders to not consider the potential improvements – some minimal, while others dramatic – that business process outsourcing can provide to selected activities.

In our online survey, the following responses were given when asked about an organization's experience with outsourcing.

Which of the following statements best reflects your experience with BPO?

Statement	Response %
We have not considered or used BPO	26.85
We have considered BPO, but decided not to outsource	10.19
We are considering BPO, but have made no decisions	7.41
We have used BPO for a limited number of processes	48.15
We have used BPO extensively throughout our enterprise	7.41

While the above results indicate there is awareness and interest in BPO – with nearly half saying they have already outsourced select activities – they also show outsourcing must make greater inroads before it can be regarded as a common industry practice.

When it comes to certain business processes, for example, respondents were reluctant to consider outsourcing "core" functions. This included a variety of business origination activities, including sales, pricing, structuring and credit. The majority of business workflow processes, however, are generic in nature. The only differences from one organization to the next are configuration and standards. This is especially true for small-ticket transactions versus highly structured deals. Responses to two other questions in the online survey are good news for outsource providers.

Which of the following best describes your BPO experience?
(of those who have had experience with outsourcing)

Statement	Response %
Met our objectives	50.00
Short of meeting objectives	22.86
Exceeded our objectives	10.00
Too soon to tell	17.14

What was the impact of your experience with BPO?
(respondents could check more than one)

Statement	Response %
BPO has provided us with a greater understanding of our business processes	30.30
We are more likely to expand our use of BPO	57.58
We are less likely to use BPO in the future	18.18
We discovered additional benefits that had not been foreseen from BPO	12.12

These results and similar expressions in most interview sessions reflect an openness to look at outsourcing.

The ELFA Survey of Industry Activity is the best source of industry performance information. The latest survey contained one question that addresses outsourcing activity. The question (26a) asked the predominance of in-house versus outsourcing by activity. Twenty-one function activities are listed. Only eight function activities show any material level of outsourcing - domestically or internationally. A condensed version of the responses is shown in the chart below.

Predominance of In-House versus Outsourcing by Selected Activity*

	Included in reported headcount		Performed at corporate HQO		Outsourced domestically or internationally	
Function	2006	2005	2006	2005	2006	2005
Outside Field Sales	96.5%	96.5%	1.2%	1.2%	2.4%	2.4%
Marketing / Product Development	82.5	83.8	17.5	16.3	0	0
Credit Approval Activities	92.3	93.3	7.7	6.7	0	0
Billing and Cash Applications	88.4	89.5	8.1	8.1	3.5	3.1
Customer Service	93.6	94.9	1.3	1.3	5.1	3.9
Portfolio Management	95.9	95.9	4.1	4.1	0	0
Information Systems	67.7	67.7	24.7	24.7	7.6	7.6
Accounting / Finance / Treasury	88.9	88.8	10.2	9.3	0.9	0.9
Tax	72.3	75.9	24.1	21.7	3.6	2.4
Legal and Compliance	67.1	67.1	20	20	12.9	12.9
Human Resources	53	53	42.2	42.2	4.8	4.8
Other	96.7	100	0	0	3.3	0

** Selected refers to functions for which corporate or outsourced was significant in 2007 Survey Report.*

This White Paper asks readers to consider if their enterprise business process strategy and operation generally meets these tests:

- Excellence. Do the business processes generally meet the current state-of-the-art best practices standards? How do you know? What else is out there?
- Cost. Are the costs of the business processes the ELFC requires reasonable and acceptable for the output? What are the costs of keeping the system at the optimized level – technology, software, training and the "mistakes?"
- Value. Are the ELFC's business processes providing the highest value to its customers and getting the highest value from them? Have all of the assumptions and standards about them been examined recently?

Business Process Outsourcing

Business Process Outsourcing and its relation – IT outsourcing – are organization and operations strategies. Because BPO is an operations strategy, it needs to be treated as a business decision. BPO contains technology considerations and benefits, but it should not be managed as technology. It occurs for business reasons to serve business purposes measured by business standards and outcomes. But because business processes frequently use technology, IT people must be part of the team that maps and analyzes workflow processes. People who actually perform business processes and those who supervise the function areas have significant contributions to make to analysis and decisions concerning improving business workflows. In the end, however, having access to the most effective and efficient business workflow system is a business decision for management with huge long-term strategic and competitive ramifications.

For purposes of this white paper, business processes performed for a subsidiary by a parent company are not treated as BPO. Parent-operated business processes are not typically designed around the unique characteristics and nuances of how an ELFC subsidiary delivers and receives value. Further, a subsidiary typically does not have the ability to modify business processes that exist in a parent.

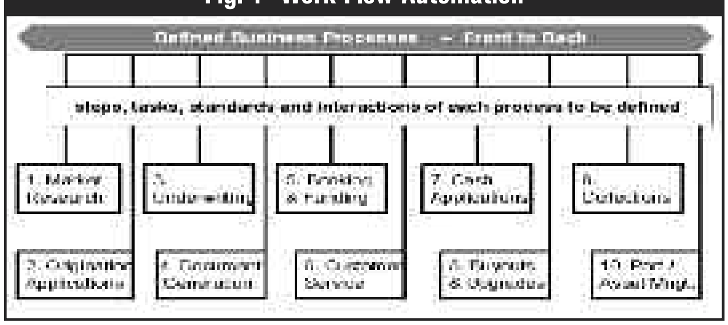
There are many routine functions outsourced in the equipment leasing and finance business. Functions such as payroll, benefits management, travel, maintenance, recruitment and security processes are cited as going to "job shops." ELFCs are comfortable with outsourcing these functions and processes, since they are not central to their business models and core to how they deliver value.

At the next level are processes regarded as more essential to the business model such as tax administration, UCC filings and vehicle titling, but that do not distinguish one ELFC from another for competitive purposes. These are selectively outsourced and integrated into the ELFC's business workflow. While an ELFC can surely handle these business processes internally, it does not necessarily make sense to do them. Throughout the interviews for this white paper, individuals indicated they *could* build state-of-the-art processes; they could build modern technology systems. They *could*, but at what cost? At the very least, the process *could* be distracting. Does it make sense to refocus valuable resources needed to source business? The appropriate focus in reading this white paper is to consider what the ELFC *should do* to constantly improve its business workflow.

When it comes to certain business processes, survey respondents and interviewees indicated a reluctance to consider outsourcing functions or processes they deem "core" to originating business. The processes related to sales, pricing, structuring and credit are examples cited most frequently depending on the nature of the ELFC and its business model. It is probably a myth to regard many of the other business processes in the workflow as "core." Close examination of what constitutes "core" will be done later in this paper.

Ten common areas of business processes are used to guide discussion and analysis in this paper. They are illustrated in Figure 1 below. Depending on the ELFC business model, some of these have greater or lesser significance in a company, but all are part of the managed flow of work.

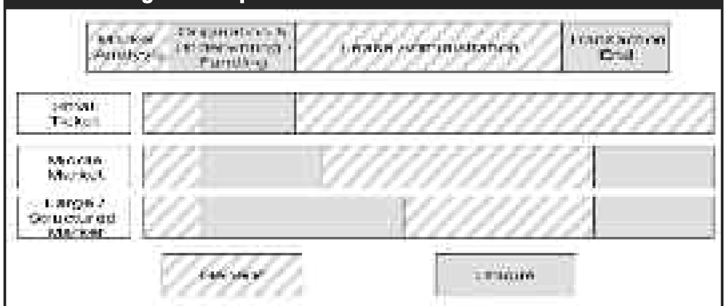
Fig. 1 Work Flow Automation



In some business models, processes and steps within processes may be more generic than in others. Mapping and analysis is important in evaluating the business workflow and deciding whether to outsource or not. See the **Appendix** for an example of a more detailed workflow of processes.

In reality, within each product group or range of markets, the majority of business workflow processes are generic. They share similar functionality throughout the equipment leasing and finance business. The only differences are configurations and standards. Figure 2 below illustrates this concept. Consequently, deal flow small ticket transactions will have more generic processes than businesses offering structured transactions in a highly transactional business.

Fig. 2 Unique – Generic Business Processes



Technology Outsourcing. Because software outsourcing has been common in the equipment leasing and finance industry for some time, it deserves special mention in this section. However, while software has been an early and continuing example of outsourcing at work, it does not constitute IT Outsourcing. The installed hardware and operating personnel have generally been internal to the ELFC. Outsourcing the IT operation and the processes it supports will be the next horizon for both software providers and BP Outsources.

Business Process Outsourcing Models. When considering whether or not to use outsourcing for one or more business processes, it is important to understand the range of available outsource models. Companies tend to migrate across the outsource models as needs, circumstances and experiences change. Furthermore, outsourcing trends evolve as technology and the industry's experience with outsourcing advances.

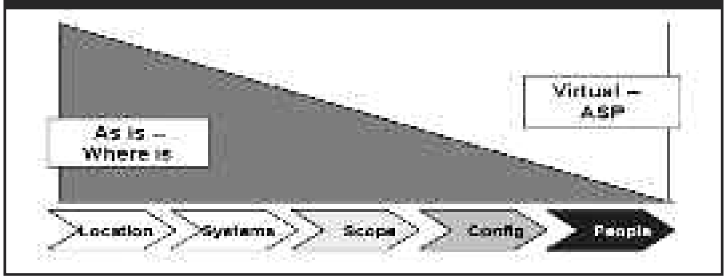
On the left side of Figure 3 below is an outsource model that takes one or more processes in an ELFC and turns over the responsibility for managing and performing business processes and/or technology to a company that will conduct the operations *in place* in the ELFC with existing personnel (who may remain ELFC employees or become employees of the vendor) and existing systems. The BP Outsource vendor can bring process management capabilities, design skills, knowledge of best practice and a process management focus to the ELFC. The outsourcing firm takes over management of the ELFC's work flow processes. The ELFC may have a legacy system in place, including personnel and technology, but needs the focus and management that a professional business workflow outsource can provide.

The *value proposition* of this model is in the knowledge and experience of the outsource firm. It creates incremental improvement through analysis and redesign over time. For this model to work well, economy of scale typically already exists. This model is very collaborative as shared responsibilities are clear and mutual learning occurs over time. The model allows the BP Outsource to stay in close touch and in tune with the business of the ELFC. It is a traditional BPO model.

At the far right is the model which can be referred to as *Virtual ASP* or *Plug and Play*. It is the latest in outsource models. In this model, the ELFC outsources onto the BP Outsource's general system that makes configurations as required by the ELFC. The BP Outsource provides everything and has the necessary software licenses. The ELFC is in effect paying for a custom-configured utility. The ELFC does not have an investment in hardware, software or operating personnel. Only managers in the various ELFC function areas are required to work with and monitor the BP Outsource. The value proposition of this model focuses on the ultimate in flexibility and high capability, coupled with scalability. A small or medium size company that might otherwise have scale issues in building capabilities can buy whatever it needs. Software outsourcing again provides an example of the value proposition. The major software companies that serve the equipment leasing and finance industry can offer a client as many as 4,000- 5,000 different capabilities / configurations. But a client may only need 1,300 of them. Another client may need fewer or more. Each of the clients selects the set that works for them. There may be overlap of capabilities / configurations, but there also are differences. In the optimal situation, the BP Outsource interfaces with a variety of resources, including select outsourced process providers, software companies, other service providers and knowledge sources to keep abreast of best practices and standards. This knowledge and capability is used to foster constant improvement of business workflow process and technology.

Select specialty outsourced processes such as titling, UCC filings, tax administration and market research are purchased and plugged within a larger operating system and business workflow. Any of the outsource models can accommodate these select processes.

Fig. 3 Range of BPO Models



An outsource company considers its business as providing workflow definition and management. This includes engineering, tracking and measuring the workflow, as well as supporting and improving the workflow processes. The outsource work is transparent to the ELFC.

Outsourcing 2.0, Solving Risk and Uncertainty.

The Outsourcing Institute (www.outsourcing.com) is a resource site for outsourcing information, advice and support. Among the free resources is a seven-page document, *Outsourcing 2.0: The new outsourcing and what it means to you*. The paper summarizes what the Institute sees as a shift from traditional BPO models, referred to as Outsourcing 1.0, to *on demand* hosted models referred to as Outsourcing 2.0.

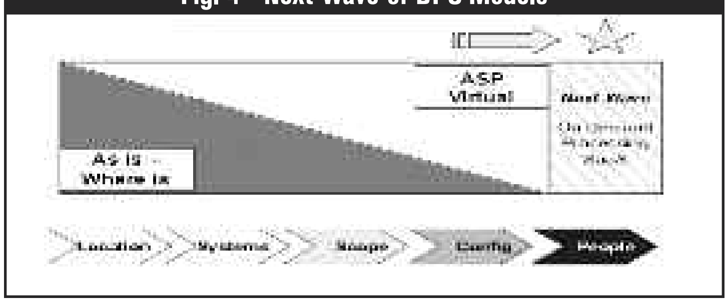
There are three driving factors in this shift to a new business process-outsourcing model. The first is the near universal pain associated with outsourcing, focusing on challenges associated with transitioning, learning, collaboration and sharing of information. Secondly, there is a major paradigm shift in who is outsourcing and how it is done. (More small and mid-size companies are considering this approach than ever before, many of whom are Web savvy.) The third factor is the emergence of Web 2.0 as a business tool and its impact on communications, collaboration and knowledge sharing.

The author of *Outsourcing 2.0* describes the pain and subsequent learning from BPO over the past two decades. It stresses the absence of good information and knowledge to make sound BPO decisions. The landscape has evolved, however, to one in which the buyers, sellers and consultants now have access to data that, in the past, was difficult to obtain. This information should only get richer as more companies implement BPO strategies and share their experiences with others.

Based on input provided by the online survey respondents, there appears to be a strong appeal for such a next generation outsourcing model. More than 75 percent said they would consider a Web server-based, on-demand BPO model via a browser and Internet connection for a monthly fee. This model has been widely deployed in the retail world and holds great promise for our industry because it addresses issues related to scalability, while delivering value to all parties.

This next horizon of BPO model, Outsource 2.0, is illustrated in Figure 4. Outsource 2.0, On Demand BPO or S*oftware as a Service* (SaaS) provides that the ELFCs access software / BPO through a web browser and Internet connection for a monthly fee.

Fig. 4 Next Wave of BPO Models



Given the diversity in company size and business models of the industry, this SaaS model may ultimately be able to serve more companies if the software and BPO vendors step up further development. One area that is emerging for all ELFCs is uniform sales tax administration. The Uniform Sales Tax Collection Compact that is being developed by several states will include the certification of several vendors from which ELFCs can select to administer payments to literally hundreds of local government entities with various rates and rules for payment.

BPO / ITO Supply. In considering models, the *elephants* in the room are the BPO / ITO businesses themselves. Where are they going with model development and offerings? They bear responsibility for educating and leading clients into the future. In their defense, however, they must look at scale and scope of potential demand and use.

The fact is there is a small demand base, with an estimated 700 institutions that could be considered material, active providers of leases and secured loans on equipment. It is estimated that these companies originated and administered an annual volume of new equipment financings of more than $230 billion in 2006. But just 10 companies did more than 50 percent of that amount. The next 10 largest companies added another 15 percent of the total. The 30 largest companies have 70 percent of industry volume.

That leaves 30 percent of the volume for the next 670 companies. The bulk of this new business volume, and therefore the number of transactions working through the business workflow processes of ELFCs, are in small ticket and middle market.

Is this enough mass to create sufficient scale for BPO and ITO enterprises to create cutting edge models? The On Demand / SaaS model may be the best approach to serve a large number of companies, but that remains to be seen. It is built on simple concepts. A platform that enables *parties* in a workflow process to receive and analyze information, give directions, share and store knowledge and exchange payments has promise. ELFC parties include end-user customers, channel partners, funding sources, compliance, employees with decision responsibilities and personnel with functional responsibilities. A platform that facilitates this workflow process may address scale issues.

BPO Model Structure. There are a number of factors that influence the structure of the right business process outsourcing model for any given company, outlined as follows:

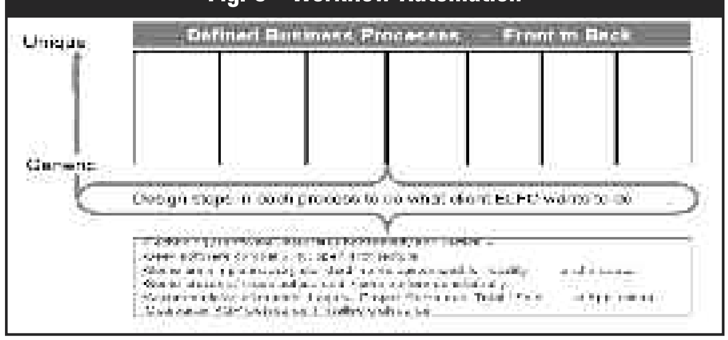
- **Location –** Where does the process take place? Many outsource vendors think there are significant advantages to initially operating at the location of the client. Working on-site provides them with a better understanding of the business, its needs, workflow analysis and culture.
- **Systems –** What impact does the systems in place have on business? Nearly 75 percent of respondents stated a variety of technology limitations present a great disadvantage for internally established and operated business processes. Outsource providers, conversely, typically prefer to operate one software system to optimize performance and efficiency. These modern platforms feature open architecture technology and are kept updated through strategic investment. What's more, BPO providers and software companies see the value of convergence through either partnerships or mergers. The relationship between processes and systems is part of the evolution of workflow management, as ELFCs seek to optimize the benefits of customization and relationship management efficiently through technology.

As illustrated in Figure 5 below, the trend moves from Internal System / Internal Process through Internal System / External (BPO) Process to External System / External (BPO) Process.

Fig. 5 Relationship between Business Processes and Systems

Figure 6 below illustrates the concept of workflow automation and what the parties do over time to create a state-of-the-art business workflow system.

Fig. 6 Workflow Automation



- **Scope –** How much business process functionality and how many processes will be outsourced or subject to workflow process management? The answers to these questions determine the scope of the effort, which affects scale and integration decisions.

- **Configuration –** much differentiation/flexibility in the process is really needed? While many respondents said they value the opportunity to customize certain processes, they found it hard to quantify the value such customization provides to their customers, or the value they receive from a profitability standpoint.
- **People –** What impact does your team have on business workflow? Some 85 percent of respondents said one of the major benefits of business process outsourcing is better use of employees. Interviewees described issues related to hiring and retaining personnel, training, upgrading capabilities, redundancies and motivation.

In a traditional ELFC workflow environment, people are employed to perform various business processes. If the volume in the business process is not enough for one person, people are cross-trained for other positions. In an ELFC with a small number of highly structured transactions, certain business processes do not create enough volume to justify a person with specific capabilities and systems to perform the task or provide custom configured processes. This may slightly dilute optimization but, in reality, the gains from outsourcing would be small or nonexistent. In a larger ELFC, many people can be trained specifically for a job. Specialization is improved and productivity gains occur. If a new product is launched or the firm enters a new vertical market, it faces recruiting and training issues for newly required business processes in the workflow.

When using BPO, similar people considerations exist. However, scale is not an issue. People often remain employees of the ELFC or, in some instances, their employment transfers to the BP Outsource firm. In either case, recruitment, training and work supervision are the responsibility of professional workflow managers. The work continues to be performed in the ELFC offices.

However, more and more outsourcing is actually done off site or off shore. Part of a BP Outsource's strategy is to locate where there is a constant source of people with the appropriate level education The firm can hire and train people for workflow jobs that are considered good primary jobs. People optimization begins to take place. The personnel hired by the BP Outsource have the necessary skills and are paid the salary needed to attract them.

The benefits of *labor arbitrage* are evident no matter what model is followed. As described in Figure 7 below, labor arbitrage involves much more than finding employees willing to be paid a lower wage. It also means securing either more work output from the same number of people or less labor input. The workflow process jobs are core jobs in the Outsource organization. There is more focus on metrics, performance and productivity because they drive the firm's value proposition.

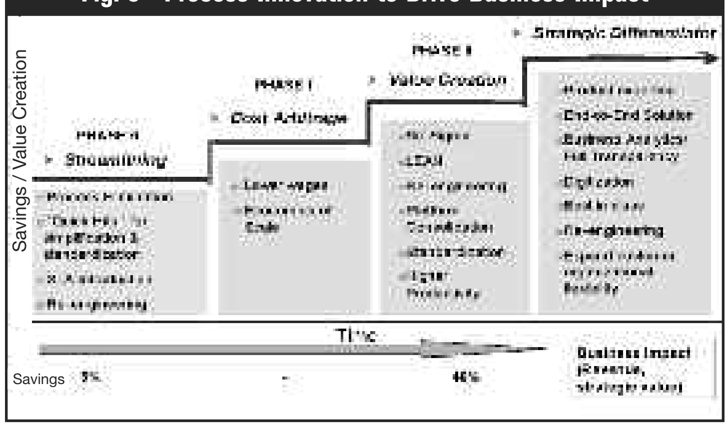
Fig. 7 Labor Arbitration Value – *The complete picture!*

Level 1	*Cost savings - Lower wage per employee based on location / labor market.*
Level 2	*Adequate staffing levels - Cost savings used in part to add numbers / capabilities to do what has to be done*
Level 3	*Competency - Based on "this is our business", greater training occurs on a regular basis.*
Level 4	*Comparative advantage - Adequate staffing and training leads to better personnel performance.*
Level 5	*Culture of continuous improvement - Work seen as professional core business. – continuity and knowledge based*
Level 6	*Customer Centric - Knowledgeable about customer's business, collaborative culture.*

Advantages of BPO

BPO is a business-motivated solution for effective workflow management. It stresses continual improvement with the benefits increasing over time. The goal is to increase advantages and limit disadvantages while optimizing the business workflow. Proponents of BPO generally summarize the value / benefits as shown in Figure 8 below.

Fig. 8 Process Innovation to Drive Business Impact



The following outlines the three accepted primary benefits of outsourcing and respondent reactions:

- **Operational improvements –** Nearly 60 percent of the respondents said operational improvements are the greatest benefit of BPO initiatives. They believed gaining new or specialized capabilities, better quality and productivity made the strategy worthy of consideration.

- **Economic improvements –** This benefit is cited most often when BPO is first considered. After all, most companies want lower costs and more work output. Surprisingly, however, many respondents were skeptical that meaningful economic benefits can be obtained through such a strategy. Even if marginal cost benefits could be attained, most think the transition is not worth the effort and stress.
- **Technical enhancements –** Few people interviewed considered technology enhancements as a benefit of BPO programs. One reason may be few differentiated technology from workflow management and operational concerns. However, they do think Outsource providers can deliver greater, more flexible technology systems and configurations – and do so at scale.

Given the above benefits, it is interesting to see how online survey respondents ranked their importance by business process, as summarized in the chart below:

Select THE SINGLE MOST IMPORTANT benefit of outsourcing for each business process area listed below.

Area	Economic	Operations	Technical	Average Rating
Market analysis	57.9%	10.5%	31.6%	1.74
Origination / risk decisions	35.1	43.2	21.6	1.86
Booking / funding	28.9	64.4	6.7	1.78
Customer service	53.5	41.9	4.7	1.51
Cash applications	34.2	55.5	10.5	1.76
Portfolio management / collections	47.6	29.7	18.9	1.68
Asset management	51.4	29.7	18.9	1.68

Figure 9 will be helpful in understanding the primary advantages of BPO in terms of decision-making priorities and impacts, and changing roles and responsibilities.

Fig. 9 Continuous Work Flow Analysis is about decisions and management

Benefit	Making Design Decisions	Management Roles & Responsibilities
Economic	-Costs / Org structure -Benefit / Contributions -Scale	-Measuring -Supervision / Focus -Investment
Operational / Productivity	-Capabilities / Value Add -Configuration / Flexibility -Quality / Best Practice	-Performance -Analysis / evaluation -Learning
Technological	-Platform / Applications -Architecture -State of Art	-Training -Maintenance / upgrades -Monitoring / evaluation

As part of the interview process, respondents were asked if they could identify with the following specific advantages of BPO, as cited in various other studies and surveys on the subject in a range of industries. The respondents generally agreed with the benefits, but were wary if they all could truly be realized.

- **Innovation.** The value proposition delivered by the BP Outsource provider is innovation based on experience and knowledge that most internal and installed workflow systems do not have. Other benefits and advantages as follows stream from this proposition.
- **Workflow Process Integration and Management.** People readily discuss the benefits of a professionally designed, engineered, managed and maintained workflow system. Specifically, they see integration and creation of a seamless operation as a macro benefit.
- **Better Use of Resources.** This translates into multiple benefits, including cost benefits and productivity. Some business processes can be used as needed, always available but not necessarily installed. Scalability is part of this advantage as BPO gives many ELFCs capabilities as a cost that their size would not allow.
- **Greater Velocity.** The flow of business speeds up because of efficiencies.
- **Backup.** This can be part of any BPO model but is cited particularly for ASP models. In fact, some BP Outsources also act as backup systems in securitizations.
- **Redundancy.** The essence of BPO is dialogue and collaborative work stressing continuous improvement. In BPO, the number of eyes or knowledge sources, points of view, etc., are increased, and it is more difficult to become stagnant. Organization dissonance is created which is productive. There is always an initiator of new ideas or perspectives.
- **Compliance.** Complying with Sarbanes – Oxley and Basel requirements, among other areas, requires systems with high integrity. Speed, accuracy, configuration and a robust ability to generate reports are critical. Where specific laws and regulations, such as taxes and titles, are concerned, BP Outsources typically keep up with changes in requirements and processes more easily than internal personnel.
- **Flexibility.** BP Outsources have the ability to modify and configure because of scale and internal professional system expertise.

- **Continuity.** Interruption and disruption for a variety of reasons is not likely.
- **Strategic Thinking Rather than Tactical Thinking.** This involves more proactive measuring and less reactive "patching up." Continuous improvement is strategic.
- **Global Business.** For companies that have global operations, BPO can play a role of providing consistency, but with local flexibility and configuration. The objective is to conform to local requirements, with sensitivities to culture, language, monetary institutions and law.

It should be noted that smaller and growing companies cited scalability as a major benefit. The following question asked in the survey referred to achieving previously unavailable scale through outsourcing.

Indicate the potential level of value from BPO on SCALABILITY for your enterprise.

	Strong Value	Value	Limited Value	No Material Value
Economic value of scalability to our enterprise. Increase in capacity for volume of processes at same or lower costs. Lower infrastructure investment.	27.3%	52.3%	18.2%	2.3%
Operational value of scalability to our enterprise. Diversity of applications. Use for various lines of business. Varied configurations.	15.9	61.4	20.5	2.3
Technical value of scalability to our enterprise. Ability to apply technology to more processes. Configurations. State of the art technology.	18.2	63.6	15.9	2.3

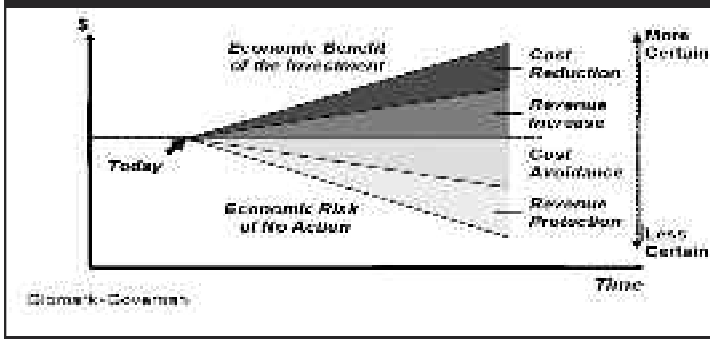
Obstacles to BPO in Our Industry

There are a number of perceived obstacles to overcome if a BPO strategy is to be successful. They primarily focus on transitional and control issues, uncertainty regarding the benefits to be derived, concerns over the loss of institutional knowledge and the relationship between the Outsource and client – who "owns" the workflow?

Regardless of any apparent advantages, respondents view the process of transitioning to an outsource provider as disruptive. This is the case not only to the current business workflow, but also to employees and customers. Of course, such disruption can be worth it if tangible and intangible benefits are a certainty. Such benefits must be balanced against risks – along with an understanding of the risk of taking no action at all. Maintaining the status quo in a changing, competitive marketplace may not be an option.

Some 90 percent of the respondents agreed with the statement that they would use BPO if they were confident it would improve operations. The same percentage would approve the strategy if they believed it would increase their capabilities. Clearly, outsource providers have an opportunity and must work harder to build support and confidence in the effectiveness of their services.

Fig. 10 Addressing the certainty of BPO benefit



Impediments to BPO. Impediments to BPO are not the same as disadvantages. However, they do act as perceived disadvantages. Some would consider them to be myths, fears or misconceptions. They must be addressed. During this white paper's research, two impediments stood out and each needs to be addressed when considering BPO. The first impediment focuses on core processes that the ELFC believes it would not or could not outsource; the second, not surprisingly, focuses on control.

Respondents expressed greatest concern with the prospect of outsourcing "core" processes. This was referenced earlier in this study, but deserves further explanation. A process, including knowledge and capability, is considered core to the firm's success if it is unique, adds clear value and provides an unmistakable competitive advantage to the organization.

So what is *core*? Survey responses and interviews narrow this. Online survey respondents were asked the following questions to arrive at the attitudes regarding what may be regarded as core.

What areas provide a source of competitive differentiation in your targeted markets? (respondents could answer more than one selection)

Market analysis	37.1%
Application process	35.5
Underwriting	64.5
Documentation management	35.5
Booking / funding	30.7
Billing	8.1
Portfolio management	19.4
Collections	9.7
Vendor support	22.6
Call centers	12.9
Asset management	29.0

Underwriting is consistently seen as core. Interviewees confirmed the belief that underwriting and related activities such as the actual application, pricing and structuring of transactions were *core*. They attribute factors such as complete information, customer knowledge, structure, terms and conditions in documents, speed and credit enhancements to being critical to the value proposition delivered and received.

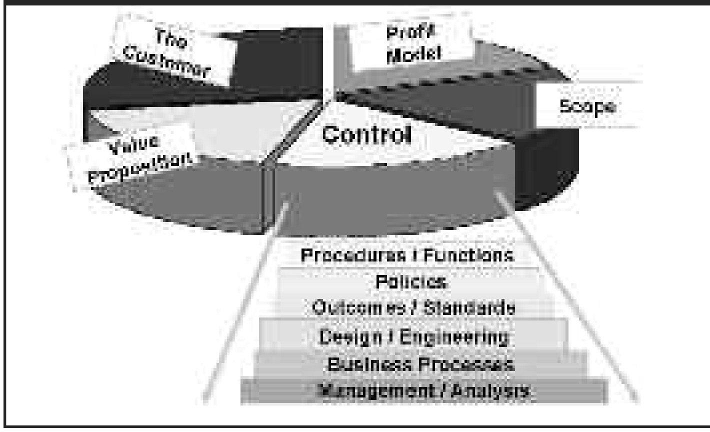
Depending on the business model, customer relations, vendor relations, portfolio management and asset management were also mentioned as least likely to be outsourced. For example, in business models where the residuals are critical to the value received, asset management is important for both pricing and asset monitoring and disposal. Captives that desire to control the equipment footprint in secondary markets want to retain remarketing control.

Portfolio management provides an interesting situation. While respondents to the survey stated they are not likely to outsource portfolio management, many companies do not have the capability to effectively manage, analyze and engineer their portfolios. During discussions, another reality that became clear is the fact that there are processes and there are sub-processes. Some tasks within the process of asset management, for example, can indeed be outsourced. The task becomes management of the process, whether it is done internally or by an outsource firm.

The second impediment is the concept of *control*. Processes or tasks within processes must be aligned with the overall operating strategy and value proposition of the ELFC. This requires integration, communication and management. This is where the ELFC and the Outsource must act as one. Figure 11 below illustrates this concept in the form of a five-part business model graph. *Control* is the element related to aligning the business workflow processes, whether done internally or through a BPO. All must exist and constantly be reviewed to optimize the controls and processes that enable the model to deliver and receive value.

Business Model

Fig. 11 Control is one of the five components of any Business Model: Control includes Business Processes



Control is multi-faceted. From an ideal perspective, careful alignment of the elements above through integration and communication provides control to anyone who needs to exercise it. However, what people actually mean when they talk about *control* in the business workflow can be separated into the following:

- **Decisions –** Within workflow design, management and execution, there are many decisions made by the ELFC regardless of how much work is outsourced. Some of important decisions, however, are also with the BPO provider. The graph above shows that control includes:
  - identifying required procedures and functions needed by the company;
  - developing appropriate policies for operation (rules-based or principles-based);
  - setting outcomes and standards;
  - designing and engineering workflow processes in accordance with stated policies that meet standards; and,
  - analyzing and evaluating the performance of workflow processes.

***Take away** – Using BPO should not be an abdication of decision making. If anything, decision making is sharpened via BPO. It becomes proactive rather than reactive.*

- **Communication –** People associate good communications with control. People can feel unimportant, out of the loop and experience anxiety if they do not know what is going on when they feel they should. ***Take away*** *– Good communication among people is critical to the execution of a business model whether BPO is used or not.*
- **Risk –** People see risk in having others perform duties that are considered important. There is concern whether it will be done right and what will happen to the responsible person if there is a mistake. Trust is part of this issue. If a process has critical impact for a company and, by implication, can hurt the organization if something goes wrong, there is reluctance to outsource it.

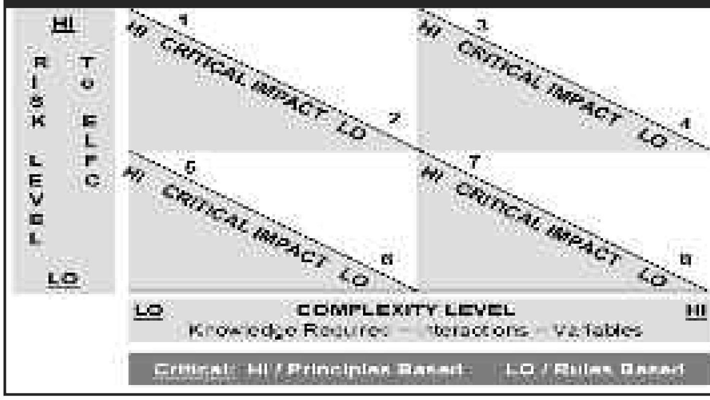
Figure 12 looks at the issue of risk in the context of the outsource decision. Focusing on the *critical impact* portion of the graph reveals that critical high-impact processes and, by definition, decisions require more attention than those with low impact.

Principle-based decisions are more deliberate and subjective, based on a variety of changing criteria. These decisions can be difficult. Conversely, rules-based decisions are clear. They are objective. By setting a rule – red or green – the decision is made easier.

How much risk is inherent in any decision or process? Zone 3 in the chart below is clearly the most risky area. It deals with *high risk* to the ELFC, *high complexity* and its execution has *high critical impact*. If something goes wrong here, the results will be serious and difficult to correct. But what about Zone 6? Its processes, present *low risk* to the ELFC and are not complex. Their execution carries low *critical impact*.

From this simple explanation, it is clear why managers name underwriting as an area they would least likely outsource. By implication, the risks on the front end are more serious than those on the back end. However, this does not mean that an ELFC cannot effectively outsource these or ones that are considered more risky. It just confirms ours is a risk analysis / risk management business.

Fig. 12 To outsource or not – risk, complexity, criticality



Take away *– risk is real and should be understood, but can be managed. It should be balanced with gain*. Are there reasons to assume that risks associated with operating an ELFC are less if operated internally rather than in a professional BP Outsource? Most people interviewed believe that this is important. The nature of the decision process and authority – principles-based or rules-based – is important in considering if or what to outsource. High risk processes are guided by principles-based decisions which tend to be made internally. Most BPO decisions are rules-based. In the online survey, respondents overwhelmingly selected "experienced personnel" as the best control of the workflow process. Experience usually reflects an ability to think subjectively and deliberately.

- **Customer –** There is concern, even fear, of allowing other entities into the value chain with customers. Because many business models are based on customer relations and customer intimacy, the ELFC wants to keep all customer touch points to itself. The fact is, however, the quality of customer interaction can be improved with better configuration and technology, flexibility, greater capabilities and knowledge management – all advantages of BPO. Again, this is a question of careful management of the workflow process, rather than abdication of BPO responsibilities. In many cases, such as Web sites, BPO can even be opaque to the customer.
- **Consistency / Quality –** Will the BPO be high quality and consistent? This concern was expressed over and over in interviews. How does the ELFC ensure quality and consistency in its internal operation? It recruits carefully, trains, makes the workflow processes clear, sets standards and metrics which are measured,

and constantly evaluates performance. Respondents to the online survey report they typically review their business processes annually. Interviews indicate, however, that such annual reviews may not always occur, unless a problem arises. Origination / risk-decisions processes are reviewed most often. When business processes are reviewed, this is done internally, along with any re-engineering. The highest incidence of external consulting for process development was for market analysis, but this was cited by only 10 percent of respondents.

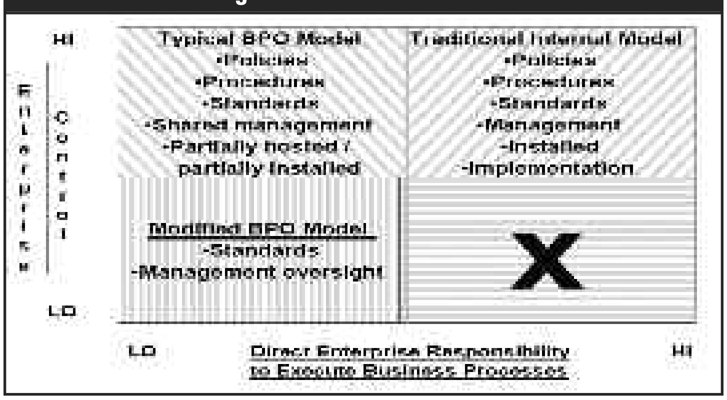
Consistency and quality are the products of careful planning, design, engineering, execution, supervision and evaluation whether built or bought. Managed internally or externally, workflow processes require constant professional management in addition to addressing issues of scale and technology. With BPO, contracts between the ELFC and BP Outsource must and do address expectations and performance and both parties have responsibilities to make things work. ***Take away –*** *The BP Outsource's workflow process management is its "front end". Workflow process management is core. Nothing is more important. They know what "is out there." Recruitment, training, best practices functionality, productivity and quality are all the Outsource focuses on.*

- **Punishment –** "If something goes wrong internally, I can discipline, even fire someone." This is a frequent comment. How did the situation get to this point? A goal of management is to prevent or eliminate mistakes, not to punish the person who makes them. However, chronic failures must be addressed, whether in an internal operation or BP Outsource. In a professional business workflow process environment, learning occurs from mistakes, but standards are typically clear and attainable. Managers are proactive in identifying problems or potential problems and the tolerances are tight. ***Take away –*** *People must accept responsibility for their work. This is true whether it is contract or employed work. The focus must remain, however, on improvement – not punishment.*
- **Status in organization –** Managers often measure their worth in terms of the span of activity and the head count they control. A chief credit manager in an ELFC with an installed workflow system has responsibility for credit decisions, relations with external information sources used in policy making and credit decisions, scoring systems, people putting together credit reports and those managing ongoing portfolio reviews. If the people are gone and the processes they conduct are outsourced, managers feel their status is diminished. In traditional thinking, maybe it has. But has the importance of the person's authority and responsibilities for the company changed? No. The deal flow and dollar volumes are the same, as is the rigor of the credit policies. ***Take away –*** *In the modern business world, status is more and more measured by outcomes / results. It is smart for a manager to find a better way to accomplish his or her responsibilities. Compensation models are shifting to accommodate this reality.*
- **Value –** When selling a company or seeking new investors, a firm's management typically believes the acquirer will value them more highly if they have a "strong back room." This does not match reality, however. Acquirers and investors do value a good back room, but it does not necessarily have to be internal. They want proven workflow management systems. While it is true a buyer may occasionally be looking for a platform for a new product launch or market entry, a well-integrated BP-outsourced back room is acceptable. Again, here is the desire for management know how in policy making, outcomes setting and management, and efficient operations. ***Take away –*** *Investors and acquirers most frequently want front- end capabilities and / or a portfolio. They also want proven management. They do not want more people than are essential and they are not looking for headaches in system integration more than necessary. In fact, a very good outsourced workflow system could be attractive to some ELFCs looking for a more robust system.*
- **Compliance –** ELFCs must comply with certain regulations and reporting requirements. A company may be so compliance-oriented, however, that it feels the need to perform the necessary steps themselves, rather than outsource it to professionals and retain the role of reviewer and approver. ***Take away –*** *Select Outsources specialize in compliance and enhance the authority's view that an organization is compliant.*
- **Parent –** The parent restricts the use of BPO for a wide variety of reasons including regulatory compliance and security. Often times, the parent has an operating platform which may or may not be adequate

or state of the art, but it wants its subsidiaries on it for control / integration reasons. Sometimes parents treat workflow processes as just another manufacturing process flow without the capabilities needed by an ELFC. Parents do like the cost benefits, however, and will often support or even insist on steps to reduce headcount or other costs associated with operations. ***Take away** – ELFC management wrestles with the parent not understanding its business and thus the necessary workflow processes for the business. This is a never-ending problem that ELFCs must manage.*

Control is an important concept to understand and actively address. Figure 13 below illustrates that levels of control responsibility must be addressed in workflow planning and execution. The higher the desire for control in an area, the greater responsibilities. ***But strong policies, procedures and management can result in effective control whether internal or outsourced. Failures can be found in the bottom right quarter.***

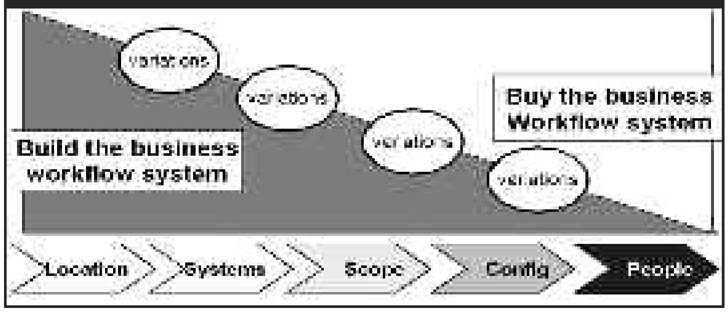
Fig. 13 Work Flow Control



To Outsource or Not

ELFCs have choices when it comes to business workflow processes. They can *build* or they can *buy (rent) and there are* variations in between. Figure 14 illustrates this. Managers must focus on improving business workflow processes and BPO is an important alternative strategy for consideration next to internally built and operated systems. In an increasingly transparent "flat" world, specialization and optimization through outsourcing has become part of every decision.

Fig. 14 Build or Buy



Where to begin? The decision to outsource one or more business processes begins with a commitment to have the best possible workflow system. The question one must ask is how open to change is the organization? The process for evaluating workflow and determining the best course of action involves several steps:

Step 1. Appointment of a review leader and workflow team. A senior ELFC executive who is open to change and understands temporary disruption is the price of change should take the lead in the evaluation of the business workflow process. A team should be assembled and include various business, financial and technical personnel to drive and coordinate the effort. Team members have both formal and informal authorities – people who have experience, knowledge and influence. A clear mission describes why the team exists and how the business workflow process relates to the organization's business model. What outcomes are desired? What limits, if any, does the team have on what it can do or recommend? Everyone must put their personal concerns and feelings aside – and recognize change is needed and will occur.

Work begins with a thorough mapping of the current business workflow process, including every step, interface, responsibility and knowledge requirement. In addition, cost, risk, technology, capability limits and desired performance outcomes are closely reviewed.

Step 2. Review and confirmation of the organization's business model. This includes careful evaluation of the five essential components of the organization's business model:

- Customer Selection – Who is the customer and what is our relationship to them?

- Unique Value Proposition – What differentiates us that is valuable to the customer?
- Profit Model – How we make money?
- Scope – What sectors, geography, products, assets, channels do we operate in?
- Control – How do we manage the brand and workflow to execute our business model

Step 3. Evaluate each process. A number of factors are taken into consideration when analyzing a process, among them:

- Is the process a core competency?
- Is the process generic in nature, similar to what other organizations do?
- How critical is the process to the overall success of the organization?
- What are the costs/benefits of the process, including indirect costs and often missed ancillary benefits?
- What risks are involved with a process – what impact will errors, delays or poor quality have on the organization?
- How does the process fit into overall workflow of business – is it efficient and flexible?
- How complex is the process – does it require special knowledge to complete, or involve complex interfaces and decision making?
- What is the scalability of the process – capacity/volume balance and ability to grow? Does more capacity need to be built to secure capabilities necessary?
- Is the process important to the strategic direction of the organization?
- Is technology (automation) leveraged as appropriate to complete the process?
- Does the process conform to current "best in class" standards?

A good example of a business process that ELFCs are increasingly willing to consider for outsourcing is billing. Survey respondents overwhelmingly identified "invoicing" as the business process they were most likely to outsource. They see this process as routine and not important to the value proposition. Outsourcing the process is done for economic reasons. But does billing have to be routine and a low contributor to value?

There are several outsourcers that specialize in invoicing / billing that add value through customization, configuration and technology. Their knowledge and capabilities *add* complexity which provided value. It could be quite important if the billing process reflected the entire relationship with each of thousands of customers. Billing is more than the invoice – a request for payment – there are related processes that must deliver accurate information. There may be multiple points of data entry including changes, updates and notes. There may be a variety of charges that must be included on the invoice. Some clients want things consolidated and some want them broken out. Pricing mechanisms vary from the traditional contracted payment amount to pay for use or metered systems. There are periodic milestone dates that require notices or provide opportunities for customized marketing messages. Accuracy and integration of all of this with the knowledge data base is essential for ongoing account management. Billing outsourcers can customize what appears on the bill for each customer's need.

Step 4. Identifying alternatives for improving business workflow, including BPO. Outsourcing decisions are of two kinds. The most common in most enterprises is selective outsourcing. A company begins to outsource to address a problem, opportunity, technology, new or-

Evaluate Your Business Processes:

Respondents were asked several questions about how they evaluate business processes:

Business processes are generally evaluated and changes made on an annual basis. Best practices are identified through networking, benchmarking, vendors and consultants. Companies generally do no maintain a standards-based process quality improvement curve. Standards and metrics for processes are internally developed and set through benchmarking. When asked if the current business processes and system platform provide the flexibility needed to address changing situations, 88 percent thought they were flexible. Another 70 percent said they do not measure the value that business processes provide customers. Some 61 percent said there is no measure that links business processes to market performance indicators.

ganization reality or required compliance. The second type of outsourcing is comprehensive, where virtually all of the business workflow processes and the supporting technology are outsourced after a major review. Both types of outsourcing decisions are strategic, but the latter tends to have a greater total impact on how the ELFC operates. In either situation, however, the ELFC should have a clear understanding of where it wants to go and what it wants to achieve with its workflow processes.

This White Paper has already addressed macro reasons why companies outsource, but there are more granular reasons given. In the analysis in **Step 3**, how many of the following issues arose?

- We need to sharpen the company's focus on the important things.
- We can neither change nor improve fast enough.
- Our capabilities are limited as to what we need to do.
- We need to redeploy capital to other, higher needs.
- Costs are too high.
- We need access to things we do not have.
- A process is too complicated for us to be attempting it ourselves.
- The process could be automated.

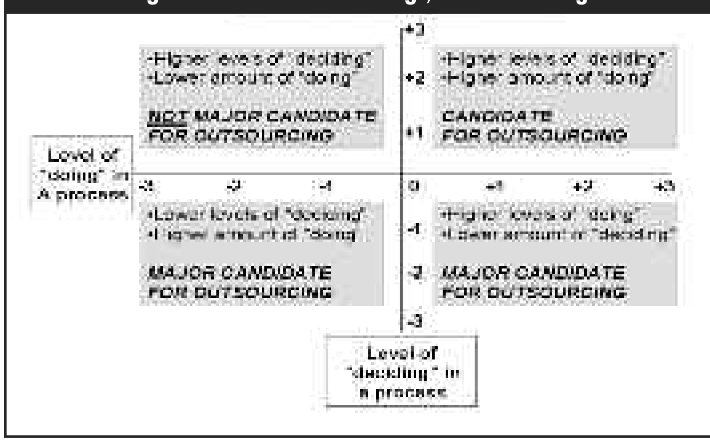
Only after professional mapping, analysis and evaluation do decisions about redesign, re-engineering and outsourcing take place. Professional assistance is recommended for this process. During the redesign / re-engineering process, people familiar with outsource capabilities should be involved to ensure that thinking is not limited by current capabilities. In design and engineering, it is important to know what is possible because, if so, the competition probably is doing it. The online survey presented the respondents with the following statements and asked them to rate the level of agreement from 1 to 5, 1 being high.

BPO and Competitive Advantage

	1	2	3	4	5
We have competitors whose use of technology gives them a competitive advantage	29.8	31.9	17.0	14.9	6.4
We have competitors whose business processes give them a competitive advantage	25.5	38.3	17.0	12.8	6.4
We have competitors whose relationship management of the customers/vendors appears to give them a competitive advantage	10.6	38.3	23.4	23.4	4.3
We have competitors whose market intelligence appears to give them a competitive advantage	10.6	34.0	29.8	23.4	2.1

What do people think they should outsource? Figure 15 below and the following table of responses from respondents provide perspective. Figure 15 provides a general guide based on the need to differentiate the responsibilities of "doing" from "deciding." Responses and interviews appear to converge on the point of having external parties "do the work" as long as the policy making, standard setting and managing remains in the ELFC. A process that involves high levels of deliberation and small level of doing is not a good candidate for outsourcing.

Fig. 15 Outsource "Doing", not "Deciding"



For example, in many interviews people described business workflow in which a variety of functions were involved in pricing, structuring and documenting a transaction. There is much intensive deliberation and interaction among senior people in credit, legal, documentation and asset management to complete the deal.

The functions all include processes and there is a flow, but complexity and differences from one deal to another that make outsourcing of little value and possibly difficult. This is not to say that many of the *inputs* could not be outsourced such as customer knowledge, market analysis, risk analysis and asset valuations. This is not a transaction flow business with great uniformities.

Where there are lower levels of control / deciding necessary – *rules-based* – and high amounts of doing, the process is a good candidate for outsourcing. Billing, collections, cash management, document management, market analysis and customer knowledge management are prime examples to begin BPO.

When asked in the on-line survey, "Who should use BPO?", 76 percent selected said they consider their business processes a source of competitive advantage. In a large ticket, structured transaction ELFC *would not* regard processes as a competitive advantage. In that company, competitive advantage is all about knowledge and structuring. In a small ticket, transaction flow business, business processes are a source of competitive advantage and are good candidates for BPO.

In terms of what an ELFC would outsource, or not, the following question was asked:

Indicate the TOP THREE business processes you would be MOST LIKELY to outsource and the TOP THREE you would be LEAST LIKELY to outsource from the list below

	Most Likely	Least Likely
Market research	80.0%	20.0%
Customer analysis	59.1	40.9
Application process	42.9	57.1
Underwriting	2.6	97.4
Documentation management	65.0	35.0
Booking / funding	20.8	79.2
Accounts payable	60.0	40.0
Invoicing	87.5	12.5
Portfolio management	12.5	87.5
Collections	60.0	40.0
Customer relations	9.1	90.9
Vendor relations	43.8	56.3
Asset management	38.5	61.5

Scale is another criterion for BPO. Larger ELFCs assume they have the scale for effective workflow processes. Some 80 percent of respondents see a relationship between scalability and technology. They recognize a level of value from BPO in being able to apply technology to more processes and achieve more configurations.

Many bank leasing companies face parent operating systems that are not designed to deal with issues unique to leasing such as pricing and asset management. In addition, the great majority of equipment leasing and finance companies are not large enough to utilize the early generation *where is / as is* BPO models.

Figure 16 is another common tool to determine whether or not a process is a good candidate for outsourcing or is better left internal. It captures the two general categories of benefit for BPO – *Economic* and *Increased Capabilities / Productivity*. It adds the other dimension of mission criticality to address issues of risk and core value.

Fig. 16 To Outsource a Process or Not?

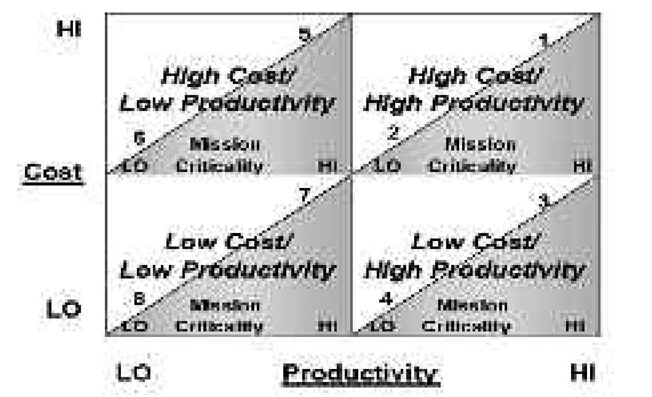


Figure 16 contains 8 Zones. A quick summary that can be applied in analyzing business processes as follows:

Fig. 16a To Outsource a Process or Not?

1. Difficult to Outsource
2. Prime Candidate
   - Low criticality
   - High productivity
   - High cost
3. Low Candidate
   - Low cost
   - High productivity
   - High criticality
4. Prime Candidate
   - Low cost
   - Low productivity
5. Prime Candidate
   - High cost
   - High criticality
   - Low productivity
6. Prime Candidate
   - High cost
   - Low productivity
   - Low criticality
7. Neutral
   - Nothing compelling
8. Poor Candidate
   - All indicators low

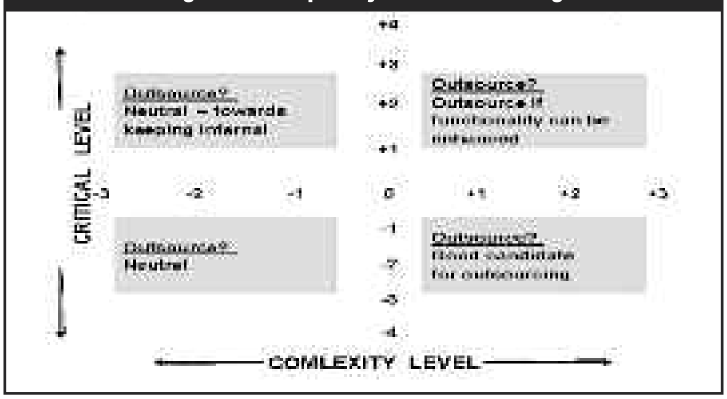
Zones 7 and 8 show that since each is already low cost, not much can be gained even though productivity is not high. Zone 7 does have higher mission criticality, so an increase in productivity from BPO might be worthwhile, but the benefit should be quantified.

Zone 5 is a prime candidate because it has high cost, and productivity is low. Each could potentially be reversed in BPO. The same might be said for Zone 6 even though mission criticality is low. Zone 3 is not a good candidate because the cost is low and current productivity is high. Criticality is high.

Complexity. Process complexity is frequently mentioned by interviewees as making outsourcing difficult. Underwriting and asset management, for example, are cited by respondents processes that cannot be outsourced but, in reality, their complexity and mission critical nature may make these and other processes prime candidates for BPO. Outsourcing these activities may enable an organization to gain access to new, valuable capabilities otherwise missed.

Figure 17 below is a tool for looking at the outsourcing decision where criticality and complexity need to be balanced.

Fig. 17 Complexity and Outsourcing



Another important consideration for business leaders confronted with the complexity issue in business processes is whether the product or market requiring the system complexity is worth the cost. The equipment leasing and finance business is so market-driven that more time and a higher priority is given to conforming support capacity / capability to products and markets rather than doing the analysis to determine if the organization should conform products and markets to capacity / capability.

When confronted with the need for a critical and complex process to support a product or opportunity, or when fitting processes needed into the general business workflow is very difficult (internal or outsourced), a judgment must be made based upon the level of future opportunity. To simply create an ad hoc process to deal with a low scale product or locality with no future growth analysis is a questionable decision.

Step 5. Development of an outsource plan. A plan should be developed for the BPO transition including, at a minimum, ELFC financial and productivity/ capabilities goals. It also should address issues critical to BPO transitioning and the subsequent working relationship. Considering BPO is a strategic change, the plan addresses impact on finances, operations, people, technology, training, confidential information, culture, communications, success and progress metrics, responsibilities, authorities and management.This plan will be the foundation for an RFP in a competitive process.

Selecting and Transitioning to BPO

Figures 18 and 19 discuss the management of workflow processes. Figure 18 is for an internally installed and operated workflow system. Figure 19 is for an outsourced business workflow. Compare how the roles and responsibilities change. These changes will be important to deliberations when actually putting together an outsourcing plan and working with a BP Outsource.

Fig. 18 Managing an ELFC Work Flow Solution –
Segmenting elements of the business processes

BP Element	Management and Execution Responsibilities
Policies	Set by enterprise management
Procedures and organization	Identified and set by management, usually with participation by operations staff / consultants
Standards	Set by management often with consultative assistance
Design and engineering	Operations management and staff with consultative assistance and technology specialists
Managing	Operations management
Day to day execution	Operations management and staff, including technology staff
Technology	Internal technology staff working with external platform and applications solutions specialists

Fig. 19 Managing a BP Outsource Solution –
Segmenting elements of the business processes

BP Element	Management and Execution Responsibilities
Policies	Set by enterprise management – advised by Outsource
Procedures and organization	Identified by management with participation by operations staff and BP outsource specialists
Standards	Set jointly by enterprise management and BP Outsource
Design and engineering	BP Outsource with consultation from Enterprise management and staff
Managing	Enterprise management manages the Outsource and various internal enterprise responsibilities
Day to day execution	BP Outsource
Technology	Wide range of alternatives from internally installed to hosted ASP models

Below is a summary of how respondents to rank the selection / transitioning process.

- The five greatest potential difficulties:
  1. 1. Maintaining control
  2. Deciding to outsource or not
  3. Communication / coordination
  4. Selecting and re-engineering the business processes
  5. Selecting an outsource

- The four actions BP Outsourcers could do to be most helpful in transitioning to or considering BPO:
  1. Understand my business and how we operate
  2. Imbed an in-house representative of the BP Outsourcer
  3. Critical review and evaluation of current business processes
  4. Share risks and rewards between the ELFC and BP Outsource

Outsourcing is Not a Normal Procurement. When an ELFC selects an outsource provider, it is important to remember this is not a typical business procurement. Rather than simply purchasing goods, the ELFC is actually acquiring a strategic relationship or partnership over time. Sufficient to say, partnerships require commitment, nurturing and work. The ELFC is turning over many responsibilities to another organization in return for anticipated benefits. It needs to be comfortable with that organization and its people. This is not an abdication of responsibilities, but a collaborative effort between parties. Everyone must understand the business and set reasonable expectations for standards and outcomes. The selection criteria varies depending on whether the acquirer is most interested in outsourcing select processes or is ready to embrace a comprehensive, long-term outsource solution, where both parties act as one with full trust and dependability.

Executives interviewed indicated that selecting a BP Outsource and actually transitioning processes is a major impediment to effectively implementing such a strategy. Mistakes, undoing an outsource relationship, uncertainty of benefits and a change in operating strategy are cited as the biggest fears of adapting such a strategy. ELFCs, BP Outsources, IT Outsourcers and the various influencers / consultants are learning that selecting, transitioning and relationship building must be approached carefully to make outsourcing successful.

Selecting the Outsource. When evaluating and selecting an outsource provider, ELFCs typically look for one that can provide combined BPO / ITO resources. One does not shop for these independently, given their close integration. The decision for ELFCs is simplified by the fact there are not a large number of comprehensive ELFC workflow outsources from which to select. Those that offer selective services can usually integrate their systems into existing platforms.

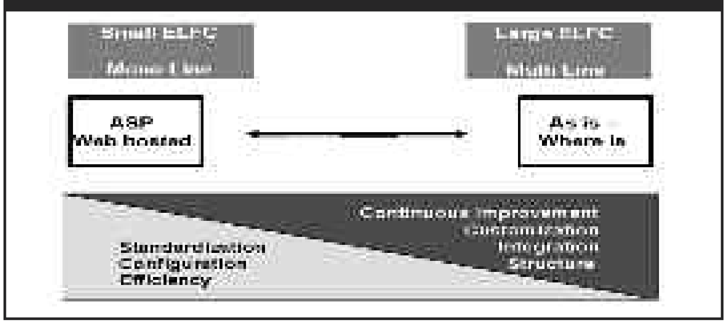
- Specialists are the BP organizations that specialize in one process or suite of related functions exclusively. They deliver business processes that have been widely used for some time. The selection criteria include:
  - o Experience and reputation in delivering added value to ELFCs
  - o Compatibility of capabilities with ELFC business model
  - o Cultural compatibility
  - o Innovation
  - o Skill sets
  - o Technology (compatibility)
  - o Pricing structure
  - o Capacity
  - o Accountability

- Comprehensive BP Outsources are those that offer a broad range of business workflow processes typically reflected in an ELFC workflow. There are many BPO organizations, but few that can provide business workflow processes that accommodate the nuances of equipment leasing and finance. These nuances focus on pricing, structuring, residuals, depreciation, accounting and taxes. Some of the large BP Outsourcing organizations claim they can handle these issues, but there is skepticism among executives and managers. A larger ELFC could become a development site for ELFC capabilities development, but this possibility is limited, especially given the fact that industry executives have little time and patience for such learning exercises on their behalf.
  - o A BPO model that works best for the ELFC
  - o Experience and reputation in delivering added value to ELFCs
  - o Understanding of ELFC's business model and value proposition
  - o Technology platform – compatibility, robustness and depth of support

o Culture of innovation.
o Scalability of capabilities
o BPO transition strategy and plan
o Ability to integrate with other specialized outsources
o Pricing model – pricing structure and amounts, willingness to share risks and rewards
o Personnel deployment
o Agreement with terms and conditions, such as performance standards and deadlines, breakup provisions, mutual responsibilities, work schedules, guarantees and more.

General BP Outsourcers prefer to offer their services through a variety of the basic outsource models described earlier in this paper. Key criteria associated with specific models are described in Figure 20 below.

Fig. 20 BPO Model Selection:
GENERAL TRENDS



The RFP. A critical key to the success of the selection process is the development of an effective request for proposal (RFP) document to be sent to prospective outsource providers. The typical RFP is developed with the assistance of a professional consultant with expertise in this area, in collaboration with the established workflow team and legal counsel. In some instances, a request for information (RFI) is sent to a larger pool of potential candidates and, from there, the list is narrowed down significantly to those who will receive an RFP to respond to in much more detail.

An effective RFP presents a clear picture of the following:

- Current ELFC business workflow processes
- Desired objectives of BP Outsourcing; clear set of priorities
- Scope of what services the ELFC is seeking
- Performance metrics / standards sought (sometimes other parameters are used to give the outsource an opportunity to detail standards it can provide)
- Expected / desired transition details and schedules
- Ranges of desired roles and responsibilities
- Operating limitations and requirements, if any
- Integration requirements
- Risk sharing
- Confidentiality, proprietary and legal limitations or considerations (ownership, remedies, termination)
- Levels of knowledge transfer and methods for knowledge sharing
- Preferred pricing model
- Preferred method for governing the relationship

No matter what form the RFP takes, the overriding factor in the selection process must be how well a prospective outsourcing candidate meets the organization's specific business needs from a capabilities standpoint. This may seem obvious, but too often a business will make the selection based on the attributes of a product or service, while overlooking the fact that they either do not match its business needs or may significantly exceed them. This is particularly true where technology is involved. Such advanced capabilities may be of value, however, if the ELFC knows it will need them in the future.

The criteria for selection should include:

- Alignment of capabilities with ELFC needs – now and in the future
- Demonstrated experience and reputation, including references
- Priorities, i.e. investment in technology, training, quality control, research into best practices, innovation levels
- Stability of organization, from a financial and personnel standpoint
- Organizational culture – do both parties share the same beliefs?
- Demonstrated flexibility – actual capabilities and attitude
- Willingness to assume / share risks of underperforming or other problems
- Genuine concern with meeting client needs?
- Demonstratable efficiencies that lead to lower costs / operational efficiencies?
- Scalability of system

- Assumption of liability for breach of any confidentialities or proprietary information
- Governance and management of the agreement *and* relationship
- Pricing models and a methodology for making changes as necessary
- Procedures for dealing with disagreements and termination
- Agreement and ability to work with and integrate other BP Outsource providers of the ELFC where the ELFC has selected a highly specialized outsource.

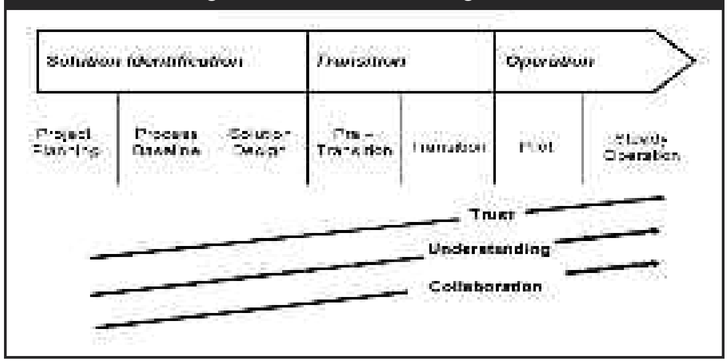
The Outsource Agreement. The ELFC is entering into a relationship agreement for service over time. The agreement between the parties should focus on two concepts that may, at first, appear in conflict but are not. Because this is a long-term service agreement by which a BP Outsource assumes responsibility for conducting some or all of the ELFC's workflow processes, *certainty* is critical. However, because a primary benefit of BPO is innovation and continuing improvement, *flexibility* must be included in the agreement. The ELFC's needs will change as its business changes and the BP Outsource's capabilities will change and improve as technology and best practice evolve.

An outsource agreements should always be negotiated, not based on a standard template. Negotiations benefit both of the parties because it helps build understandings and clarify expectations. Because increasingly the BP Outsource and IT Outsource are one in the same or bundled, IT issues such as licenses also need to be addressed in the contract. Agreements should include how additional BP Outsources will be dealt with, including integration of processes. Most issues can be effectively addressed if performance expectations are dealt with clearly and early. Initial agreements should be for two to three years with an "out" provision for poor performance. Renewed agreements could be for a longer period of time based on experience.

The agreement generally addresses each of the items spelled out in the RFP. It cannot be stressed enough how important it is to clarify the roles and responsibilities of the respective parties to avoid the almost inevitable confrontation that sometimes comes in the relationship. Rather than rely on excuses, eliminate them with a good agreement that clearly identifies roles and responsibilities, followed by strong communication throughout the life of the relationship. The agreement should also address standards, timing, costs, risks and rewards (penalties and bonuses), quality, decision making, support and training.

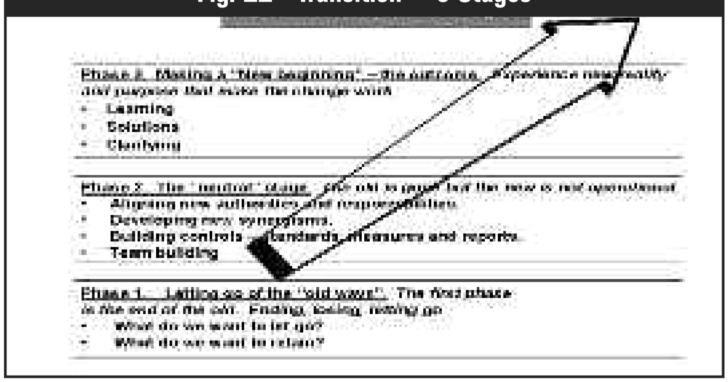
Planning and Managing the Transition. Deliberate planning is critical to a smooth transition to BPO and success. It is not easy, given the necessary changes in strategy, organization and personnel that typically occur. Familiar approaches, roles and operating structures are given up, while new ones are adopted. The key is to remember this transition to BPO is more a process than a program with finite starting and ending points. Figure 21 shows the flow of a professional transition process.

Fig. 21 Transition Management



What happens in a transition? Figure 22 describes what must take place for transition to occur. It is here where strategies, roles, structures and more evolve from what was to something new.

Fig. 22 Transition - 3 Stages



Management and governance of the outsourcing relationship is established to assure the intent of the parties is accomplished. The nature of what is outsourced, provisions of the service agreement, organizational changes at both the ELFC and the BP Outsource, objectives and milestones and feedback loops are negotiated and confirmed. None of this will happen and operate to the satisfaction of either party – nor will incremental improvements be achieved - without collaborative management. The goals of the ELFC and the BP Outsource must be aligned at all times.

Some will say, “If I have to manage the outsource relationship, I should not have bothered to outsource the process.” Management of the workflow process has to occur either internally or through an outsource agreement. Outsourcing does not mean *abdicating* responsibility, it means *acquiring* something not currently possessed in the form of capabilities, knowledge, efficiency, scale and more.

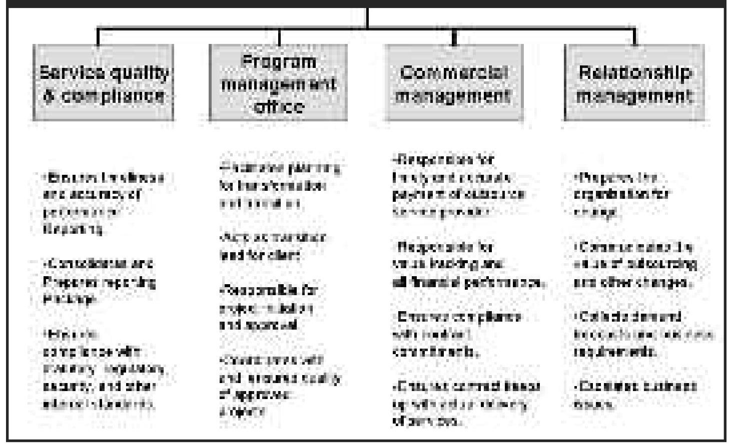
Relationship management is distinct from managing the underlying commercial agreement. While the commercial agreement provisions must be managed, the changing needs of the ELFC require the ability to evolve and adapt. Relationship management focuses on intent, a continuum of improvement and communication.

Outsource management will be successful if the parties:

- Commit adequate resources required to make organization and strategic changes.
- Collaborate on the strategic and organizational changes that will occur in the ELFC.
- Accept there will be challenges and disruption during transition, including some duplication, gaps and inefficiencies.
- Recognize the current ELFC staff may not have the necessary skills to handle this new set of responsibilities. Retraining, reassignment and/or termination may occur.
- Understand that management is a mutual responsibility in a partnership.
- Accept that complexity will increase.
- Commit to regular meetings and a thorough method of communication at all times.

The outsource management firm, EquaTerra, illustrates outsourcing roles and responsibilities in Figure 23. The ELFC WPPT chairman would most likely be the Outsource Management Executive responsible for the execution of these outsourcing responsibilities

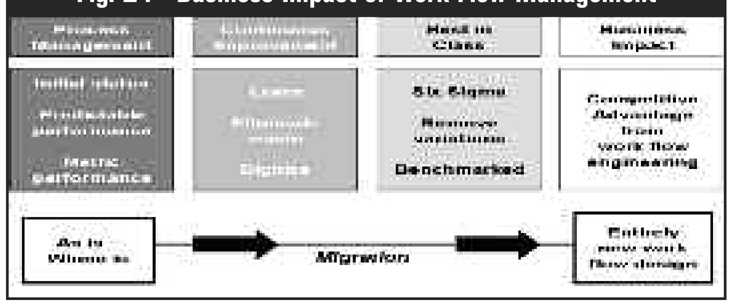
Fig. 23 Outsource Management Executive



Conclusions

“Outsourcing is fine for some people but not for us.” This is a fairly common industry adage that may be true for some companies – or may be the ultimate denial. The fact is all organizations in our industry can benefit from outsourcing some or all of its business workflow processes. Figure 24 summarizes what an ELFC that uses BPO could expect to achieve. Leaders must decide whether the migration described below is worth the effort and whether the ELFC is capable of accomplishing the transition?

Fig. 24 Business Impact of Work Flow Management



As a general rule, the equipment leasing and finance business is a marketing-oriented and driven business. The company brings knowledge, structuring, periodic innovation, relationship management with customer channels and asset management. Somewhere in the latter list is the nexus for every ELFC’s value proposition. But this observation suggests several conclusions:

1. **Business workflow processes are a big part of the cost basis of each ELFC. The total cost of “operations” necessitates a careful and frequent review**

of workflow processes and technology to determine costs and alternatives that may provide better use of financial and human resources.

2. **Because the focus of ELFC executives and management needs to be on marketing strategy, origination and growth, can there be sufficient focus on maximizing the business workflow process?**

The conclusions above have relevance for the company that sees itself primarily as giving and deriving value from its origination, structuring and underwriting. However, business processes cannot be an afterthought. The following conclusion should be considered:

3. **Business workflow processes must be aligned with the enterprise's strategy if it is to be successful.**

Business workflow processes give control and support to all aspects of the enterprise, whether they are outsourced or performed internally. They determine speed, flexibility, capability, innovation, cost, knowledge management, integration and communication.

4. **BPO, particularly models closer to Virtual or On Demand applications, solves the process scalability problem for many companies.**

Ultimately, the degree to which BPO, regardless of model, penetrates the equipment leasing and finance industry will be supply driven. That is to say that demand and utilization will be driven more by what is offered from the technology and BPO providers than a conversion of ELFC leaders to the advantages of BPO. Selective process outsources described in this white paper can be used efficiently by companies of all sizes and business models. However, general BPO adoption will be BPO-model dependent.

5. **BPO models that serve a number of ELFCs with a variety of capabilities, applications and configurations will find the greatest success in terms of penetration.**

This latter conclusion cannot be ignored by software and BPO providers that desire high levels of penetration in the equipment leasing and finance business. The industry is highly concentrated and highly diverse. The successful BPO model must deal with this reality. This concentration and diversity does justify the statement that ". . . outsourcing is not for everybody."

6. **BPO is not simply a Yes – No decision. Scale and scope are real issues. A company may have one or several activities that are not particularly efficient, but are performed so infrequently that there is no material benefit from outsourcing. Activities / tasks do not constitute processes. These activities are found most often in small companies or business models with very few transactions. Processes are frequent and occur in a routine.**

7. **Business pprocesses that can effectively utilize technology are best candidates for the benefits of BPO.**

Business model, number of processes, number of transactions and number of customers (end users and channel partners) determines which ELFCs can gain the most capability and economic benefit from BPO.

8. **Because scale and scope are important considerations in BPO, businesses that have large numbers of applications, customer interactions and portfolio administration actions must have optimized workflow processes to be competitive. Optimization refers to the capabilities and use of resources in delivering and receiving value. Technology is usually an important element in this optimization.**

9. **Most processes are generic and easily outsourced with success.**

Risk taken and potential value to be added should drive the outsourcing decision.

10. **Successful utilization of outsourcing focuses on minimizing risk and maximizing value. Incremental transition to BPO reduces risk such as disruption by building knowledge, experience and trust.**

11. Begin the transition to BPO selectively and with outsourcing the simplest of processes.

Technology is changing BPO models. There is a migration under way that business leaders should understand when considering the use of BPO.

12. Portability, transparency, organic, open and collective are among the key concepts of evolution in BPO models. The chart below summarizes the shifts driving migrations in BPO models.

As readers consider these shifts in BP Outsourcing, they need to do so with the goal of analyzing their concerns and perceived impediments. Person after person interviewed for this document talked about the difficulty and uncertain benefits of shifting to BPO – selecting, quantifying, transitioning, outcomes, risks and other concerns. BPO models that offer incrementalism, sharing and transparency are attracting support.

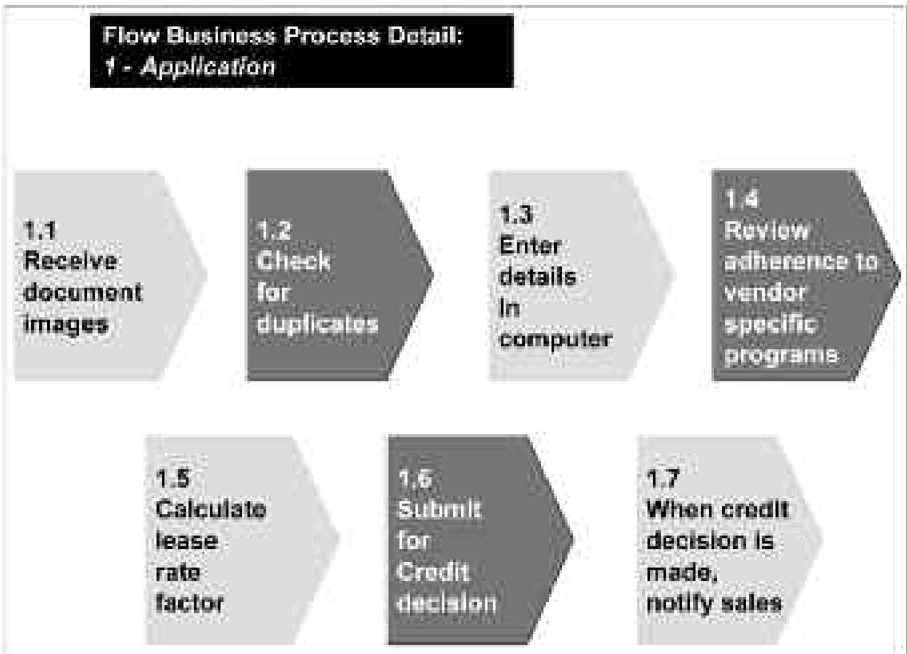
ELFCs can learn a great deal from business practices in other industries. Because the nature of finance companies revolves around managing risk, they tend to approach any business innovation or change cautiously. However, ELFCs and their business process and technology outsourcing partners will find ways to learn from the experience of others to get more value out of their operations – just as retail and commercial businesses have been doing for a long time.

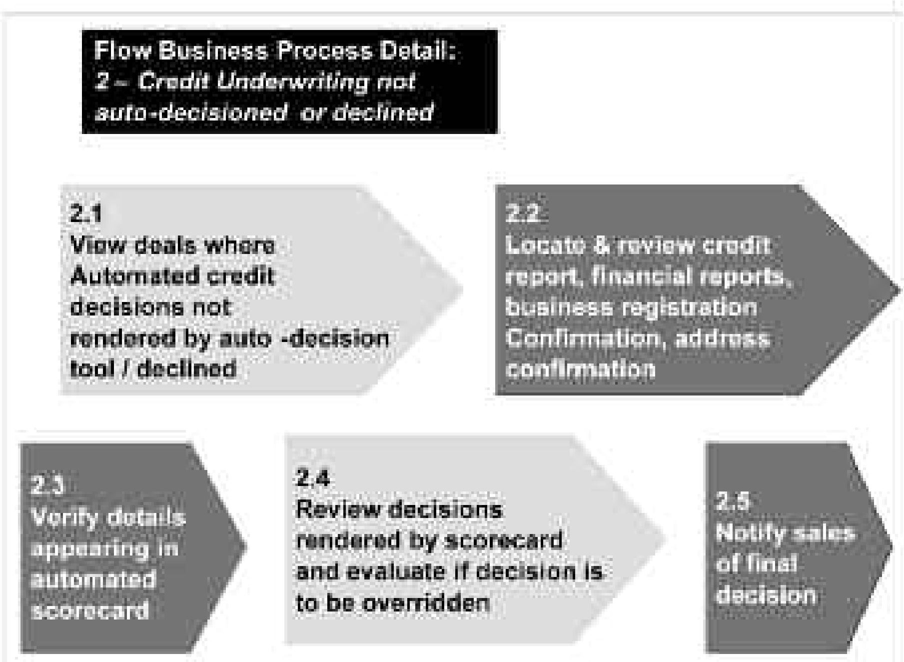
This will lead to a new strategic advantage in the marketplace and incremental revenue for the equipment leasing and finance organization.

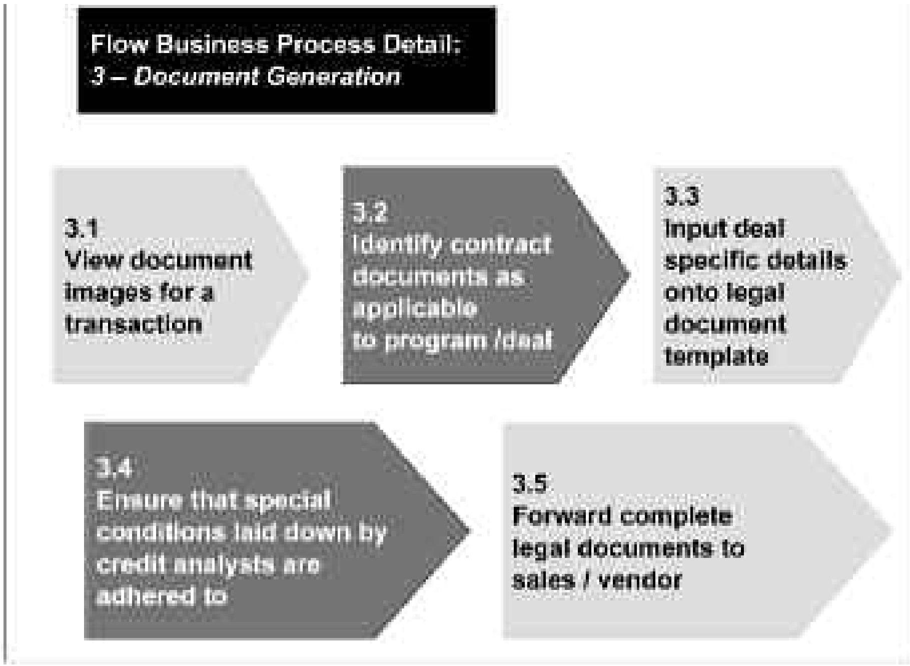
Critical BP Outsourcing Shifts

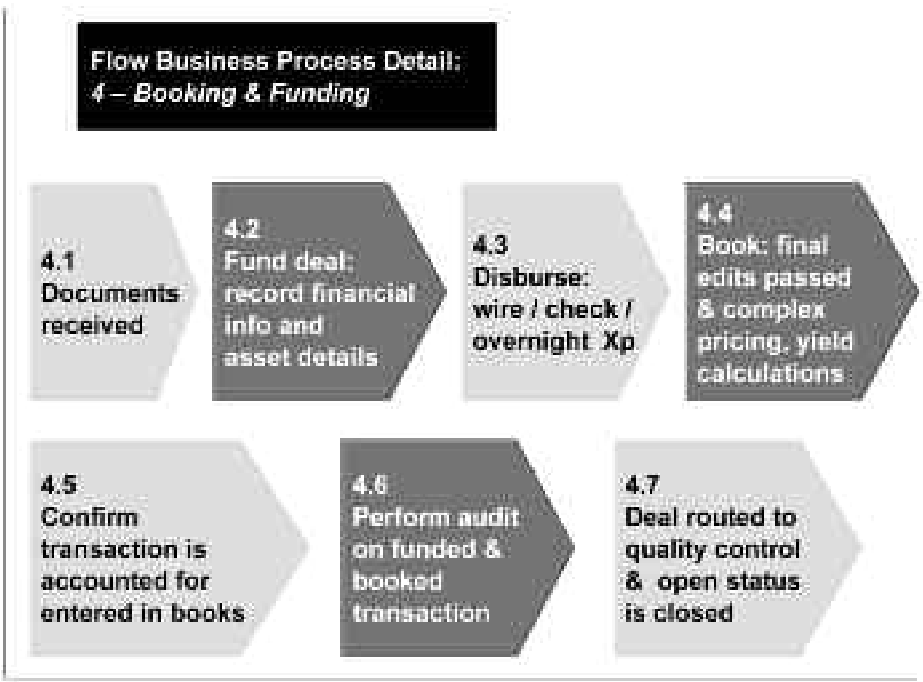
FROM	TO
Limited access	Virtually unlimited access to collective wisdom and market intelligence
Procurement	Relationship management
Process	People as the center of the outsourcing universe
Mostly closed IP	Mostly open IP / more sharing
Terms and conditions	Rolodex and relationships
Low price	Best value
Static	Dynamic, actionable, interactive content, and IP and data
Hunting	Shopping
Betting	Investing
Medication	Gratification

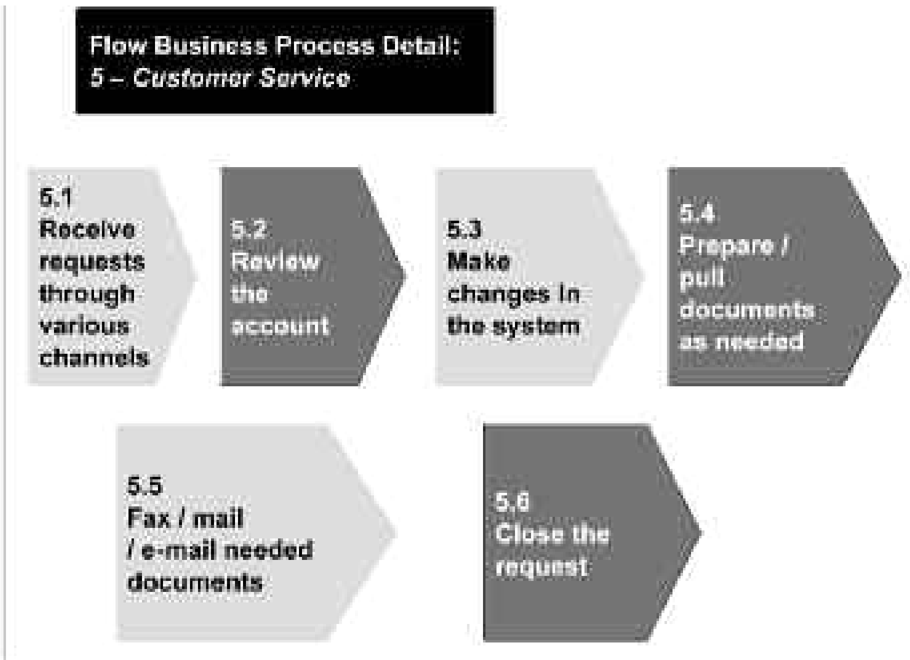
Appendixes

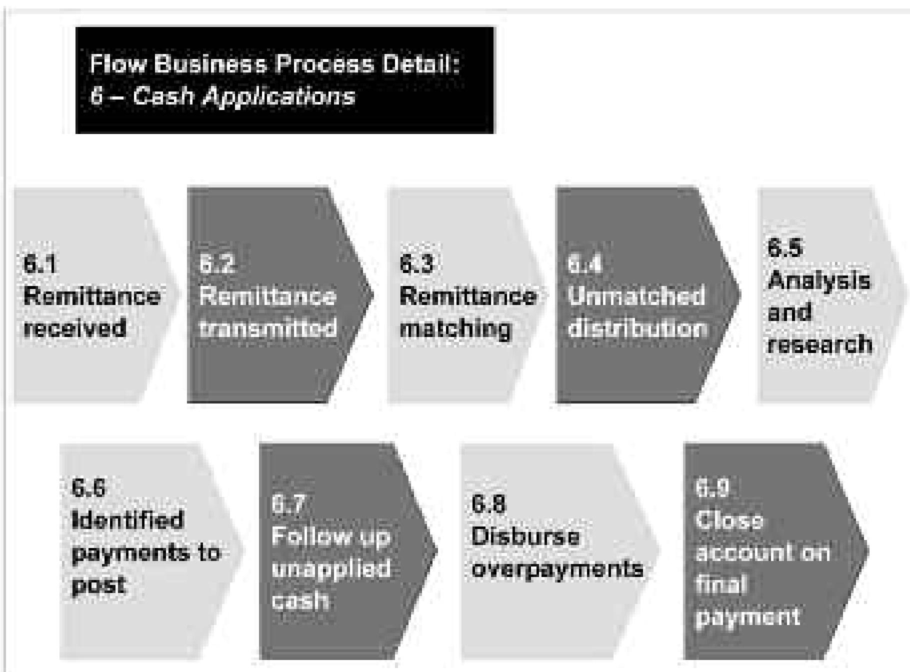

Flow Business Process Detail:
1 - Application
1.1 Receive document images
1.2 Check for duplicates
1.3 Enter details in computer
1.4 Review adherence to vendor specific programs
1.5 Calculate lease rate factor
1.6 Submit for Credit decision
1.7 When credit decision is made, notify sales

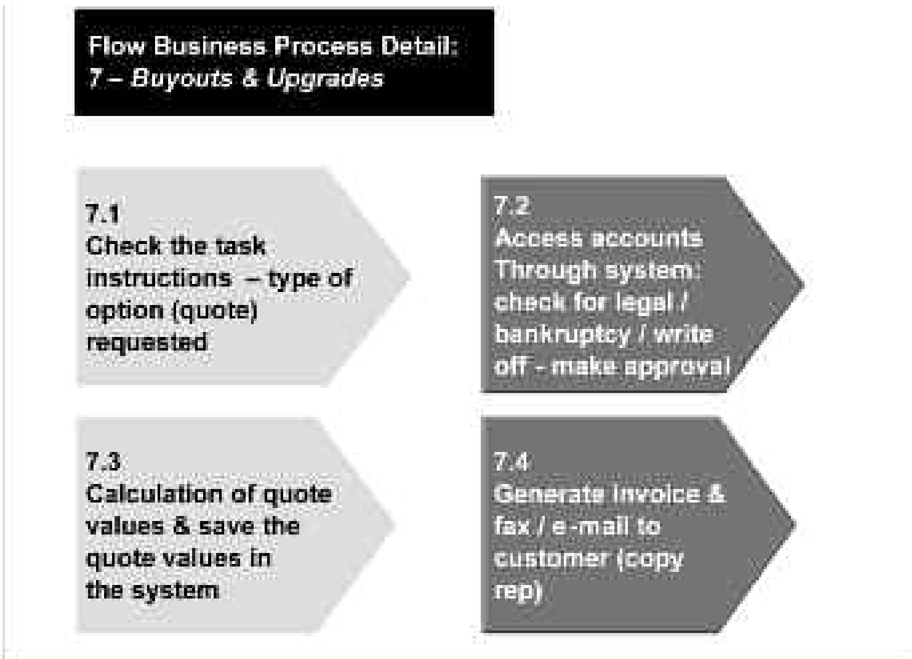

Flow Business Process Detail:
2 – Credit Underwriting not auto-decisioned or declined
2.1 View deals where Automated credit decisions not rendered by auto -decision tool / declined
2.2 Locate & review credit report, financial reports, business registration Confirmation, address confirmation
2.3 Verify details appearing in automated scorecard
2.4 Review decisions rendered by scorecard and evaluate if decision is to be overridden
2.5 Notify sales of final decision


Flow Business Process Detail:
3 – Document Generation
3.1
View document images for a transaction
3.2
Identify contract documents as applicable to program /deal
3.3
Input deal specific details onto legal document template
3.4
Ensure that special conditions laid down by credit analysts are adhered to
3.5
Forward complete legal documents to sales / vendor


Flow Business Process Detail:
4 – Booking & Funding
4.1
Documents received
4.2
Fund deal: record financial info and asset details
4.3
Disburse: wire / check / overnight Xp
4.4
Book: final edits passed & complex pricing, yield calculations
4.5
Confirm transaction is accounted for entered in books
4.6
Perform audit on funded & booked transaction
4.7
Deal routed to quality control & open status is closed


Flow Business Process Detail:
5 – Customer Service
5.1 Receive requests through various channels
5.2 Review the account
5.3 Make changes in the system
5.4 Prepare / pull documents as needed
5.5 Fax / mail / e-mail needed documents
5.6 Close the request


Flow Business Process Detail:
6 – Cash Applications
6.1 Remittance received
6.2 Remittance transmitted
6.3 Remittance matching
6.4 Unmatched distribution
6.5 Analysis and research
6.6 Identified payments to post
6.7 Follow up unapplied cash
6.8 Disburse overpayments
6.9 Close account on final payment


Flow Business Process Detail:
7 – Buyouts & Upgrades
7.1
Check the task instructions – type of option (quote) requested
7.2
Access accounts Through system: check for legal / bankruptcy / write off - make approval
7.3
Calculation of quote values & save the quote values in the system
7.4
Generate invoice & fax / e-mail to customer (copy rep)


Flow Business Process Detail:
8 - Collections
8.1
Download Of accounts
8.2
Prioritize and call accounts manually
8.3
Pre call work to understand details of the account
8.4
Call accounts to determine reason for delinquency
8.5
Suggest solutions. obtain promise / plan to pay
8.6
Update account. Follow-up with customer as needed.

About the Researcher

Michael Fleming, a principal with The Alta Group, was the author of the BPO White Paper. As the author, he conducted primary and secondary research, including numerous interviews with leasing and finance industry executives and managers, outsource providers and software vendors. The knowledge and experiences of these sources was essential to the content and conclusions. The White Paper's content also was based on results of an on-line survey of experiences and knowledge with business processes and outsourcing.

The Equipment Leasing & Finance Foundation Research Committee assisted in the development of the on-line survey and provided comments and direction on the early drafts of the White Paper. The author thanks the several hundred people whose perspective provided the background, guidance and context for the White Paper.

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