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**Delivering on the Vendor's Value Proposition:
Business Process Outsourcing at eFunds**

**Cynthia Beath and
Jeanne W. Ross**

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CONTACT INFORMATION

Center for Information Systems Research
MIT Sloan School of Management
3 Cambridge Center, NE20-336
Cambridge, MA 02142
Telephone: 617/253-2348
Facsimile: 617/253-4424
<http://web.mit.edu/cisr/www>

Peter Weill, Director	pweill@mit.edu
David Fitzgerald, Asst. to the Director	dfitz@mit.edu
Jeanne Ross, Principal Res. Scientist	jross@mit.edu
George Westerman, Res. Scientist	georgew@mit.edu
Nils Fonstad, Research Scientist	nilsfonstad@mit.edu
Jack Rockart, Sr. Lecturer Emeritus	jrockart@mit.edu
Chuck Gibson, Sr. Lecturer	cgibson@mit.edu
Chris Foglia, Center Manager	cfoglia@mit.edu
Julie Coiro, Admin. Assistant	julieh@mit.edu

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Title: Delivering on the Vendor's Value Proposition:
Business Process Outsourcing at eFunds

Author: Cynthia Beath and Jeanne Ross

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Abstract: eFunds Corporation is the third largest business process outsourcing (BPO) provider in India. Specializing in the financial services, retail and telecommunications industries, eFunds offers financial services, customer services and transaction intensive applications. In early 2005 eFunds was assessing how it could garner a larger share of the growing offshore BPO market. eFunds management was focusing on honing three distinctive competencies: robust IT support, business process expertise, and its unique customer qualification methodology. But to really grow its business eFunds also needed to help customers recognize how BPO could make them stronger.

Keywords: Retail, business model, IT and information management, IT enabled strategy, outsourcing.

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**Delivering on the Vendor's Value Proposition:
Business Process Outsourcing at eFunds**

In January 2005 Kathleen Flanagan, Senior Vice President of Global Outsourcing at eFunds Corporation looked out to the McDowell Mountains from her Scottsdale, Arizona office. She was contemplating eFunds' positioning in the business process outsourcing (BPO) business and how the firm would capitalize on market opportunities over the next few years. At the end of 2004, eFunds was the third largest BPO business in India and opportunities were growing rapidly:

"In the business process outsourcing space, no one owns more than 5% of the market. It's a highly fragmented market and there's likely to be a lot of consolidation in the future."

*—Kathleen Flanagan,
SVP, Global Outsourcing*

eFunds had established itself in the financial services and retail industries as the largest third-party electronic funds transfer system in the US. But the company was looking to the rapidly growing business process outsourcing field to fuel future growth. eFunds provided business

process and information technology outsourcing (ITO) services to help its customers manage their transaction life cycles:

"If you have a specialist strategy, you can compete against giants like IBM, because you're only looking for a particular piece of the pie—the piece you have deep and unique domain expertise in."
—Kathleen Flanagan

eFunds' challenge was to further cement a unique presence in the BPO field. Flanagan wanted to hone the firm's competencies and nurture customers who could convert eFunds' services into significant competitive advantage.

Company Background

eFunds was created in 2000 as a spin off from Deluxe Corporation, a \$1.2 billion manufacturer of checks and related printed products. At the time of the spin off, the core of eFunds comprised a set of proprietary applications for check verification, debit transaction processing, electronic funds transfers and electronic check conversion. eFunds also acquired Deluxe

This case study was prepared by Cynthia Beath of the University of Texas and Jeanne W. Ross of the MIT Sloan Center for Information Systems Research. This case was written for the purposes of class discussion, rather than to illustrate either effective or ineffective handling of a managerial situation. The authors would like to acknowledge and thank the executives at eFunds for their participation in the case study.

Check's fledgling BPO business, which was based in India. At the start of 2005 eFunds had several closely related lines of businesses:

- The Electronic Payments business, which competed with Fiserve, processed 15 billion electronic funds transfer (EFT) transactions annually through ATM networks, point-of-sale terminals, electronic benefits transfer systems and automated clearing house systems. eFunds also licensed the software products that were core to this business.
- The Risk Management business, in competition with Equifax, leveraged eFunds' 4-billion record, proprietary consumer credit database and world-class analytics team to offer a variety of products and services that helped 90,000 financial institutions, 77,000 retail locations and many other businesses detect transaction fraud, assess the risk of opening a new account or decide whether to accept a check.
- The Global Outsourcing business provided a variety of business processing outsourcing (BPO) services that required transaction processing, customer support or call center services. These services frequently leveraged the tools and capabilities that were core to the Electronic Payments and Risk Management businesses. eFunds' most notable outsourcing competitors were Wipro, WNS Global Services, and Infosys Technologies, Ltd.

Heads of these lines of business reported to Paul Walsh, the chairman and CEO of eFunds. Several units provided shared services to the business units. The heads of the shared services units—CFO, CIO, General Counsel, SVP of Development and head of Human Resources & Administration—also reported to the CEO (see Exhibit 1 – Organization Chart).

For the fiscal year ending December 31, 2004, eFunds' revenues rose 4% to just over \$550 million. Net income rose 41% to just over \$40 million. Increased revenues reflected higher processing volumes in electronic funds transfers. Increased net income was due in part to

lower processing, communications and service costs. eFunds market capitalization in December 2004 was about \$1 billion (see Exhibit 2—Financial Statements). eFunds employed over 5,600 people, two thirds of whom were based in India.

eFunds' Global Outsourcing Business

In 2005, the Global Outsourcing business at eFunds was focused on three business verticals: financial services, retail and telecommunications. The firm's horizontal strategy focused on the management of transactions across the scope of a customer life cycle. The typical candidates for BPO were financial processes (accounts payable, accounts receivable, account reconciliation), customer services (e.g., authorizations, new accounts, credit and collection, underwriting, inbound direct marketing calls, customer database management) and transaction intensive applications (e.g., new account set up, account transfers, payment processing, claims processing, data transcription, exception processing, forms processing, data capture, order processing). Global Outsourcing also offered information technology outsourcing (ITO), including services such as application development, system integration and support of eFunds' software products as well as other products.

In 2005, Global Outsourcing had about 3000 people, mostly in India, doing business process outsourcing work. The Global Outsourcing staff was organized mainly by client and by location. Centers of excellence in quality, business analytics, human resources, and training and migration supported design and operation of outsourcing services.

The goal of Global Outsourcing was to design solutions that were valuable to eFunds' customers and profitable for the firm. Toward that end eFunds was moving away from the design of customer-specific products and focusing more on developing industry solutions for its target industries. The sales team was then charged with developing customer relationships that leveraged reusable solutions and shaped new offerings.

EFunds' Distinctive Competencies

With five years' experience in BPO, EFunds had developed some valued assets, including its risk database, horizontal and vertical domain expertise, global interconnectivity, and customer relationships within the financial services industry. Increasingly EFunds delivered customer value through its assets and three competencies important to providing transaction processing services: IT support, process design and automation, and process qualification methodology.

Information Technology Support

The IT unit at EFunds was centralized, and the CIO reported directly to the CEO. IT provided services to the corporate offices, to EFunds' other business units, and occasionally to customers of EFunds. In particular, IT developed and supported the software sold and utilized by the Electronic Payments and Risk Management businesses. For the global outsourcing business, IT managed the infrastructure—the PCs, phones, telecommunications, software and facilities.

The IT unit had long maintained an infrastructure to ensure the security and reliability of electronic transfers and ATM and debit processing. Four hundred fifty people supported two fully redundant, highly secure, fault-tolerant data centers in two locations in the US with a full overlay of telecommunications networks. These platforms could be leveraged for additional systems with high reliability and security requirements.

Systems development at EFunds was distributed. Some software was developed in the IT organization, but most of EFunds' 900 software engineers were in the business units developing software related to EFunds products. EFunds had a rigorous project methodology and its processes were rated CMM level 4. Unlike some of its competitors EFunds had not targeted a CMM level 5 capability:

"It doesn't do you any good—in fact, it creates enormous problems—to be CMM5, if your client is CMM2. He will not be able to work

with you. You have to, then, drop down to CMM2 level. Instead, we've defined our own process—we spent quite a bit of time on it—which overlays CMM a bit, which is how we work. It is our own solutions development framework that gives us flexibility to do things a bit differently if we need to."

*—Clyde Thomas,
CIO & SVP, Technology*

The IT unit was also responsible for business process reengineering within EFunds. In 2002, Clyde Thomas, the CIO, initiated a reengineering effort across the entire enterprise, which was focused on integrating business processes that linked or crossed what previously had been fairly distinct business units. In doing so, the IT unit created platforms supporting integrated customer service and took out \$50 million in expenses in its first two years with as much as \$25 million more in 2004.

To sustain its more integrated and cost effective platforms, the IT unit set standards and guidelines for software, especially with respect to security and audit issues:

"I now require as a check-off, 'Where's the money for disaster recovery and business continuity?' And it has to be to my standard, not, 'Oh, well; we're just going to put a box in, ok?' It has to be to my definition of disaster recovery and business continuity. The same thing is true for security, because what was happening was it had become an afterthought. Build the widget; get it in production; now, go wrap security around it; go wrap disaster recovery and business continuity around it. We said, 'No, because that changes your return on invested capital after the fact.' Maybe you couldn't really afford to do that product, after you put security in and disaster recovery around it. We enforce that right up front."

—Clyde Thomas

The key value that IT platforms provided for Global Outsourcing was the ability to automate BPO services. Sometimes these tools would be developed for a single client, but the objective was to eventually leverage them across the client base:

"You may have heard of something in call centers called the Call Management System, the CMS

system as they call it. Everything about a call is captured by the CMS and you can analyze the data and make changes. Nothing like that exists in back office processes. So one of our business analysts decided we needed this. So, the software team built exactly the same thing but for a back office process. So, suddenly now we can track all back office productivity, who is doing what, what is not happening, who is on what kind of a break. Everything gets to be visible and you can calculate productivity by agent, by process, by client, and any number of variations to better manage your business .”

—Atul Kunwar,
Director of Global Outsourcing Operations

Business Process Expertise

While IT and operations people looked for new technologies to apply to customer needs, business analysts in eFunds’ centers of excellence percolated best practices across processes. Global Outsourcing usually had to introduce cost savings to interest potential customers in outsourcing. So, eFunds looked for opportunities to improve and automate its customers’ processes:

“For the last ten years one customer had been using 85 agents to do three related processes. By doing a fair amount of study, we saw how to reduce this to 14 or 15 people. This was not about saving money by moving 80 people to India, or about getting better quality from better quality workers. Those are a given. That’s fair value in this business now. What we’re going to do, and it will take us a couple of months of work, is capture some transient knowledge and make it permanent knowledge so we can leverage it—automating some of it—and create new processes, ones where nothing falls through the cracks. Every scenario and every situation will be taken care of. We will have checks and balances to deliver a better service for the customer. We will have a system that is constantly adding to itself and, therefore, becoming more vibrant with time.” —Atul Kunwar

Global Outsourcing focused on developing process expertise related to transaction processing in its three target industries. This enabled eFunds to devise solutions specific to the challenges those customers were facing. For example, in the telecommunications industry, wireless carriers were under pressure to improve

their customer accounting and billing practices. eFunds’ expertise in managing customer transactions outstripped that of the industry. So eFunds was able to offer not only process design improvements, but also process management improvements. In addition, eFunds’ analytical capabilities enabled it to drive down costs, which was of significant value to embattled wireless providers.

eFunds management found that product designers and operations engineers who worked directly with customers were best positioned to identify opportunities to leverage IT for process improvement:

“Theoretically, we have an architecture group that should be thinking about what technologies are out there that we can leverage across client organizations. In real life, though, what happens is that the outsourcing operations people, they’re really the ones who are closest to the market or customer problem, so they’re the ones who are really scanning the market to say, ‘What else is out there?’”

—Kathleen Flanagan,
SVP, Global Outsourcing

Because much of eFunds’ competitive advantage lay in its knowledge about its targeted vertical and horizontal segments, and its union of process and technology knowledge, management worked toward low turnover above the agent level:

“People talk in terms of instability and attrition in this business. At eFunds, when you go beyond the level of just the first level agents, the attrition levels are in the single digits. That gives us a lot of confidence that the knowledge is being retained and kept in-house.”

—Atul Kunwar

Process Qualification Methodology

To ensure that all its deals benefited both sides, Global Outsourcing had developed a proprietary, patented screening methodology called the Process Readiness Index™ (Exhibit 3). The goal was to work with customers, prior to reaching any kind of agreement, to identify those processes that represented good opportunities for outsourcing:

“What happens is, first, people think about outsourcing. They talk to friends. People tell them they’re doing some, and it’s working well. They have some senior level management conversations. Management conceptually agrees to outsourcing. Someone is usually given the directive to ‘go ahead and see if you can make it happen for us.’ But that person now has to work with the business units in an organization to determine what should they outsource, and that’s when they get stuck, because no one in the organization wants to be the first one to do it, and the person who is now in charge has no way to assess where in the organization is most right for outsourcing.”

—Kathleen Flanagan,
SVP, Global Outsourcing

Typically, a customer would engage eFunds to assess a group of candidate processes. eFunds analysts would do two days of on-site data gathering and take another two days back at eFunds to analyze that data and then rank the processes on their “readiness” scores. The analysis indicated which processes might be ready for outsourcing immediately, which processes might never be suitable for outsourcing, and which might be outsourced after some “readiness-inhibitors” had been addressed.

eFunds’ Process Readiness Index had five key groups or dimensions: (1) fit with strategic drivers; (2) transition readiness; (3) technology environment; (4) operational impact; (5) and automation and reengineering opportunities.

The **fit with strategic drivers** metric examined whether outsourcing fit with the potential customer’s business values:

“If your corporate strategy is ‘Buy American,’ then we probably wouldn’t be recommending that you outsource to the Philippines. If you’re selling tractors in Iowa, you probably don’t want your call center in India. Outsourcing should be consistent with what you’re saying publicly about your values.”

—Kathleen Flanagan

Transition readiness assessed whether a firm had the aptitude and ability to outsource or offshore. eFunds considered, for example, whether a firm had already created a shared service associated with a process and whether

the customer had a business leader who was committed to making the outsourcing work:

“You know, if this is an ownerless process, that’s going to be problematic. We do all the heavy lifting on the project management of a transition, but there needs to be someone on the client side, who is responsible for the success of the processes that are being outsourced.”

—Kathleen Flanagan

The third dimension was the stability, security and quality of the in-house **technology environment**. Because eFunds typically established electronic links with its customers, the customer’s IT platform had implications for both the cost and quality of the services eFunds delivered:

“We made some pricing mistakes because we built all of our pricing models on 99 percent uptime. Then, it would turn out the client’s systems would have 86 percent uptime. If you’re working on a 15% margin that’s a problem.”

—Kathleen Flanagan

Global Outsourcing did sometimes take on processes with poor technology support for the transfer between client and vendor data files or services. But the deal worked only if the customer recognized its deficiency and was prepared to accept accountability or pay eFunds to work around the limitation.

Operational impact referred to process documentation. Before a process could be outsourced, the rules for completing the process had to be completely specified. Otherwise, eFunds could not guarantee the quality of a process:

“It doesn’t matter how complex it is, as long as you can apply rules to it. Those rules can’t be resident in someone’s head. A lot of times, what’s missing is the documentation of the process and of the rules around the process. You cannot succeed as an outsourcer if you take on a process that you don’t fully understand, including all the rules and exceptions associated with it. This is the key bucket for making it work. Everything else could be there, but this is the thing we wouldn’t make an exception for.”

—Kathleen Flanagan

Finally, *automation and reengineering opportunities* referred to whether eFunds could add value to a process other than wage arbitrage:

“Some companies are totally on top of their processes, and they know how efficient or inefficient their process is, but others don’t have a clue. We get to be a bigger surprise to the one who doesn’t have a clue. But the truth is the better customer is the one who really understands their business. For one thing, the handoff will be smoother. For another, their business with us is more likely to keep growing and growing. What we like to do is build gain sharing into these relationships. We’ll say, ‘As we get to understand you and stabilize your process and work with you, we’ll find ways to improve it, and when we find them, we’ll come to you, we’ll tell you how we tend to improve it, and, then, we’ll split the gain on the improvements, so that our interests are aligned.’”

*—Kathleen Flanagan,
SVP, Global Outsourcing*

Once the analysts had gone over the results of the PRI analysis with a client, they could stage the processes for outsourcing. While eFunds was carrying out the knowledge transfer for those processes that were ready for outsourcing, the client might be documenting some additional processes, or upgrading the technology for processes to be outsourced at a later date. Global Outsourcing believed that its PRI and process transition methodologies were a source of competitive advantage.

Developing Customer Relationships

Client companies’ motivation for outsourcing business processes to eFunds had evolved over the years. In early 2005 cutting cost was still a primary driver, but companies were starting to shift their focus to quality improvements. And concerns about quality created interest in process reengineering, process optimization, and ultimately business transformation. eFunds hoped to capitalize on the growing interest in process reengineering and business transformation as a way of saving customers money. Kathleen Flanagan distinguished between two kinds of deals eFunds made with customers: “plug and play” and “partnership” deals.

Plug and Play

Plug and play deals were those in which eFunds was able to achieve significant economies of scale by doing the same activity for multiple customers, using a shared platform and resources that could be shared by every client. These deals were generally priced by the transaction, with a guaranteed minimum number of transactions specified in the contract. eFunds sought plug and play deals in which it could leverage its global interconnectivity, vertical and horizontal domain expertise, proprietary platforms and analytics, and risk database. Flanagan noted that not all processes were well-suited to plug and play, but some large-scale processes, like collections, were an excellent fit:

“Collections lends itself towards working at a large scale, because it operates similarly in all countries, and all environments. You have to have scale to be competitive. Our strategy is to try to apply expertise on top of that. We use the industry standard proprietary platform, CUBS. But then, we have a risk database that’s full of information that we think enables us to do skip tracing, and also the analytics—how to collect, who to collect, when to collect—better than those who are strictly labor providers, who are just saying I’ve got the bodies and the seats, and I can train them. On top of that we have domain expertise that’s not easily replicated or built, and on top of that we have operational efficiency by virtue of a global network. You put the three together; that’s our game; that’s our model.”

—Kathleen Flanagan

Except for very large relationships, plug and play deals require significantly less customer management than a customized solution or partnership model. The low overhead associated with plug and play deals made it possible for eFunds to deliver cost savings to customers of all sizes. Commodity based plug and play services, however, were susceptible to intensely competitive pricing. eFunds gained an edge over competitors when it could develop simple rules that applied its unique competencies or proprietary assets:

“One activity we worked on earlier this year was an address change utility. With over 15% of the

US population moving each year, there is quite a bit of potential for fraud activity, not to mention the new address updates to databases. Whether a consumer phones in, writes in, puts a note on their statement or emails an address change to us, we can run it through the same basic process. This step ensures each one is USPS certified, zip+four, etc. Although there are certain precautions one would take to prevent fraud, an address change is an address change as far as our basic process flow was concerned. We were not concerned about how our client provides us the information it could be a flat file, online electronic, in stream, voice or a .wav file. The beauty of this is that we now have a standard repeatable pipeline of processes, and the output is a standardized address. And by the way, we can also append data attributes ranging from identifying a hot address to a known fraud situation in the last three, six, nine or twelve months. An insurance company might say that when we process an address change it is important for them to understand the accident rate for that zip code, or they might want flood mapping information. Rather than each of these validations or database searches taking place independent of each other, we can do it all at once.”

—Jim Caniglia

Director of Global Outsourcing Product Mgmt.

Partnership

In early 2005, the predominant model for BPO was partnership. These deals involved doing customized work for the client. eFunds management believed that the best partnership deals leveraged eFunds’ distinctive industry knowledge, transaction knowledge (e.g., collections) or its customer risk database.

“For one of our customers, for example, we were able to tell them more about their customers than they knew. That’s stickiness; that’s value; that’s domain expertise. It’s not a matter of scale or better ACD technology or anything like that. It’s a matter of understanding how to think about that customer, understanding the industry, understanding the business they’re in, how they look at the world, understanding what the drivers are for them, being able to analyze it. The value you bring to the table has to have transformational capability, whether it’s re-engineering, or giving

them intelligence back about their customer base that will make them retain customers longer.

—Kathleen Flanagan, SVP, Global Outsourcing

Partnerships required understanding the customer’s strategic goals and objectives. Services were customized to reflect a deeper understanding of what the customer was trying to accomplish:

“You look at some touch points. You look at some checks and balances. And, thereby, you are able to come to a pretty accurate estimate. The question beyond that is, ‘What are you shooting for? Are you shooting for quality or cost reduction?’ The answer changes the paradigm. Let’s say it’s a particular customer base that someone is outsourcing and they say, ‘You know what? I just want to respond to them, and if you respond to these guys by email in 24 hours that’s acceptable to me.’ Now, that’s a completely different angle than saying, ‘Okay, you know what? I’m giving you my premium customers and I want them to be responded to within one hour of receiving an email.’ The cost structures and other things change because the paradigm changes, the kind of resources you put in, the kind of systems you build in, the checks and balances which have to be automated, all those things change. So, it’s a pretty wide paradigm.”

—Atul Kunwar

Director of Global Outsourcing Operations

In eFunds experience, most firms were not agile enough to drive costs out of a process before outsourcing it. The costs of unlearning an old process and relearning a new one were often prohibitive so clients tended to outsource a process “as is.” These services were normally priced on the basis of FTE. Inevitably, eFunds’ would see opportunities to cut costs or reengineer the process by applying new technology, automating manual processes, or otherwise improving the efficiency, quality and productivity of the process. These improvements might eventually lead to greater standardization across eFunds’ customers. Thus, some processes that were developed in a partnership might eventually become plug and play:

“Over time, if we had 30 companies that were giving us the same functions, by implementing technology such as XML and so on and forcing that across these 30 customers, we could set up an

account on a shared platform and do it on a plug and play basis.”

—Clyde Thomas
CIO & SVP, Technology

Partnership usually involved integration of eFunds and customer systems and Global Outsourcing often used the customer’s systems and screens. Processes could involve multiple real-time hand-offs. As a result, partnership deals required frequent contact and communication; thus it was very important to have a business manager who would be the contact point:

“The mistake I would say that we see customers make is to underestimate the fact that we require contact. They have to retain management on their side who can stay in touch with us and appropriately relay information to us. And, so, we now have a whole model where we insist on management on their side, and we insist on the frequency of the communication and the level of the contact and the level of interaction.”

—Kathleen Flanagan, SVP, Global Outsourcing

Obstacles to Growth

As eFunds looked to grow its Global Outsourcing business, a natural starting point was with its existing customers:

“Once they have their first successful experience, it grows dramatically. I mean, to give you a sense of it, we have one new deal this year that went from zero to 700 people. We have another one that we brought in last year that went from \$2 million last year to \$11 million this year.”

—Kathleen Flanagan

But serious growth of Global Outsourcing required that eFunds identify and nurture new customer relationships. eFunds had learned, however, that not every potential customer was a desirable customer. For example, customers who intended only to leverage wage arbitrage were rarely good customers. These customers tended to play vendors against one another to get the lowest possible rate. In some cases, once they proved the viability of offshore sourcing, customers would build their own offshore center and bring the work back in house:

“Can you compete that way? Is that a business model that will work? Our view is that that’s not a

sustainable business model, and for obvious reasons. Number one is that over time there’s wage inflation. You can move to the next country, but it’s a never-ending cycle. Our view was that outsourcing, whether it’s offshore or onshore, has to bring a deep level of domain expertise—knowing the customer.” —Kathleen Flanagan

Global Outsourcing sought to overcome an over-emphasis on labor wage arbitrage by generating cost benefits through process reengineering. But process reengineering inevitably called for eFunds to assert greater control over a customer process. eFunds found that many potential customers were reluctant to give up control over their processes. Thus, bringing new customers onboard often meant doing things the customer’s way instead of proposing process optimization as a motivation for outsourcing:

“When companies decide to outsource, they’re generally very nervous about it. Therefore, they want a lot of control. They would make every decision they possibly could. They’d come and interview everybody, if you’d let them. They will insist on things, and in some cases we’ll do it that way, initially. We’ll say okay, if you used 100 people, we’ll do it with 100 people, even though we already know we can do it with 84 people. We say, now for this period of time, we’re going to run it that way, and we’re going to measure these things, and when we get to this point here, then we’re going to come back to you and tell you how we can do it more efficiently. Sometimes that’s the path you have to go.” —Kathleen Flanagan

The reluctance of companies to embark on BPO constrained the pace at which eFunds and other vendors could afford to develop industry solutions that could move offerings from customized to plug and play deals. Global Outsourcing’s existing customers were eager for their competitors to join in. One such customer explained:

“A lot of our processes are the same as our competitors, or similar enough where there would be an unbelievably great opportunity for a vendor to leverage this stuff. The problem is, the rest of the industry isn’t going offshore. Therefore, the work is, by definition, not commodity because there are not multiple customers.”

—Vice President of Service Delivery,
eFunds Client

However, as this customer observed, migrating processes to outsourcers was not easy, even for companies experienced with outsourcing. It could be difficult to disentangle existing processes for purposes of outsourcing:

“We’ve got many people executing many processes here. Everything is so fragmented. Even though we’re giving EFunds work, it’s not easy for them to understand and get on top of these tiny processes.” —Vice President of Service Delivery, EFunds Client

BPO experience at a valued EFunds client exposed some of the limitations to firms’ ambitions to outsource commodity processes to specialist firms like EFunds:

“The big problem was in breaking up our processes here, trying to send them the simple part, and leaving what we thought was complex here. Actually, it turned out that was not very efficient for either side. You have to really send clean processes, clean, full processes to offshore partners. What we learned over time, was that our vendors were more able and more successful if we gave them the full process, end-to-end, because they were able to understand it better and therefore implement it better. There are still some processes that we don’t outsource because they are so tightly integrated with our back office here.”

—Vice President of Service Delivery, EFunds Client

Despite the obstacles, Global Outsourcing had developed partnerships that were delivering customer value:

“We absolutely are getting an incredible cost savings. If you just look at the unit cost per trans-

action, in the areas that we have off shored, we’re seeing significant positive variance on unit cost, which drops to the bottom line. And we’ve been reinvesting those dollars in new product design, new product development and technology improvements.”

—Vice President of Service Delivery, EFunds Client

Going Forward

Companies’ desire to outsource repetitive processes ensured the growth of the BPO industry. But finding customers who were ready and willing to engage in mutually beneficial outsourcing arrangements was a challenge to all providers. EFunds looked to leverage its horizontal and vertical business process expertise with strong operational capabilities and customer relationship management. As appropriate, EFunds would convert customized solutions into industry standard solutions and look for opportunities to insert plug and play solutions into existing relationships. EFunds intended to extend its search for new partners into Canada, Europe and Australia:

“The penetration in outsourcing is still so low. There’s huge growth in the [three industries we are targeting]. The multi-national companies have a broad geographic footprint, so whether they outsource to a third party, or have their own operations, they’re already getting the benefits of the geographic dispersion. At the next level company, the large US corporations, they are so sophisticated and have a little more tolerance for risk, and they are not so afraid of different laws or different countries. That’s where most of the BPO activity is at this point. It will then go below that. So, there’s a lot of room for growth here.”

—Kathleen Flanagan

Exhibit 1A: Financial Statements

Annual Earnings Statement

	<i>Year Ended</i>	12/31/04	12/31/03	12/31/02
Net Sales		\$552,148	\$532,054	\$543,107
Total Revenue		\$552,148	\$532,054	\$543,107
Operating Expenses		217,736	230,724	226,151
Employee Costs		189,762	179,896	185,719
Depreciation/Amort.		36,201	35,385	36,972
Other Operating		46,325	46,780	44,321
Restructuring/Impair		3,093	4,209	16,525
Loss Contract		501	(3,650)	(2,000)
Total Operating Expense		493,618	493,344	507,688
Operating Income		58,530	38,710	35,419
Other, Net		(218)	1,157	734
Net Income Before Taxes		58,312	39,867	36,153
Provision for Income Taxes		17,494	10,959	11,599
Net Income After Taxes		40,818	28,908	24,554
Net Income Before Extra. Items		40,818	28,908	24,554
Net Income		40,818	28,908	24,554
Income Available to Com Excl ExtraOrd		40,818	28,908	24,554
Income Available to Com Incl ExtraOrd		40,818	28,908	24,554
Basic Weighted Average Shares		48,201	46,854	46,588
Basic EPS Excluding ExtraOrdinary Items		0.85	0.62	0.53
Basic EPS Including ExtraOrdinary Item		0.85	0.62	0.53
Diluted Net Income		40,818	28,908	24,554
Diluted Weighted Average Shares		49,405	47,239	46,738
Diluted EPS Excluding ExtraOrd Items		0.83	0.61	0.53
Diluted EPS Including ExtraOrd Items		0.83	0.61	0.53

Figures in thousands except shares outstanding. Figures in parentheses are losses.

Exhibit 1B: Financial Statements

Balance Sheet Statement

	Year Ended: 12/31/04	12/31/03 <i>* Reclass</i> 12/31/04
Cash/Equivalents	\$274,477	\$104,456
ST Investments	88,140	53,650
Restricted Cash	2,392	4,168
Accounts Receivable	73,505	63,841
Deferred Taxes	14,340	12,743
Prepaid/Other	15,710	17,451
Assets for Sale	—	0.00
Total Current Assets	468,564	256,309
Deferred Taxes	13,964	0.00
Goodwill, Net	59,262	128,586
Other Intangible	44,410	71,116
Other	6,441	6,697
Land/Land Improv	3,070	3,070
Buildings	31,206	29,776
Machinery/Equip.	31,485	31,957
Computer/Equip.	76,912	81,875
Depreciation	(92,353)	(97,049)
Total Assets	642,961	512,337
Accounts Payable	21,984	26,585
Accrued Comp.	24,914	16,552
Accrued Contract	1,162	1,890
Accrued Taxes	40,879	15,037
Deferred Revenue	16,445	7,900
Accrued/Other	3,261	2,475
Other	14,805	17,582
Cur.Port.LT Debt	1,955	5,586
Total Current Liabilities	125,405	93,607
LT Dfrd. Revenue	37,539	0.00
Long Term Debt	3,569	1,667
Total Long Term Debt	41,108	1,667
Deferred Taxes	0.00	11,400
LT Liabs.	2,244	4,001
Total Liabilities	168,757	110,675
Common Stock	493	473
Paid in Capital	446,825	418,496
Retained Earning	23,231	(17,587)
Other Comp. Inc.	3,655	280
Total Equity	474,204	401,662
Total Liabilities & Shareholders' Equity	642,961	512,337
S/O-Common Stock	49,306	47,300
Total Common Shares Outstanding	49,306	47,300
Employees	5,500	5,400
Number of Common Shareholders	8,971	9,569

Figures in thousands. Figures in parentheses are losses.

Exhibit 2: Organization Chart

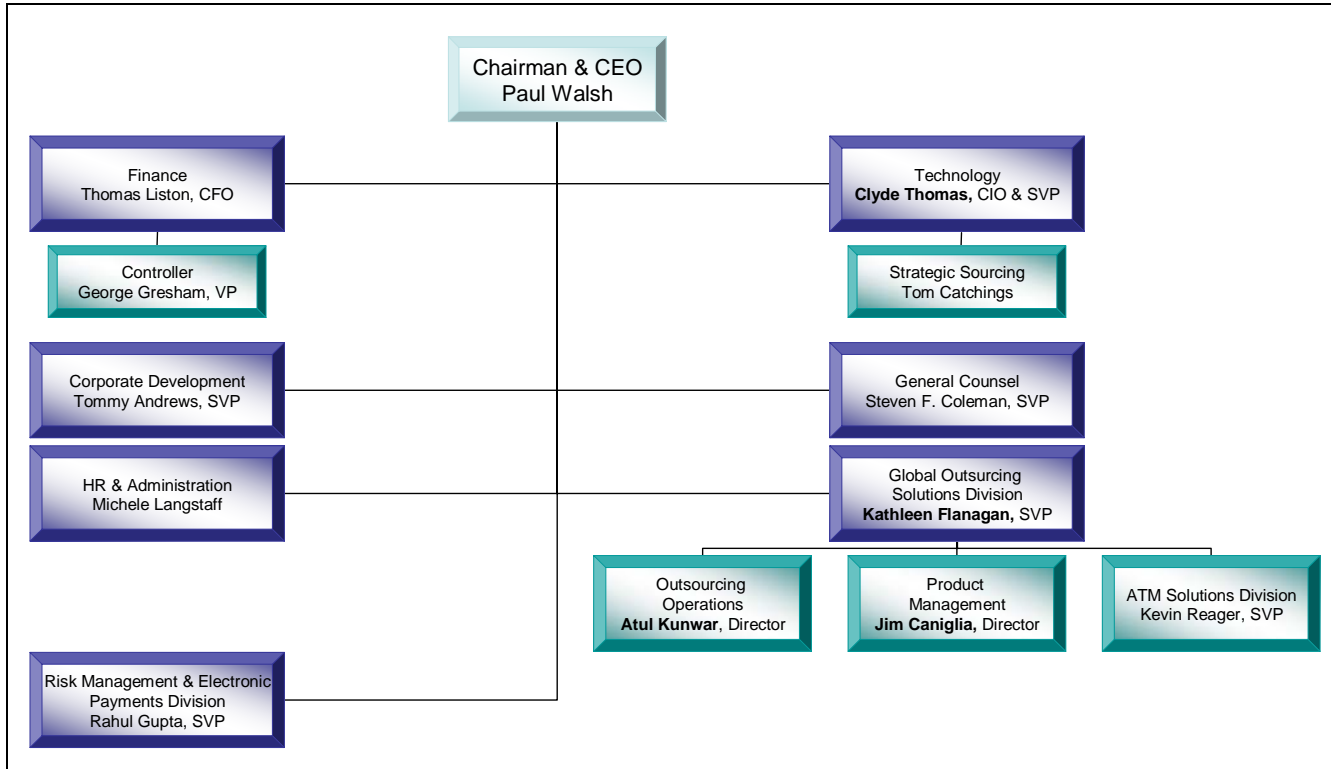


Exhibit 3: Process Readiness Index (Sample Weightings)

