



Vendor Outsourcing Models

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FTA Technology Conference and Exhibition

Spokane, Washington

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Overview

- **Outsourcing Models**
 - Outsourcing Models and Trends
 - Business Process Outsourcing
 - Forms Processing Outsourcing
- **Chicago Parking Ticket Case Study**
 - Process and Solution Overview
 - Results and Benefits
 - Lessons Learned
- **Wrap-up / Q&A**



Outsourcing Models

- Data Center Outsourcing
- Desktop Outsourcing
- Network Outsourcing
- Application Management
- e-business Hosting
- Business Process Outsourcing

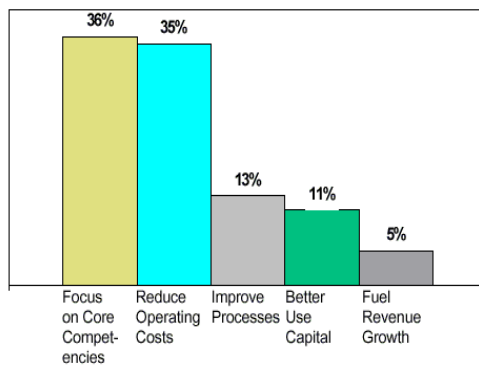


Reasons for Outsourcing

What is the main reason your firm outsources?



Why Outsource?
Focus is first



Source: 1999 Outsourcing World Summit Survey System
sponsored by:



Sample=119



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Outsourcing Trends

Reasons for Outsourcing are Shifting

Historically the primary reason for Outsourcing has been reducing operating costs.

We see the practice of outsourcing catching up with business transformation thinking around core competencies and focused business strategies.

Firms are citing the ability to focus on core competencies as the chief reason for outsourcing as often as the opportunity to reduce operating costs.

Improving processes is the third most frequently reason for outsourcing, but a rationale we see as growing in importance.

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21

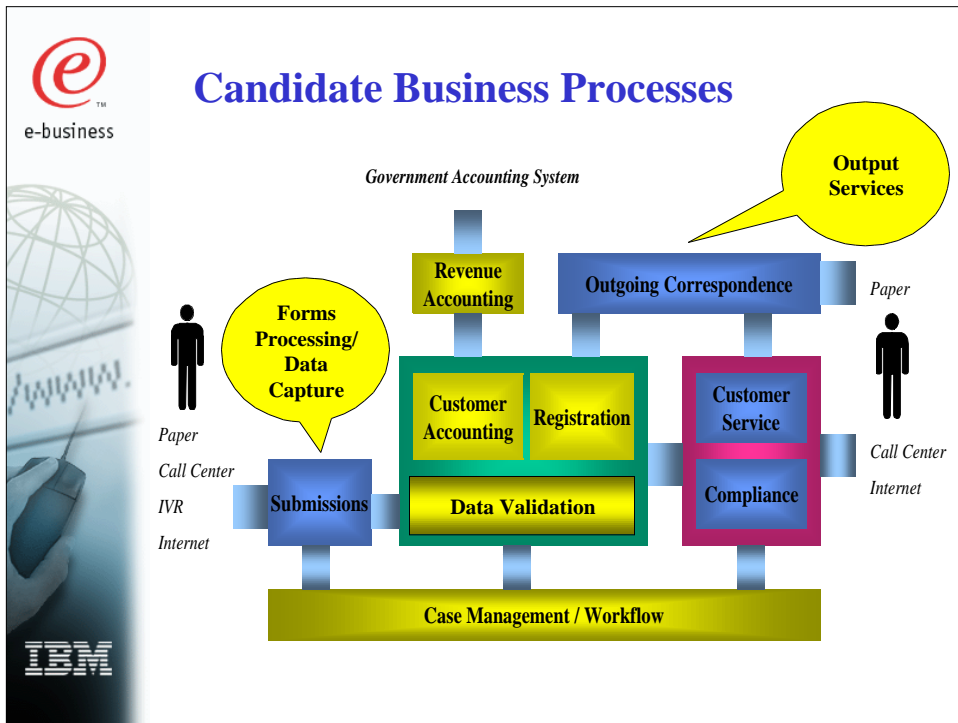


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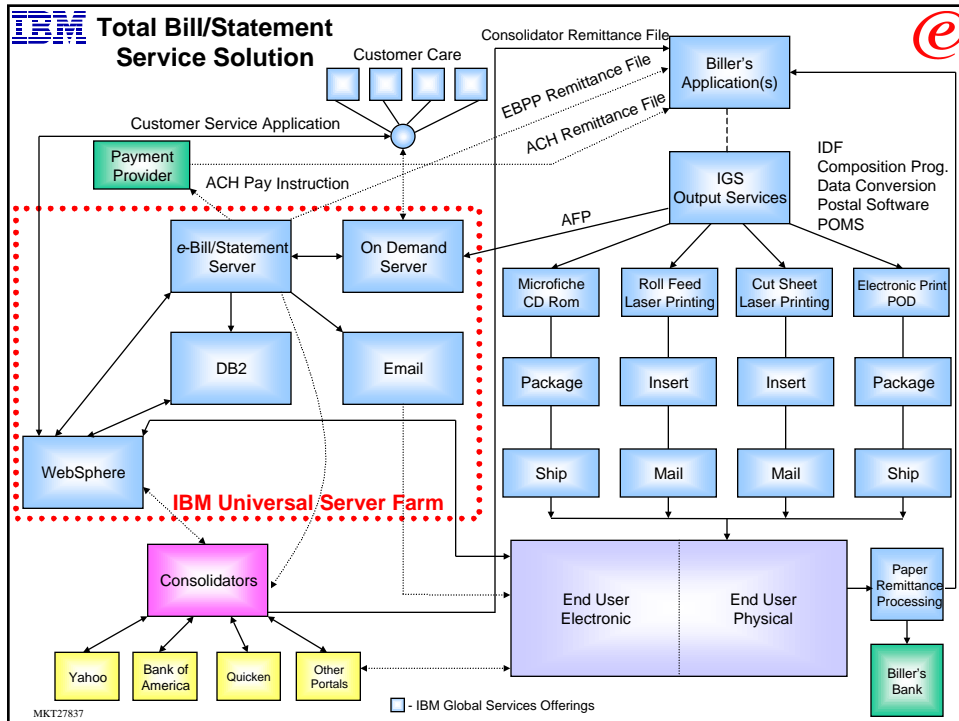


Business Process Outsourcing

- **Business Process versus Traditional Outsourcing**
 - Horizontal versus Functional
 - Process Redesign Opportunity
 - More Comprehensive – People, Technology, Process
- **Opportunity to Leverage Outside Vendor**
 - Productivity and Cost Advantages
 - Improved Service Levels
 - Access to Scarce Technology Skills
 - Insertion of Best Practices
- **Candidate Business Processes**
 - Noncore Activities
 - Measurable Outcomes
 - Labor and/or Paper Intensive
 - Seasonal, Irregular Volumes



-
- Output Services Outsourcing**
- Statement (Billing Notice) Delivery
 - Statement Design
 - Custom API's
 - Bulk Printing and Mailing
 - Quality Control and Tracking
 - Remittance Processing
 - Mail-in, Walk-in, Internet
 - Bank Deposit
 - Account Maintenance
 - Electronic Bill Payment and Presentation
 - Integrated billing and payment
 - Multi-channel – paper and web
 - Multi-party – citizens, businesses, third parties
- The IBM logo is visible in the bottom left corner.



Forms Processing Outsourcing

- Mailroom/Forms Prep
- Data Capture
- Remittance Processing
- E-Form Integration
- Error Correction
- Archive Storage
- Retrieval

Paper Form Market Size

Target Market	No. of Forms (Millions)
Utility Bills	1,500
Health Care Claims	1,204
Trucking Weigh Bills	~1,000
Federal Taxes	>100
State Taxes	>100
Insurance Applications and Claims	>100
Credit Card Applications	35
Immigration (passports and INS)	8
Mortgage Applications	7
Other Health (clinical trials, etc..)	300
Financial Aid Forms	10
Other (census, warranty, sweepstakes, other promos, fish/game licenses, corporate forms (accounts payable), other)	2-3,000M
TOTAL U.S. Data Forms/Year	7-8 Billion¹
Cost of ~\$1/form to process²	\$7-8 Billion

	U.S.Total Market	Out-sourced segment is ~9% of total market ³
FSI Estimate	\$7-8B	\$750M
AIIM³ Estimate	\$8.4B	

TOTAL ROW⁴ Data Forms Per Year (10x)	70-80 Billion
Cost of ~\$.5/form to process²	\$35-40 Billion

Total worldwide forms processing market: \$42-\$48 Billion
Outsourced market (@9%): \$4.5 Billion
Growth Projection: 12-15%

¹ FSI Estimate
² Range of \$0.50-\$1.50
³ AIIM (Assoc. for Information and Image Management)
⁴ NBFA (a major trade organization serving the paper forms industry)



- Forms description
- Volume
- Data entry method
- In-house vs. outsourcing
- Existing bottlenecks
- Cost structure
 - overall
 - breakdown

FSI conducted 16 interviews with 6 different state tax agencies and 5 healthcare insurance companies

	•Company/Agency
State Tax	•State Tax Board
	•Another State Tax Board
	•State Dept. of Revenue
	•Another State Dept. of Revenue
	•State Dept. of Taxation
	•State Dept. of Revenue
Health Care	•Insurance Company
	•State Blue Cross Blue Shield
	•Another State Blue Cross Blue Shield
	•Another Insurance Company
	•Health Care Provider

Specific State and contact names have been removed from this presentation because of a confidentiality commitment to the study respondents.

Type and Volume of Forms

	Company/ Agency	Total annual # of forms processed (Millions)		Daily peak (Thousands)		Total # of forms	Most common forms processed	Are the majority of forms the same size?
		Paper	Electronic	Paper	Electronic			
State Tax	Tax Board	11	3	46	13	~30	Income tax	Yes, 8.5 x 11
	Tax Board	3.3	.63	14	2.7	~30	Income, sales tax	Yes, 8.5 x 11
	Dept. of Revenue	5	.70	35	3	100s	Income, sales tax	Yes, 8.5 x 11
	Dept. of Revenue	11	.88	125	3.6	~70	Income, sales tax	8.5 x 11 & 4
	Dept. of Taxation	19	6.3	85	26	55	Sales, franchise tax	Yes, 8.5 x 11
	Dept. of Revenue	4.4	.36	30	1.5	70	Income, sales tax	Yes, 8.5 x 11
	Average Paper vs. E-Forms %	85%	15%	87%	13%		-	-
Health Care	Insurance Company					~100	HCFA 1500, UB92	Yes, 8.5 x 11
	State BCBS	6	12	25	50	10	HCFA 1500, UB92	Yes, 8.5 x 11
	State BCBS	7.5	16	31	68	~20	HCFA 1500, UB92	Yes, 8.5 x 11
	Insurance Company	1.8	1.8	7.5	7.5	~15	HCFA 1500, UB92	Yes, 8.5 x 11
	Health Care Provider	6.7	3.3	28	14	100s	Dental, HCFA, UB	Yes, 8.5 x 11
Average Paper vs. E-Forms %	46%	54%	45%	55%		-	-	

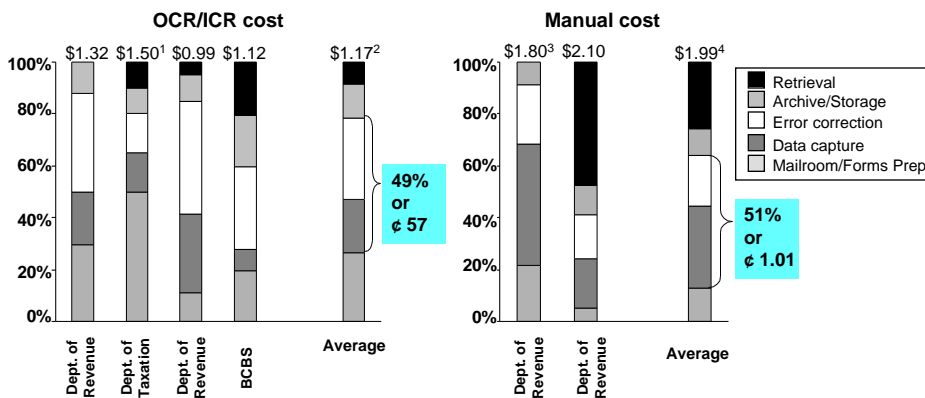
•State tax forms are largely paper, while the majority of health care forms are electronic
 •On average, both segments process >60 types of forms, however, 2-3 standard forms comprise the majority of forms processed

The majority of interviewees use OCR/ICR in-house

	Company/Agency	Manual In-house	OCR/ICR In-house	Manual Outsourced	OCR/ICR Outsourced	Comments
State tax	Tax Board	29%	71%	0%	0%	All tax agencies interviewed process the majority of their forms in-house Outsourced forms are generally low volume and less complicated
	Tax Board	20%	80%	0%	0%	
	Dept. of Revenue	73%	25%	0%	2% (tele-filing)	
	Dept. of Revenue	10%	90%	0%	0%	
	Dept. of Taxation	20%	55%	10% ¹	15% ¹	
	Dept. of Revenue	10%	90%	0%	0%	
Health Care	Insurance Company					All health care insurers interviewed process the majority of their forms in-house
	State BCBS	47%	43%	10%	0%	
	State BCBS	15%	85%	0%	0%	
	Insurance Company	60%	40%	0%	0%	
	Health Care Provider	34%	66%	0%	0%	

¹ Outsourcing forms that do not involve transfer of money and time constraints

Cost Breakdown for Current Forms Processing



Data Capture and error correction are significant costs for manual and OCR/ICR forms processing

¹ High mailroom/forms prep cost due to 2 factors: Barcoded envelopes are used to pre-sort but can be time consuming; pre-sort hand vs. computer print forms which ultimately reduces data capture cost

² Total average reflects overall cost data from 10 interviews; only 4 interviews provided detailed breakdown

³ No retrieval cost because agency throws away paper form once the form is electronic

⁴ Total average reflects overall cost data from 4 interviews; only 2 interviews provided detailed breakdown

Interviewees are willing to consider outsourcing

	Company/ Agency	Cost per average OCR form	% price reduction required below OCR cost to consider outsourcing
State Tax	State Tax Board	\$0.92	0%
	State Tax Board	\$1.06	25%
	Dept. of Revenue	\$1.32	0%
	Dept. of Taxation	\$1.50	10%
	Dept. of Revenue	\$0.99	25%
Health Care	Insurance Company	\$1.25	50%
	Health Care Provider	\$1.00	10%
	Insurance Company		N/A
	AVERAGE	\$1.15	17%

Cost is the major driver for those considering outsourcing

“We would definitely consider outsourcing. We are always looking to reduce costs...[I would be satisfied with something] at least equal to our current costs. We could then reduce personnel and space internally, which would lead to an attractive cost reduction.”

State Dept. of Revenue

“I would consider outsourcing with a 20-30% reduction in cost, given an immediate return on investment. With a longer time span, I would expect a greater cost reduction. A time frame of greater than two years is unacceptable.”

State Dept. of Revenue

“An outsourcer would have to process forms for 10% cheaper than we do. Cost is a major driver.”

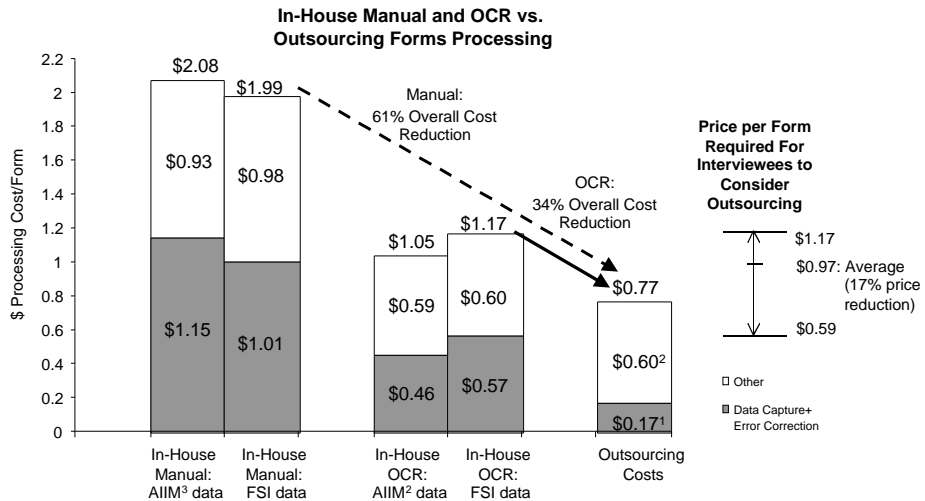
Insurance Company

“A cost reduction is always something to check for. We would be looking for at least a 10% reduction of cost and an immediate return on investment.”

Insurance Company

Price reduction requirements are attainable with centralized outsourcing

Market Cost Reduction Expectations Compatible with Outsourcing Costs



¹ Estimated outsourcing cost as an outsourcer based on Chicago parking ticket data

² No assumed savings for mailroom, archive, and retrieval, but a centralized outsourced system should achieve additional cost savings

³ Association of Image and Information Management-; Cost-Benefit Analysis of Document Capture Systems, Imaging Service Bureau News- Data based on processing of 1.4M forms



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Forms Processing Study Summary

- All believe paper forms continue to be a major problem and will always exist
- All currently use in-house OCR/ICR technology for some forms; only two use manual data-entry for more than half of the forms they process
- All stressed the issue of security as most important factor in considering outsourcing, but also consider cost a significant driver
- Most respondents would consider outsourcing their forms processing at an average cost reduction of 17% below their current OCR processing costs
- Decision to outsource depends also on the current use of technology (e.g. manual versus OCR) and weight given to value creation (e.g. CRM) versus cost savings only



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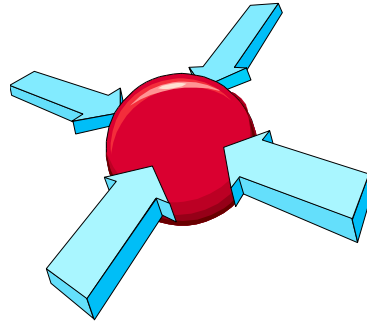
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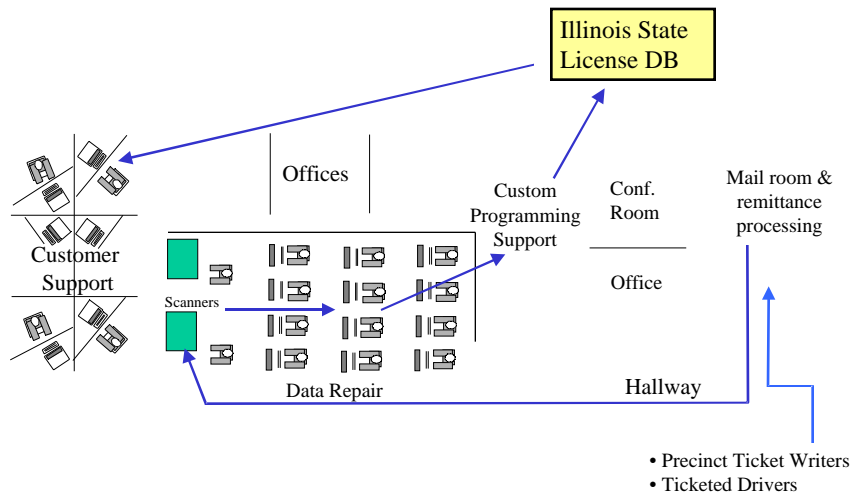


Project Background

- Started - May 1, 1998
- 5-year outsourcing contract with 3 optional 1-year extensions
- Fixed Price



Chicago Parking Ticket Business Process





Vendor Scope of Services

- Data Center Management
- Network Management
- Desktop Management
- Application Development and Maintenance
- Web Development and Hosting
- Help Desk
- Call Center/VRU
- Data Capture/Verification - Tickets & Correspondence



Vendor Scope of Services (cont.)

- Payment Processing - Lock Box
- Notice Printing and Mailing
- Forms Management
- Ticket and Payment Research
- Disaster Recovery
- Day-to-day Operation





City of Chicago Scope

- Write Tickets - Handwritten/Handheld
- Conduct Hearings
- Cashiers - Walk-in Payments
- Boot/Tow High Violation Vehicles
- Manage City Enterprise Network



Systems and Applications

- CATS - Parking Ticket Application
- Imaging System
- Intelligent Character Recognition (ICR) based Data Capture System
- Voice Response Unit (VRU)
- Web based Parking Ticket Payments
- Secretary of State Application





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Size of Operation

- 3.7M Tickets and Correspondence per year
- 5M Notices per year
- 250K Citizen calls per year
- 240K Hearings per year - City
- 40K boots per year - City
- Desktop Support - 200 workstations and servers
- 100K Web Payments per year - \$5M
- Revenue of \$100M a year for the City from this operation



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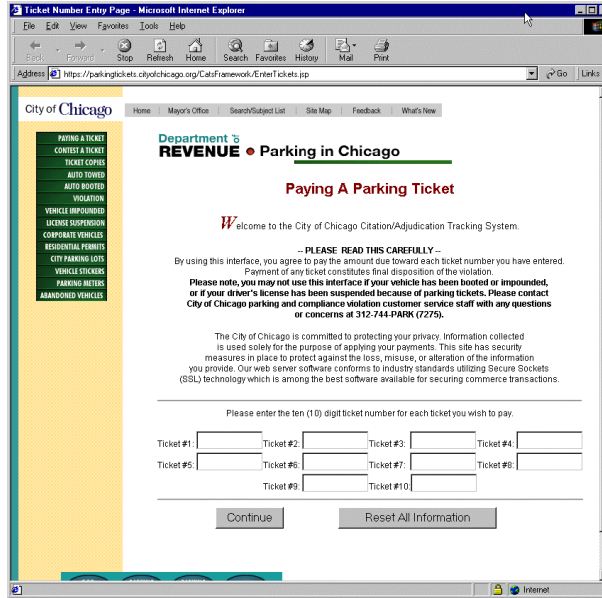


Enhanced Customer e-Services

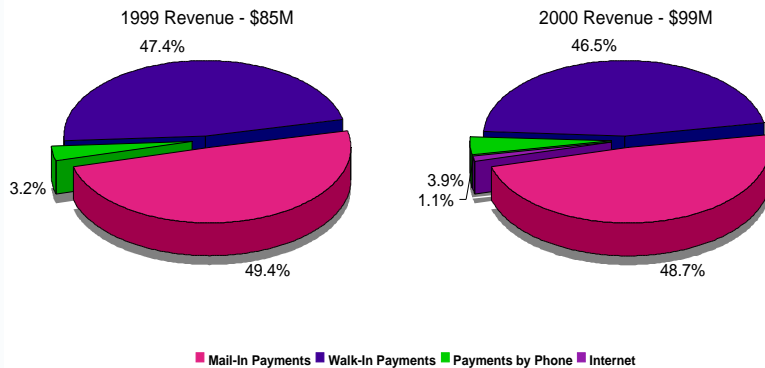
- Implemented Payment Web Site July 2000
- Websphere on OS/390
- Real Time Updates to Back End Application
- 7x24 Availability
- 128-bit Encryption for Security
- Ability to pay up to 10 tickets at a time
- No Convenience Fees
- Volumes steadily increasing - \$5M per year



Chicago Parking Ticket Website



City of Chicago Parking Violation Collections

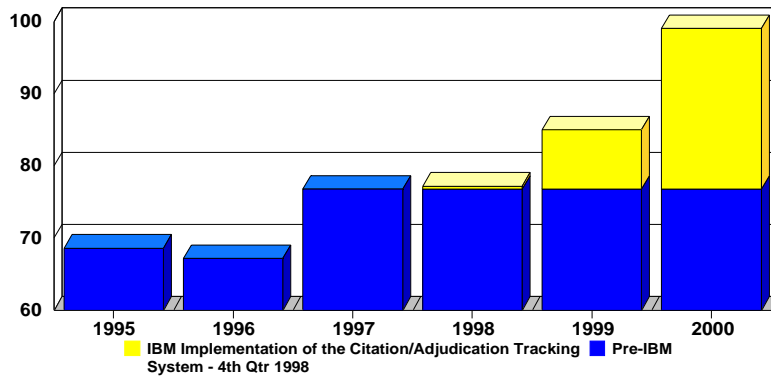


IBM Implementation of the Citation/Adjudication Tracking System - 4th Qtr 1998





City of Chicago Parking Violation Revenue



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Lessons Learned

- Think Beyond Traditional Data Center Outsourcing
- Business Process Outsourcing
 - Helps Streamline Business Processes
 - Improves Revenue Collections / Enforcement
 - Provides Superior Service to Citizens
 - More Than Pays for Itself
- Technology, when implemented properly, provides competitive advantage and improved business results
- Take a serious look at Business Process Reengineering while outsourcing Business Processes
- “One Stop Shopping” has significant advantages

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Wrap-Up / Q & A

- Forms Processing Outsourcing
 - Steve Hanks - hankss@us.ibm.com
- Chicago Parking Ticket Project
 - Satya Lanka - slanka@us.ibm.com
- “The Outsourcing Decision” class
 - IBM Advanced Business Institute
 - Oct.11-12, Dec.11-12, Feb.28-Mar.1, Palisades, NY
 - Nov. 1-2, San Francisco, CA
 - More Info: <http://www.ibm.com/ibm/palisades/abi>