

Successful Outsourcing Relationships Don't Just Happen Mastering the Provider Selection Process

By Robert W. Stasik, Executive Vice President, Sector Head, The Bank of New York Mellon Treasury Services

You've decided to outsource your cash management services — either to expand your current solution or to establish a presence in the marketplace. Now you realize that this was the easiest part of the process. Soon, you'll need to select a qualified provider who can help you establish or strengthen your capabilities, while also protecting important client relationships and your marketplace reputation.

The issues you need to take into account during the selection process are diverse. Technology, geography, scope of services, quality, client support and the degree of marketplace transparency are just some of the factors you will need to consider.

While there is no one-size fits all solution for identifying and screening potential providers, there are some standard criteria and steps you can apply to simplify the process. These, combined with time and patience, will help you make your decision with confidence.

Through the BNY Mellon Enterprise Cash Management group (Enterprise) at The Bank of New York Mellon Treasury Services, we have provided private-label cash management outsourcing solutions to nearly 70 banks over the past decade. Based on this experience, our resident experts have compiled the following steps that financial institutions that are screening potential outsourcing providers may want to consider.

This process is based on the criteria that companies commonly apply to screen and select providers in the IT field, and fine-tuned to reflect the types of issues that banks should consider when outsourcing cash management solutions. These simple high-level guidelines can give you a good head start in zeroing in on the provider that is the best match for your bank.

Step 1. Form an Outsourcing Decision Committee

It is a good first step for any bank to form a cross-functional team to guide the outsourcing decision-making process. To address all areas that will potentially factor into provider selection, the team should include representatives from your bank's management team, product and sales areas, purchasing, your technical staff and legal counsel at a minimum.

In this way, each area will be able to offer its own specialized perspective to guide this important process from the very beginning. This can help you set realistic goals and ensure that your final decision is acceptable to all parties who have had the opportunity to contribute to the process.

Step 2: Define Your Bank's Requirements

You know what you want to outsource, but once you have your expert panel assembled, it doesn't hurt to revisit and confirm your goals and to put them on paper. This will help you communicate critical information not only to those within your own company who may contribute to the selection process but also to your potential providers so that they may respond with effective proposals.

Organizations often begin this process by reviewing their own requirements, capabilities and operations to further define what should be outsourced and what type of provider they may want to enlist. For instance, a major bank may identify the need for an additional lockbox site, but can't justify the significant cost for setting up the required infrastructure. Conversely, a mid sized bank, completely devoid of its own treasury capabilities, may want to work with an outsourcer to create a total solution.

Next, it makes sense to develop a “scope of work” to formally document your needs for an outsourced solution. Input from current customers as to their desires in terms of treasury services can be very useful in determining what level of support you need from your outsourcer.

The resulting scope of work may include, but not necessarily be limited to, items such as:

- Your specific product needs.
- Your goals for timing of your implementation.
- Requirements for ongoing support from your outsourcer in areas such as training, customer support, and marketing assistance.
- Expectations for ongoing quality levels and provisions for what will happen if those levels are/are not met.
- Documentation of your decision criteria in order of their importance.
- Expectations for continued investments in technology.

Clearly defining your unique requirements early on in the process has value. It may help you find the best, most cost-effective solution to penetrate the cash management marketplace. And it may help you to avoid potential misunderstandings within your own organization and with your outsourcer ongoing.

Step 3. Identify Potential Providers

To identify the providers who are best suited to meet your stated requirements, you’ll need to investigate your alternatives. Who offers cash management outsourcing and how do you find them?

A simple Internet search is a good way to start the process of identifying potential providers. A variety of Web sites — provided by vendors themselves or by consultants or organizations that specialize in the outsourcing arena are plentiful. A wide range of general information on outsourcing, for instance, can be found on www.outsourcing.com.

Additionally, you may benefit from looking at industry publications that provide information on outsourcing solutions, including but not limited to:

- American Banker’s annual products and services directory
- US Banker’s annual Banker’s Buyer’s Guide
- Bank Technology News’ annual Buyer’s Guide

Each publication may offer you a short profile and contact information about potential providers that will give you a good starting point to develop your list of candidates.

Financial industry professional associations and tradeshow, such as the Association for Financial Professionals, may also be another useful source of information.

If you do decide to research and compile your own list of providers, you can probably quickly narrow down the options by making a few upfront decisions (which you have likely thought about when you were preparing your requirements statement). Among the factors you will need to consider are:

- Does the provider have expertise in your business and/or expertise in outsourcing?
- What particular services do you want to offer?
- Is a provider’s location important?
- How is the potential provider positioned in the marketplace?

Your outsourcing decision committee can likely add several more criteria that will help you zero in on a short list of providers. But if you aren’t confident that you can take on the task on your own, working with a consultant who specializes in outsourcing may be an attractive option.

Step 4. Develop a Request for Proposal

With your scope of work clearly defined and your short list of providers prepared, you are ready to develop your request for proposal (RFP).

Some things to include beyond the scope of work you have developed are:

- requirements for marketplace transparency;
- requirements for ongoing customer support;
- goals for timing and support during implementation;
- needs for training your own sales professionals to sell your new capabilities;
- needs for support to market your cash management capabilities;
- questions about how your provider will partition information about your cash management opportunities from their other customers if that provider is a cash management bank;
- questions about where your processing would be performed;
- information about ensuring your customers' privacy;
- requests for any service level agreements that you wish to put in place;
- desired term of the contract;
- requirements for quality;
- questions about the provider's problem resolution process;
- questions about who will staff your outsourced arrangement; and
- questions about general rules of engagement.

Your RFP is your opportunity to spell out in detail all of your terms and conditions, your acceptance criteria and your expectations for pricing structure.

Step 5. Understand What Drives the Provider

Provider selection is not just about business — it's also about sharing a vision. Successful partnerships are founded when teams work seamlessly toward a common goal. From top management involvement to cultural

synchronization, the provider's culture must be compatible with that of your bank before an outsourcing initiative can be truly successful.

So, you need to understand the goals, objectives, mission and vision of the provider. Be convinced of the provider's short-term, medium-term and long-term business philosophy. Are their core values the same as yours? Are they in the cash management business to stay? Do they provide the same level of quality and attentiveness that you deliver to your customers yourself?

Also, look for depth within their organization. A provider shouldn't have just one expert, but rather a team of specialists who can help you. Top management support should be visible and apparent in practice, not just words.

Step 6. Look for Flexibility

If the only constant in your world is change, you need someone who can adapt. Nowhere is that fact more apparent today than in the payments industry.

Thus, a key consideration in choosing a provider is to find someone you feel confident will provide the necessary flexibility to help you meet the challenges posed when unexpected events occur. This is especially important during the transition period — the onset of the relationship. Make sure your provider not only will be responsive to all issues that come up but that the response will happen when issues are still minute instead of major.

Step 7. Check Up on Potential Providers

Get to know as much about your provider as you can prior to signing on the dotted line.

One good way to do so is to ask your potential provider to provide references. Call them, have your questions prepared — and be sure you cover ease of implementation, cost and return on investment (ROI). This contact can also often help in judging culture and values of your provider.

Another approach you can take is to participate in the provider's customer forums and annual workshops if they offer them. This will give you an opportunity to mingle with current customers as well as key provider personnel.

You can also review trade publications for comments about potential providers. Information offered by the press can help you judge an outsourcer's expertise, their service credibility and possible issues due to performance problems. Also, ongoing media coverage can indicate that a provider is truly committed to providing an outsourced cash management capability and is actively marketing their services to expand their practice.

In addition, public companies can be searched on the Web to determine financial health, areas of product emphasis and quality of senior management.

Step 8. Work With Someone Who Offers Value — Not Just a Low Price

If you intend to work only with the provider who promises you the lowest price, you may really hurt yourself. So be cautious of anyone who appears to be willing to promise any price just to secure your business. When price is the only consideration, the resulting package may be limited in capacity and often can not adapt to a company's growing needs. Look for a provider who is actively growing and reinvesting in their outsourcing business and can provide evidence that their senior management team is on board with the initiative.

If your outsourcing solution works well, you may want to expand it. Therefore, you will need to work with a provider who can help you grow your business ongoing — someone who will help you build a solution to keep pace with customer needs.

Step 9. Conduct a Site Visit

Tour your potential provider's sites. Speak to the people who will be doing your customers' work and get a feel for the chemistry and culture. It is important to understand the people part of the equation since the hands-on involvement ties in directly to the quality and timeliness of processing.

In addition, factors like crisis management strategy and redundancy plans of the provider are critical for your own and your business customers' continuity. At this stage, you will want to verify provider credentials in these areas.

Step 10. Separate the Doers from the Talkers

Work with a company that specifies a clearly defined approach to your needs and who makes no unrealistic guarantees.

Get a commitment on their part to work closely with you to develop the best solution to meet your needs within your ability to purchase. A good program specifies what your service provider will do, and when.

Some providers are willing to detail their level of commitment in the form of a Service Level Agreement (SLA). SLAs focus on a base level in terms of the timeliness, quality level and specific resources a provider is prepared to commit to your cash management business. Asking whether an SLA can be put in place is yet another good way to find out who is prepared to back up their promises with a hard copy agreement.

Step 11. Know Your Relationship Officer

The individual assigned to oversee your account ongoing will likely be an important consideration in your selection process. You'll want to meet that individual upfront not only to screen their credentials and experience in providing outsourcing solutions but also to test your chemistry with that person. Your relationship officer is your day-to-day liaison — and the face of your outsourcer — so making sure that you feel comfortable with this individual's style of communication, level of expertise and even overall personality.

Find out how often your relationship officer will be in touch and tell him/her how you prefer to communicate. Ask how many relationships he/she is responsible for.

Often the interpersonal dynamics of a relationship are equally important to the functional components. So it is important to get to know and trust your primary contact.

Contact Enterprise for More Information

If you are considering the possibility of outsourcing your cash management needs, think about the considerable expertise available through Enterprise.

Whatever your organization's size, business goals or level of current treasury capabilities, Enterprise can help you. A division of treasury industry leader The Bank of New York Mellon, Enterprise provides a full range of cash management outsourcing solutions to meet the needs of your own financial institution and your business customers — while at the same time addressing your desire for transparency and confidentiality in the marketplace.

You can work with Enterprise to supplement your own cash management capabilities or completely outsource your needs to gain a new source of fee-based revenue.

Our full suite of cash management services includes top quality offerings for:

- B2B and B2C receivables collection
- Disbursements
- Data exchange
- Web-based information reporting/transaction initiation

Find out more about BNY Mellon Enterprise Cash Management at www.bnymellon.com/ecm or by calling **1 800 424 3004** (Option 2).

BNY Mellon Enterprise Cash Management
500 Ross Street
Suite 1260
Pittsburgh, PA 15262-0001
1 800 424-3004
ecm@bnymellon.com
www.bnymellon.com/ecm



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