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Outsourcing: The New Business Model for Creative Services Management

By The Outsourcing Institute

Outsourcing creative services is gaining momentum as a proactive strategy for organizations seeking cost efficiency and improved brand identity management. To learn more about this emerging trend, The Outsourcing Institute tapped a few industry insiders, plus the largest creative services solutions provider in the world, Aquent, (www.aquent.com), which boasts over 70 offices in 12 countries, and more than 550 employees worldwide. Moreover, Aquent has access to nearly 16,000 talent worldwide—2,900 IT consultants and 13,000 creative types with significant depth in creative management, design, and production talent for print and the Web. In fact, approximately 3,000 talent are on assignment every week.

"Our goal is to raise awareness about innovative ways companies are using a holistic outsourcing strategy to build more cost-efficient, effective creative services units," stated Joe Melanson, vice president of Aquent. "Many overlook creative services as a natural opportunity for business process outsourcing. Or many think they are outsourcing by sending specific projects to outside firms as a short-term tactical solution. But strategically outsourcing creative services is unique and growing. We expect it to be common practice in the next decade."

While the scope of "business process outsourcing," or BPO, is still evolving, it typically refers to third-party administration of non-core business processes that involve a technology component. According to a joint survey by CFO Magazine and AMR Research, the most widely adopted forms of BPO include employee benefits administration, travel services, payroll processing, tax processing, recruitment, and even collections. The survey found that BPO is already popular among companies of all sizes, with 68.3 percent of respondents already engaged in some form of BPO, and 63.6 percent anticipating an increase over the next one to two years. Gartner Group estimates the BPO services market at \$128 billion for 2002, and predicts it could reach as high as \$235 to \$300 billion by 2004. Spending on IT outsourcing reached \$56 billion in 2000, and is expected to be \$100 billion by 2005 according to IDC.

Frank J. Casale, chairman of The Outsourcing Institute (OI) agrees. "More and more companies are looking at outsourcing not just as a tactical, and reactive move, but as a strategic and proactive move for a wide range of non-core functions," says Casale. "Sometimes it just takes a new perspective. Companies that are willing to consider

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outsourcing as part of their strategic planning process are ultimately the big winners—especially now, when everybody is trying to do more with less.”

Strategic Outsourcing vs. Traditional Creative Management

How can you effectively gain flexibility and scalability to weather the upturns (and downturns) in demand for sales collateral, multimedia presentations, and Web initiatives, without sacrificing the quality of work that is essential to brand management? Or acquire, implement, and manage the technology when budgets are tight, and IT departments smirk at supporting Macintosh platforms, the preferred system for graphic design work? Advertising agencies and freelancers are a traditional outsourcing option, but both are riddled with a fair share of challenges and hidden costs.

“Many companies downsize creative services units and then meet demand with freelancers, often without realizing the tax implications or risk they are assuming,” according to Melanson. “If freelancers don’t meet the IRS 1099 regulations, such as the requirement for multiple clients, self-direction, etc., there could be steep fines and penalties against the companies who have hired these freelancers. It’s particularly risky when a company lays off an employee and brings them back as a freelancer.”

Of course, a cadre of freelancers still requires a high level of in-house management, and while you might be able to hire satisfactory design and production talent in the short- term, ensuring full brand knowledge and consistent implementation can be a persistent challenge.

Advertising agencies are known for effective branding and concept creation, but simple design and production costs can be hefty, often marked up significantly. And, agency clients often find pricing and billing convoluted with hidden management or transaction fees. “It is very difficult to discern what you’re paying for when you get the invoice,” says Melanson. Ironically, agencies are just as apt to utilize freelancers to supplement on-site staff to accommodate fluctuations in workload.



While creative services management involves multiple business processes, few companies structure a creative unit to measure business results such as utilization, return on investment (ROI) or end user satisfaction, primarily because while needed, creative service management isn’t a core competency and usually isn’t thought of as a standard business process. “Companies think of creative services as art, but in reality they’re a business process,” says Melanson. “There are few to no metrics in place to justify

the expense, which leaves creative services vulnerable.” CEOs and senior execs might agree a creative team produces great work, but at the end of the day they still want to see ROI.

Measuring ROI is tough without the right metrics. “Quantifying what we’re doing and where our work comes from is a necessary precursor to identifying solutions,” says

Sandy Brook, senior vice president and director, creative services for Bank of America, located in San Francisco, CA. Brook recently determined her department receives 1,000 to 1,500 requests annually to resize ads. "That's a formulaic assignment that requires some creative eye, but no art direction. It's a fairly repeatable process, but inevitably an unplanned event. The request is generated—usually too late—by an external deadline and that mucks up the studio work flow." Aquent is currently conducting a diagnostic assessment to help Brook quantify current demands, business processes, timelines, and labor costs. "We do have some data related to freelance hours and rates, but until this point employees didn't keep project timesheets. Historically, we charge back hard dollar costs like printing, but no labor costs. Without defining where we are today, it's impossible to compare alternative business models."

"Companies think they are outsourcing by sending work to an agency," says Melanson. "That's tactical outsourcing, as compared with a more strategic business process outsourcing approach where a company can manage the creative design and production processes for you over time, and measure the value, and be accountable for the outcomes over time." Plus, few companies with long-term agency relationships take the time to itemize project fees to analyze exactly what tasks they are paying for.

But as companies begin to look at creative spends more closely, outsourcing is a viable model to gain a streamlined, efficient, and knowledgeable operation that doesn't have to be highly managed on a day-to-day basis. "As the pace of change accelerates, few companies can excel on all fronts," explains Casale. "Nor can they afford to be saddled with the responsibility of building and maintaining infrastructure for essential, but non-core parts of their business."

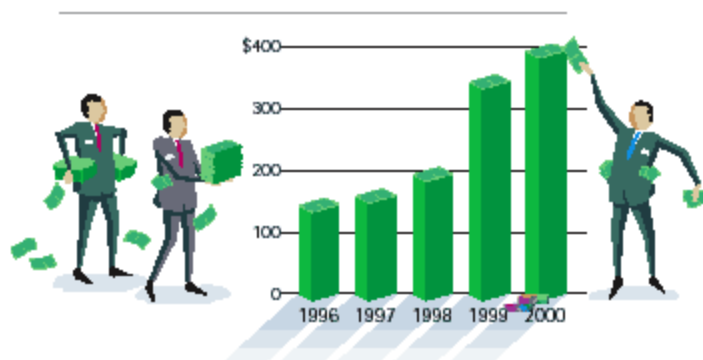
Increasing a company's focus on core competencies is the primary motivator for BPO, followed closely by cost savings and access to high-level expertise in specific functions, according to the CFO/AMR survey. Other reasons cited as "very important" rationale for BPO initiatives included focus on strategic growth, maintain or reduce head count, redirect capital

budget, and asset reduction. "Outsourcing can improve effectiveness, efficiency, and service," explains Howard Lackow, senior vice president and director of outsourcing services for OI, "by allowing access to world-class proficiencies and new processes." And the perception of value differs by level in the organization, says Lackow. "Senior executives may want to hear about the impact on costs and agility, while mid-level managers may be most interested in process efficiency and access to expertise."

Consider the evolution of creative services at Monsanto Company, St. Louis, MO, a leading provider of agricultural solutions to growers worldwide. Managed by Fred Mack, a twenty-year veteran of creative services management, his business services unit currently outsources its creative needs to Aquent. The arrangement is simple: a core team of six Aquent staffers works onsite at Monsanto, and additional talent resources are readily available based on workload. Mack's employees serve as "account executives" or project managers to interface with internal clients and ensure brand consistency.

Five years ago, an advertising and design services department tied to the marketing organization and allied with outside agencies handled the work currently

THE GROWTH OF OUTSOURCING
THE U.S. MARKET FOR OUTSOURCING SERVICES
1996-2000 (in \$ billions)



accomplished in Mack's unit. "As the company began another metamorphosis, silos were dissolved, subsidiaries were sold, and that department became vulnerable to cost saving opportunities," according to Mack. "The function actually disappeared from the organizational chart a year later!"

Once the dust settled, fragments of the former advertising and design services department reassembled around the Document Solutions Center, once a black and white copy center, now managed by Mack. "Our transformation from a copy center to a digital print center to a creative services unit was very much an evolutionary versus revolutionary process," stated Mack. "Functions were added bit by bit because we were there."

"Today our goal is to streamline the process people go through to get creative services," explains Mack. "The business model we're building for creative services allows our customers—people in our internal business units—to be the subject matter experts. They don't need to spend time sourcing their own solutions. We can be an internal one-stop shop for their creative needs." Mack values the flexibility offered by the outsourcing arrangement. "With one phone call to our partner, I can add or reduce staff depending on current needs. Plus we don't incur traditional employee, hardware, or software expenses."

Building the Business Case

After its merger with Nation's Bank, Bank of America identified twenty-six separate creative teams within the company, all of which was separate from its outside agency relationships. "Through the merger and subsequent reorganizations, attrition, consolidations, and changes in business focus, ultimately we streamlined to a few creative teams supplemented by outside agencies," explains Brook, who is handling this client. "Now we're taking the opportunity to look at how to best meet the company's needs from a macro perspective." Brook is charged with developing the best solution for managing creative development for the company's marketing division, and outsourcing is one option under consideration.

In building the business case, a key consideration is whether to retain creative talent on staff or to outsource the creative services—especially when it's not a part of a company's core competency. "There are a number of challenges, including a limited career path and performance management metrics tied to our core competencies—in our case, banking operations versus creative functions," says Brook. On the other hand, employees often offer a huge advantage in terms of understanding the company brand, key objectives, and internal logistics. "There's a base of knowledge with employees that's hard to replicate," according to Brook. "And a sense that people may have the greater good of the company at heart, more loyalty."

Lesa Barnes, associate director of marketing operations for Amgen, Thousand Oaks, CA, finds a team approach to an outsourcing arrangement overcomes those obstacles. "We consider our outsourced colleagues to be team members. There might be a division from a paycheck perspective, but in reality, they are one of us," says Barnes. "Having an extension of our department at our fingertips offers more flexibility and cost efficiency than a permanent head count. The talent Aquent provides quickly came to understand our business, products, and brand issues, and they translate that to effective communications. There isn't a lot of wasted time and energy retraining, which is typical with freelancers."

Barnes chose to co-locate outsourced staff with employees at Amgen offices. Since Amgen considers teamwork a core value, Barnes also negotiated a monetary reward system for Aquent talent in the outsourcing contract. "Outsourced colleagues need to feel like full team players. We can't offer stock options or other bonuses available to Amgen employees," explains Barnes. "But when they perform in an outstanding manner, they are celebrated and rewarded. That helps create a sense of unity for everybody on our team."

Another benefit of working with an outsourcing partner is a reprieve from typical

people management issues. "If I had to hire these people via my HR department, it would be far more laborious and challenging to acquire the same competency levels," says Barnes. "Plus, if there are ever poor performance concerns, Aquent deals with those management issues. I simply make a phone call." Mack agrees, "I don't have to guess about an individual's proficiency. Aquent people walk in with the right capabilities and technology. That saves me the time and energy I'd spend interviewing and training."

Cost reduction is a primary impetus driving more and more companies to outsource. "Many organizations have already outsourced obvious functions, but the pressure is on," says Casale. "CFOs tell us they are looking for cost savings, or cost control and predictability, increased service quality, and reduced risk. Outsourcing creative services is a clear opportunity many have overlooked." Mack leveraged cost savings as one strategy to win acceptance for the idea of outsourcing at Monsanto. "When you look at the overall costs, there's a lot of money to be saved," stated Mack. "I already have the square footage and the lights are on. That's overhead the company already incurs. While an outside agency might charge \$100 per hour, we can produce the same quality work—or better—at half the rate by outsourcing. We're not trying to make a profit so there's no mark up. We actually help other business units reduce their marketing communications expenses."

Does that mean creative services outsourcers are now competing with ad agencies? Not really. "Agencies continue to play a vital role with concept development, strategy, and branding initiatives," says Melanson. "But you don't need to pay an agency rate to create, produce, or convert a file. The lower level production functions are necessary, but generally more costly through an agency." Barnes echoes that sentiment. "Each of our product teams maintains or shares an outside agency which collaborates on product marketing strategy. We defined the scope of work so that we don't compete with the agencies."

Ten Factors in Successful Business Process Outsourcing

1. Set reasonable and obtainable expectations.
2. Understand objectives, both strategic and tactical.
3. Calculate the true costs of the functions and processes to be outsourced.
4. Carefully qualify and evaluate service providers; select more than one if necessary.
5. Communicate often with internal staff regarding objectives and intentions.
6. Develop measurable and achievable service levels and a process for adjusting.
7. Define performance metrics and reporting.
8. Craft a contract flexible enough to reflect and incorporate changes in requirements, services, and prices, yet explicit enough to lay out the framework, terms, and contradictions to manage the relationship(s).
9. Establish a formal and empowered contract-management function and team, and recognize that a long-term relationship requires constant communication and management.
10. Use a competitive bidding process.

Mack took it one step further by pitching use of his creative services unit directly to Monsanto's agencies of record. "The fact is not all creative work is done by employees of an agency. They are routinely looking for freelance help," explains Mack. Mack's strategy was to partner with product marketing managers to ask the agencies to consider hiring his team when workloads extended beyond the agency's in-house staff. "We've got a corporate mandate to control costs. If the agency wants to deliver the most efficient, cost-effective services, it makes sense for them to consider us as a lower cost alternative." And marketing teams are on board with Mack's contention that, "If we're going to buy 1,000 hours of agency creative time, there's more value-added for Monsanto if they spend that time on strategy and national campaigns. Then my team can execute the production tasks that make that strategy real."

Lessons Learned

What's the best advice those engaged in outsourcing partnerships offer to those considering adopting the option of creative services management?

- Conduct a thorough upfront assessment: "Make sure what you're buying is what you need," says Barnes. "We grossly underestimated our original needs. After revisiting the contract a year later we took a closer look at the business processes, talent, and demand holistically. It behooves one to do your homework up front." By quantifying current functions and output, it's easier to measure and communicate the value to senior management, according to Mack. "Once the company could see what we're actually capable of producing, we could demonstrate that our creative unit could do a better job with much of the design work formerly handled by outside agencies, plus increase brand consistency and cost efficiency."
- Find the right partner: "Look for a vendor that has created a 'center of excellence' specific to your industry or function," advises Lackow. "These unique process platforms can yield significant economies of scale."
- Retain some key employees as process and client managers: "You need to provide enough management and direction to an outsourcing partner to make them successful," explains Mack. "You can't just give a service provider office space and expect them to be successful. You have to stay close enough to give guidance, and give internal business units an intermediary to help clarify the scope of work based on company goals and strategies." Barnes also maintains on-site managers who are responsible for overseeing production and to serve as conduits and liaisons to internal customers. "You still need a few strategists who are on the company books," says Barnes.
- Be a smart negotiator: "Our legal and procurement organizations helped drive the hard-core negotiations based on the scope of work we developed," says Barnes. "Their advice was invaluable." Barnes also recommends a reassessment of terms prior to the end of the contract to examine what worked, what didn't work, and where you want to go next.

"I think creative services outsourcing is a growing trend," says Mack. "The kind of talent and the number of staff hours you need is constantly changing. That's difficult to manage unless you overprice services to cover inefficiencies. By outsourcing, I have the flexibility to move my investment commitment up and down based on the actual workload. There's no fluff built into the labor costs, so we don't have to charge back any more for services than necessary. Outsourcing results in improved business processes, lower costs, and better brand compliance."