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Why You Should Rethink The ATM Outsourcing Model

By Mark Hoppe

Across America, financial institutions have learned that outsourcing the components of an ATM program can bring a quick boost to the bottom line. Saving an average of 15% to 20% by letting someone else service their ATMs, banks, credit unions and other ATM owners are outsourcing these tasks to the tune of nearly \$2.5 billion annually.

But despite the regularity of ATM outsourcing deals, many ATM owners and service providers are missing the bigger picture. Short-term profit-chasing and the "we've always done it this way" mindset are blocking the view of where the real potential lies: long-term, integrated partnerships and managed services. Opportunities abound for owners to get more ROI from their ATM services contracts, but doing so requires them to stop thinking piecemeal and start viewing their ATM programs holistically.

Example From Other Industries

Other industries have already caught on. Take telecommunications services as an example. Increasingly, companies are gaining cost efficiencies and improved performance by turning to a single provider for their local, long-distance, and Internet services. But it doesn't stop there. The telecom provider also takes an ongoing role to manage the customer's ever-evolving communications needs. Through this managed services approach, the customer is able to continually optimize its use of communications services, make informed hardware decisions, bolster security, and maintain the flexibility to make adjustments whenever necessary.

Similar relationships can and should be built in the ATM services industry. To understand what needs to change, it's first important to recognize the drivers leading financial institutions to outsource their ATM programs in the first place. Among the top motivators are:

1. Cutting operational costs.
2. Focusing more on core business activities.
3. Staying current with technology.

It seems simple enough. By enlisting one or more specialized third parties to do the work of an ATM program, credit unions can pay less than doing it themselves, put more energy toward the profit centers, and take advantage of technical expertise they wouldn't find in-house.

Unfortunately, it doesn't always work that way. Despite their apparent advantages, many ATM outsourcing relationships are fundamentally flawed, and in more ways than one. They prioritize cost savings ahead of service improvements, they lack the flexibility to address customer's true needs, and they leave the financial institution with little control over its own assets. Instead of enhancing their profitability and freeing up resources, ATM owners find themselves frustrated by hidden costs, paying for services they don't need, and mired in the difficulties of managing other vendors whose services overlap.

Like the telecom company mentioned earlier, ATM service providers are rethinking the outsourcing model. The key to a highly successful ATM alliance may be to forget the word "outsourcing" altogether. Where "outsourcing" implies disconnectedness, "partnership" suggests a lasting bond between two parties.

Key Elements

Improved performance is the goal: Outsourcing agreements born for the sole purpose of reducing operating costs may deliver short-term results, but service suffers in the end. Spending precious time managing an incompetent vendor costs money, and ATM malfunctions cost customers. Managers should instead think longer-term, putting the focus on achieving peak levels of ATM performance, which creates customer satisfaction and cost-savings as a byproduct.

Shared control: Historically, outsourcing

requires a total transfer of people, assets, and resources, leaving the financial institution powerless to actively manage its own ATM network. A preferable arrangement allows the ATM manager to entrust the day-to-day operations to a third party, but have ready access to the controls at all times.

Flexibility: Too many outsourcing deals present an all-or-nothing scenario. Financial institutions are forced to pay for services they don't need, which cuts into the anticipated cost savings. Alternatively, ATM service providers should allow customers to select which pieces of the program they outsource and offer the opportunity to expand the relationship as the program grows.

Integration: Beyond simply performing a set of tasks, tomorrow's ATM service provider will become an adjunct of the customer's organization, learning its inner-workings and adapting to its needs. A consultative sales force, 24/7 availability, and the ability to merge technological systems are requisites any ATM owner should seek in a service provider.

For the credit union, a managed services partnership means the perfect marriage between in-house and outsourced. ATM services are performed by ATM experts, but with an insider guiding their hands. The results: improved ATM performance, a predictable cost structure, and the freedom to attend to the critical profit-generating activities of the business.

In every industry, necessity has created these types of integrated partnerships where traditional outsourcing once ruled. To remain competitive, financial institutions and ATM service providers alike will need to follow suit.

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