

OTC Transformation Delivers \$40MM Business Impact at Penske: A Case Study

THE PENSKE TRANSFORMATION ROADMAP

Frank Cocuzza, Penske's Chief Financial Officer, described improved efficiency and customer service as the prime drivers in moving his processes across to Genpact. He says, "While cost savings were expected, they were secondary in the decision making." Penske Truck Leasing is a company that leases equipment and provides logistics services to businesses in the U.S., Canada, Mexico, Europe, Brazil, and China, with annual revenues exceeding U.S. \$3.5B.

Penske's first administrative outsourcing was in 1999, but it was not until 2001 that it decided to more fully leverage outsourcing. At the time it was in the process of absorbing a \$768MM acquisition of rival Rollins Truck Leasing, just as the U.S. economy was heading into recession. At the same time, Penske realized it needed to better organize its back-office operations, which were spread among five different U.S. cities. "It was difficult to justify the cost of five different centers and also offer a consistent level of service," explains Cocuzza. "We came to realize that our business needed a transformation."

To pull this off, Penske concluded it would be better to work with an outside specialist leveraging a global delivery model to help centralize, redesign and then administer much of its back-office work, rather than attempt to reengineer by itself. Cocuzza and his Finance team, along with Genpact transition experts, process-mapped the activities in the regional administration centers and identified what functions could best be transitioned to Genpact centers in Mexico and India.

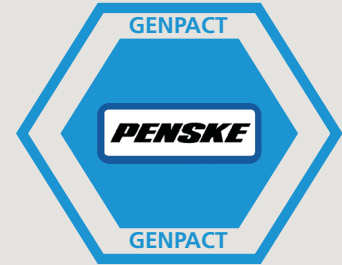
RELATIONSHIP HISTORY AND CURRENT SNAPSHOT

Penske's initial back-office outsourcing was small. In 1999 it began by sending documents for data processing to a 30-member Genpact team in Mexico. Over the next 10 years of the relationship, the engagement scope evolved from delivering basic transactional processes to supporting complex analytic processes for Penske's business operations. At the same time, the geographic scope has evolved as well, and now includes the U.S., Mexico, Canada, and European operations for Penske, and most recently uses Genpact resources on a small transition project for its Brazil operations.

In order to support this growth trajectory, Genpact established a Global Shared Services processing platform in India and Mexico based on a Virtual CaptiveSM model. The success of the model is attributable to the collaborative approach to achieving process excellence between both the organizations, supported by the strong leadership and direction provided by the Penske team. The exhibit below provides details on the services currently offered to Penske across different broad functions.

THE VIRTUAL CAPTIVESM MODEL: PENSKE

- 200,000+ Assets
- Support 700+ Locations across USA/Mexico/Canada
- 38 Processes & 700+ FTEs across India/Mexico/US/EU
- Lean Six Sigma - Operating Culture
- 10+ years Penske - Genpact 'Operational' Partnership



A Virtual Subsidiary
Business Week - January, 2006

	FLEET MANAGEMENT SERVICES	ORDER TO CASH	RECORD TO REPORT
ANALYTICS SERVICES	<ul style="list-style-type: none"> • Fuel Sourcing Analytics • Residual Value Forecasting • Trade Package Analysis • Fleet Optimization Analysis • Maintenance Cost Analysis • Used Vehicle Pricing Model 	<ul style="list-style-type: none"> • Predictive Loss Modeling • Bench Marking Studies • Prospect Prioritization • Fraud Analytics • Price/Value Leakage Analysis 	<ul style="list-style-type: none"> • Management & Operational Reporting • Districts/Location Performance Review Reporting
MANAGED SERVICES	<ul style="list-style-type: none"> • Customer Service • Warranty Claims Support • License, Title, Taxes & Permits • Bulk Fuel Settlement • Fuel Card Administration • Used Vehicle Dashboard 	<ul style="list-style-type: none"> • Billing • Rental Agent Commission • Driver Trip Reports • Repair Order Processing • Fuel Ticket Processing • Collection/Cash Application • AR Dispute Resolution 	<ul style="list-style-type: none"> • Accounts Payable • General Accounting - Revenue & Expense Accruals • Third Party Accounting • Internal Audit & SOX • Fixed Assets Accounting • Payroll-Employee Benefit Services

Figure 1: Global Processing Platform

ORDER TO CASH TRANSFORMATION JOURNEY

The Order to Cash (OTC) relationship began in 2001 with 86 FTEs handling the collections process. The relationship has grown over the years and the team is now approximately 200 members strong. The process scope has increased to involve a range of other OTC processes, namely credit risk approval, billing, cash applications and AR research.

Genpact transitioned the processes in their existing state to its Centers of Excellence in India, Mexico, and the USA. In addition to ensuring ongoing service delivery quality, Genpact has focused extensively on the process transformation aspect through utilizing different quality methodologies to drive continuous improvement culture within its operations.

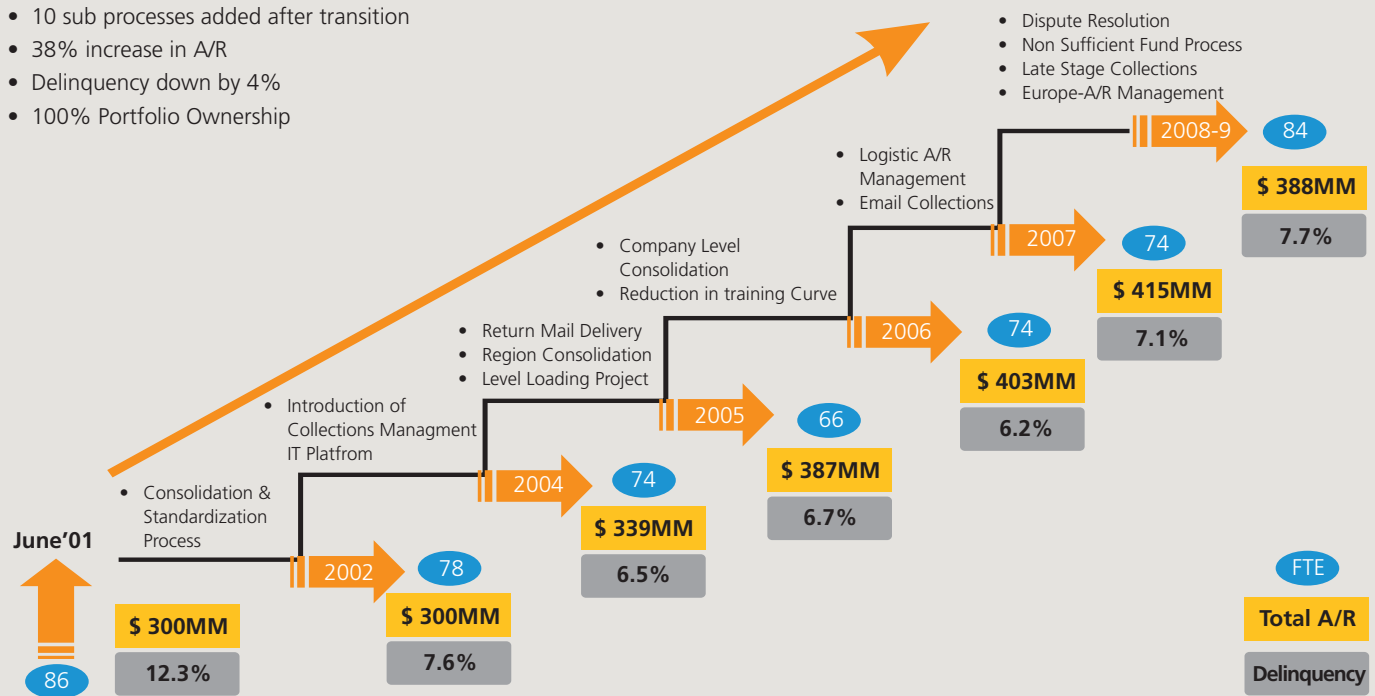
Genpact leveraged its strong Six Sigma and Lean heritage to deliver efficiency benefits to Penske. Genpact used a Six Sigma tool called "BPMS (Business Performance Management System)" for identifying the right metrics for the Penske processes. The BPMS approach focuses on customers of the process and helps identify key metrics that are important to such customers. Specific examples of improvement include increase in billing

accuracy from 3 Sigma to 3.8 Sigma, while managing 25,000 customers and generating 13,000 invoices every month for four product lines.

For the Collections process, Genpact continuously added new activities to the overall scope. The illustration below elaborates the transition-to-transformation roadmap of the Collections process at Genpact for Penske. The total AR portfolio managed by Genpact increased from about \$300MM in 2001 to \$415MM in 2007. Despite a 38% increase in the AR portfolio, the process efficiencies through Lean and Six Sigma initiatives led 12 FTE productivity over the same period. In other words, the increased scope of AR was managed with a 16% reduction in effort achieved through continuous process improvement initiatives. The years 2008 and 2009 were special periods of economic cycles and the teams stepped up to a differentiated focus on managing the AR through late stage collections, dispute resolution, and predictive analysis and interventions to sustain a healthy Past Due % similar to that of pre-2008 levels. Also, when Penske decided to implement a collections tool to improve the overall performance, Genpact leveraged its analytics capabilities to help refine the collections prioritization logic in order to make the tool more robust and effective.

TRANSITION-TO-TRANSFORMATION: COLLECTIONS

- 10 sub processes added after transition
- 38% increase in A/R
- Delinquency down by 4%
- 100% Portfolio Ownership



A result of all this focus reflects on the Penske Net Promoter Score (NPS)¹, which currently stands higher than 85%, resulting in growth of other OTC services within the relationship. Our operational partnership has evolved into a true business partnership.

GOING BEYOND EFFICIENCY - DELIVERING BUSINESS IMPACT

While efficiency gains are important, the Penske and Genpact process teams believed that real business impact to Penske could only be delivered through improving certain key business outcomes. Improvements in business outcomes like Days Sale Outstanding (DSO) and Past Due % are usually 5-10 times the savings obtained through improving efficiencies.

Genpact started with defining the sub-activities of a process, drilling down to a more granular Level 2 / Level 3 for the sub-processes in scope and then identifying the key performance measures and drivers associated with these activities at the ground level. Following are the couple of points that differentiated Genpact's approach, making it more structured and robust than other traditional approaches.

- Clear impact linkages were established between key performance measures and the overall business outcomes that helped Genpact prioritize focus areas for improvements
- Genpact put the focus on leading metrics in addition to lagging metrics

These metrics were then reviewed and finalized with Penske. Post agreement, robust reporting mechanisms were put in place to track and report the performance on these metrics.

In addition to the metrics approach, Genpact leveraged best practices and insights resulting from its deep process understanding and experience in having run similar operations for other clients. Following are some of the illustrative examples of these insights

- Linked 23,500 individual customer accounts into 8,000 customer groups sharing a common Accounts Payable function, eliminating redundant collection calls and focusing the collection strategy
- Set up a process to continually correct addresses on the invoices that are returned and to decrease undeliverable invoices to approximately 1% of total invoices
- Refined the auto-cash algorithms to double the number of payments applied automatically vs. manually
- Developed a "best time to call" profile for key customers to increase the efficiency and effectiveness of collections

All of this resulted in approximately four percent reduction on the delinquency percentage and a corresponding improvement in DSO (the same can be seen in the exhibit above).

Genpact's focus on improving business outcomes has maximized the value Penske has derived from its outsourcing relationship.

Indicator	Progress
Past Due AR as % of Total AR	Reduced 50% to <10% range with 23% fewer collectors
Day Sales Outstanding (DSO)	Upper 30's to 40 days on 30 day terms
Sales tax credit memos	Reduced by 90% to lowest level ever
Auto-cash hit rate	Increased from zero % to mid 60%
Cash Application Accuracy	Virtually 100% consistently
% of cash applied same day	Improved from 90% next day to 98% same day

Following is the overall summary of the key benefits derived from this relationship:

- **Efficiency Savings:** Operating cost savings of \$20MM annually
- **Effectiveness based savings:** Bad debt expense reduction of approximately \$10MM annually and \$40MM increased cash flow generated through reduction in DSO
- **Others:** Cocuzza believes that Penske's revenues have increased from higher customer retention driven by enhanced customer satisfaction from back office improvements. "Better billing and improved cash application, both of which lead to eliminating unnecessary collection calls, help drive a better relationship between Penske and its customers," he says. He also believes that associate satisfaction improves from doing less rework

GENPACT'S SMART ENTERPRISE PROCESSES

Throughout our relationship with Penske, Genpact has applied the principles of Lean/Six Sigma to reduce process variation, recommending metrics that help to control and improve their business processes. Our proprietary Smart Enterprise Process (SEPSM), built around our experience in business process improvement, takes this even further.

Genpact is currently engaged in comparing Penske's existing metrics to those in our SEPSM methodology to: (a) identify additional metrics that should be tracked to provide deeper insight into processes which would drive effectiveness and efficiency improvements, and (b) to benchmark Penske's performance against our proprietary benchmark database. A few examples of insights gained to date:

- Penske compares favorably to benchmarks in Average Days Delinquent, a measure of collection effectiveness, and in Cash Application Accuracy.
- Penske has the opportunity to improve performance in the Service Completion to Invoice Cycle Time, a measure of billing timeliness, and in further increasing the Auto-Cash Hit Rate

Genpact's wide expertise in understanding the key drivers of the Order to Cash process across geographies and industries has enabled the company's ability to provide insights into how specific focus points and improvement areas within operations can lead to a positive and significant impact to an organization's revenues and bottom-line figures.

"Our partnership with Genpact has not only provided us cost-efficient business processes, but also the process rigor and metrics that enable us to achieve ever-higher levels of performance. We look forward to continuing our progress by leveraging Genpact's Smart Enterprise Process Methodology."



Frank Cocuzza
CFO, Penske Truck Leasing

¹Net Promoter Score is a management tool that helps to measure customer satisfaction through the targeted use of a single question rated on a 0-10 scale: "How likely is it that you would recommend our company to a friend or colleague?" Subtracting the percentage of Detractors (respondents who rated the company between 0-6) from the percentage of Promoters (respondents who rated the company 9-10), produces the Net Promoter Score.

About Genpact

Genpact is a global leader in business process and technology management, offering a broad portfolio of enterprise G&A and industry specific services, coupled with strong IT, analytics and reengineering capabilities.

For more information, visit: www.genpact.com

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