TOM INGRAM & ASSOCIATES, Inc.

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Success Story

Improving Results for Business-to-Business software companies

11.14% Average Net Return on Sales Per Year During the Difficult Past Five Years!

Largest Profit for Shareholders Generated by any Firm in Our Study

"We are not Really a Software Company"

"We are a Firm The Produces Results for Our Customers and We Happen to use Software"

Firm Grows from $20 Million to $3.5 Billion in Sales, Profitable Every Quarter, with Average 18-20% Earnings Growth Per Quarter Since 1986

Share Price Rises from $1.22 to $37.00 a Share after Seven Stock Splits

"Before You Focus on Revenues or Earnings, You Focus and Quality and Customer Satisfaction"

How to Do the Right Things During Acquisitions

By Tom Ingram, PMP

"We are not really a software company. We help a very narrow set of customers solve a difficult set of problems. We help them solve the inherent problems with internal IT departments. We help them with the need for rapid change and improvements in business processes. We also help our customers to be successful while they are undergoing extreme industry consolidation and, nearly always, have far more work to do than they have people available to do the work."

"We just happen to use software to help our customers achieve their end results, but it is actually less that 6% of our total sales."

Les Muma, retired CEO of Fiserv, opened our interview with these words. It was immediately clear to me that this is the single most important lesson to be learned from the FiServ Success Story.

This success story is another in our continuing efforts to study software companies that have been successful and profitable in the very difficult recent five years.

The FiServ case provides some additional lessons on linking customer success, results and satisfaction with the priorities of FiServ's employees and leadership. FiServ has grown from $20 Million to $3.5 Billion projected for

2004, largely thorough an acquisition strategy. What is unique about FiServ is they appear to have made very few missteps in a substantial number of acquisitions and have sustained their focus on customer satisfaction and results.

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Some Background: FiServ focuses on banks, savings & loans, credit unions and certain lending organizations, property, casualty, life and annuity insurance companies and broker-dealer organizations that are owned by financial institutions.

Note that even with a massive organization producing $3.5 Billion in sales, FiServ has stayed focused within a comparatively narrow segment of the financial services industry.

FiServ has found a niche by helping these financial services customers deal with three very difficult problems:

1. **Internal IT (Information Technology) organizations are notoriously ineffective.** FiServ has found that, as an external, outsourced service provider, they are able to solve many problems more effectively than the same issues can be dealt with by internal IT departments.

2. **The business process reengineering problem:** Computer systems do little good, and often great harm, unless they match up with the necessary business processes for the client company. The high rate of change and consolidation in the financial services industry, particularly banks, has presented FiServ's clients with an extreme need to rapidly reengineer important processes. Customers must also match up the processes with needed computer systems and services support. The customers must then roll the new processes and systems out into the operating environment in a compressed timeframe. Having led a dozen reengineering efforts over the years, and studied the topic extensively, I can attest from personal experience that this is an exceedingly difficult thing to do.

   FiServ has found a niche and an ability to help their customers with this thorny problem as an external entity. I do not mean to suggest that FiServ offers a Nirvana or perfection to its customers. In my experience, however, significant internal IT and business process change initiatives suffer a 75%+ failure rate. FiServ's customers have rewarded them substantially for helping them address these major problems.

3. **The "Too-Few" people problem:** Banks, in particular, and many of FiServ's other customers are in an era of extreme consolidation of operations.

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This means that client personnel are often faced with the undoable task of doing the work that it took five people to do ten years ago. FiServ's clients have substantial pressures to keep headcount low, and outsourcing operations to FiServ, and others, makes great sense under the circumstances. Add to that FiServ's ability to do these difficult things more effectively than internal personnel can so them, and you begin to understand why FiServ has grown so rapidly and sustains such profitability and customer satisfaction.

Doing Acquisitions Right: I asked Muma for his thoughts on how to do acquisitions effectively, in the context of having seen literally hundreds and hundreds of poorly executed and failed acquisitions. "We take a disciplined approach to the due diligence necessary in acquisitions. We will only buy an acquisition if it will add to earnings per share, or at the least, break even."

"We do not buy acquisitions based on the assumption that we can find enough cost savings or synergies to make them profitable." Muma continues, "Keep in mind that the key things you are acquiring are primarily customers and people. Technology is very secondary."

"We keep a strong, disciplined merger and acquisition team, headed by a strong leader. In order for an acquisition to take place, our group Vice President for the responsible area has to sign off on the acquisition, and its potential impacts on his P&L."

"The CEO and Merger and Acquisition team can't 'fall in love' with the acquisition and push it through. Having the group VP accountable for the financial outcome of the acquisition helps to serve as a check and balance."

Absorbing Acquisitions into the Culture: Muma continues to explain some of the critical aspects of successful acquisitions. "We do not jerk the acquired business unit into the fold immediately. We give them two to three years to learn about our culture, how we do things and that there are some very good things about being part of our organization. During this two to three year period, in overseeing the acquired entity, we stay focused on the really big issues that will ultimately get us where we want to go. We let the acquired company continue doing things the way they used to, to some degree. We allow this, even if we think they are making minor mistakes in doing so. We maintain a focus on our primary values [customer service, customer satisfaction, financial results, taking care of employees] and cut them some substantial slack in other areas."

Measuring Customer Satisfaction First: "Before you focus on revenues or earnings, you focus on quality and customer satisfaction," Muma explains. "Our executive bonuses are primarily driven by customer satisfaction and customer retention. The executives are, of course, measured and compensated on financial performance, but we realize that financial performance follows customer satisfaction and customer retention."

"We conduct quarterly and annual customer satisfaction reviews. Our number one passion is keeping the customer happy."

[Editor's Note: My examination of FiServ leads me to believe that statements like the above are not just hot air. Independently, I have had FiServ competitors tell me that FiServ is doing a good job. In a company as large as FiServ, everything is not going to go perfectly, but FiServ's sustained financial performance and the linkage to creating great value and satisfaction with customers leads me to believe

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that the "customer happiness mantra" is not the standard corporate pabulum.]

Muma continues to explain how they enforce the focus on customer satisfaction. "We have a 100% Club for our sales people and other high performers, including the business unit heads. However, the presidents of our business units can only go on the 100% Club trip if their customer satisfaction evaluations meet our minimum standard. They cannot earn the right to attend our 100% Club simply based on sales and profits.

The Sales Compensation Problem – How do you Incent Sales People to Perform, but Hold Them Accountable for the Ultimate Customer Satisfaction and Results From What They Have Sold? Muma explains that, "Our sales people are 'hunters' who are paid heavily to go find new sales. They receive the bulk of their incentive pay for a new sale during the first twelve months."

"We have a mechanism in place to transition responsibility for customer satisfaction to a dedicated relationship manager at the time that the sale is consummated, just prior to conversion to our services. The customer relationship manager is heavily compensated on customer satisfaction."

Preventing Overselling by Sales People: Muma comments, "We are still working on some aspects of this issue. Of particular concern are the promises made to customers that are not in writing. Our unit president has to sign off on all contracts and commitments. Our individual sales people cannot cut special price deals or make special arrangements to individual customers without the business unit president's approval."

"We continue to watch this issue carefully and work hard to make sure that all the promises made to our customers are understood and defined in writing.

[Editor's Note: FiServ is, by no means, alone in dealing with this issue. It has been a central problem in the sale of software from the first day that I became involved in the industry 23 years ago, and probably pre-dates me to the very beginning of the computer industry.

The only solution that I have seen is to exert substantial effort so that all promises and representations made to the customer are done so in writing and in a fashion that enforceable, testable and verifiable. This requires upfront documentation and definition and a process to step the customer through approval that these commitments have been met. This process is usually called, 'Acceptance Testing' or some similar event.]

Muma also comments that, "One of the things we do is to trace 'over promising' back to the sales rep that made the promise. Things can become very uncomfortable for that sales rep if we discover a pattern of over promising."

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A Challenge – Replacing Customers Lost to Acquisitions: Muma explains that, "One of the issues we face is that, with the extreme consolidation among our customers, we lose customers for circumstances that are beyond our control. The only thing that we can do in response is to work hard on filling our pipeline, take care of our existing customers and work to create greater and greater value so that we are more competitive and more desired by customers every day."

A Second Major Focus – Taking Care of People: "We've discussed our primary focus of taking care of the customers. It's important also to realize that we understand that our people take care of our customers. We are in a service business and we understand that the only way to really take care of our customers is to have good people and take care of those good people." [Editor's Note: Muma was pressed for time and I chose not expend time on the mechanics and specifics of how they take care of their people. Readers can find ample information on this topic in other sources. I will note that the management literature and my personal experience make it clear that the single best way to take care of your employees is to keep the focus of the business on taking care of customers.]

The Single Most Important Lesson from this FiServ Case: How would you like to compete with FiServ? Look at their financial performance and the strength that they have to deploy in as an aggressive competitor. Next take a look at the way they stay disciplined and focused in a very narrow segment, despite their size and despite countless opportunities to expand into other areas. Because they remain so focused, they know their customers' businesses and problems better than the customers do.

Think about the difficulties you have seen with internal IT Departments, business process reengineering projects, rapid change projects, and large industry consolidations. What the numbers and data tell us is that FiServ has figured out a way to solve these problems for their customers in ways that the customers are delighted to pay for. I have even had the president of one of FiServ's competitors tell me that, "They do very well."

I don't know about you, but I'm not too excited about head-to-head competition with FiServ. Here is the key lesson: In your industry, among your happy customers, where can you find a niche like FiServ has found? Where can you be so good at understanding a narrow set of your customer's key problems, that you can bring them spectacular value for the money that they pay you?

Les Muma and I did not discuss this directly, but I suspect, consistent with other success stories of this nature that I have documented, (see www.tomingraminc.com) detailed ROI analysis on the services and products that FiServ provides would probably show that customers receive a three- to five-fold payback for the money they spend with FiServ.

Where can you find a niche, like FiServ, where you can solve big and important problems for your customers and they will be delighted to pay you for it?

This is the key lesson of the FiServ case.

Where can you find a niche, like FiServ, where you can solve big and important problems for your customers and they will be delighted to pay you for it? This is the key lesson of the FiServ case. I will sum it up with the opening statement that Les Muma gave me, which is, **"We are not really a software company. We help a very narrow set of customers solve a difficult set of problems.**

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Need further information?

Call us if you would like more success stories, have questions or would like more information. This case is written as a teaching tool and is not intended to fully describe exact details or dialog.