How America's Leading Firms Use OUTSOURCING

Achieving Breakthrough Business Success by Leveraging Outside Resources

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"How America's Leading Firms Use Outsourcing"

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Executive Summary

The US market for outsourcing services is expected to top $300 Billion by 2001. Outsourcing represents a trend in corporate America and a major force in the economy. How do America's best run companies use outsourcing to enable and drive their business strategy? This is the central question posed by this study. The report addresses this question by looking at the use of outsourcing by America's ten leading corporations as reported by Fortune Magazine.

We find that many of the leading corporations use outsourcing to advance three common strategies. Outsourcing at firms like Microsoft, Disney, Johnson and Johnson, Merck, and GE supports their continuous efforts to quickly innovate, reevaluate markets and create whole new industries. Coca-Cola, GE, Intel, and Hewlett-Packard use outsourcing to advance their globalization efforts. Firms use outsourcing to broaden their international reach. Thirdly, firms like Southwest, Berkshire Hathaway and Microsoft use outsourcing to focus more firepower and resources on the markets where they will produce the greatest return for shareholders.

There are three major findings emerging from this study of America's leading corporations and their use of outsourcing. First, the strategic use of outside resources permeates the thinking at the leading firms. Many of America's leading companies take the thinking to the next level, presenting their companies as both buyers and sellers of outsourcing services, and blurring traditional lines. Second, so-called "boundaryless behavior" is elevated to an art at the leading companies, creating environments of intense goal-directed behavior and customer focus. These are environments where old notions of organizational structure are challenged, and internal sourcing, outsourcing, strategic alliances, and joint ventures are equally valid options for solving business problems. Third, outsourcing is intentionally used to support grand strategy.

Outsourcing allows these firms to do what they already do well even better. The fast are faster. The innovative are more innovative. Outsourcing enables these firms to reinvent themselves structurally; and drive strategies of innovation, speed to market, globalization, and focus in new and bold ways.

Management Summary

Outsourcing is clearly part of the success of America's leading companies. By itself, outsourcing doesn't make any firm successful, but when applied appropriately and managed well outsourcing can make important contributions to success. America's leading firms have learned to use outsourcing to reinforce their existing advantages, and propel themselves ahead of the competition. These firms have used outsourcing to dramatically narrow their focus on core competencies and those activities that directly support them, streamline management structures and processes, driving innovation, and improving speed to market. The leading firms expend a great deal of effort educating service providers, measuring their performance and communicating through a defined program of feedback and evaluation.

The leading firms consistently do two things when it comes to dealing with outsourcing partners. First, General Electric, Hewlett-Packard, Southwest and others instill their own values in their partners through training and cultural immersion, whether it means bringing in the partner's personnel or going to their site. The second common factor is a performance management process tied to the quality process for both partners, whether it's called "roadmapping", "dashboards", or "balanced scorecards", it's in place.

The power of this strategy is that it creates a culture of constant reassessment of and discontent with the status quo. What they create is *change from within enabled by resources from outside*. This change means that the organization has to continually find new and better ways of doing business, and turn to outside suppliers for innovative solutions.

How America's Leading Firms Use Outsourcing to Achieve Breakthrough Business Performance

Outsourcing is redefining the modern business organization in ways few envisioned even a decade ago.

In fact, the 1998 Dun & Bradstreet Barometer of Global Outsourcing reports that expenditures worldwide will increase another 27% this year alone. Other estimates place the total U.S. market at more than $300 billion by the year 2001.

Against this backdrop, it becomes increasingly important for senior executives to understand not only what is happening with outsourcing, but more importantly why. And, even more important yet, where and how they can and should replicate the use of outsourcing by others within their own operations.

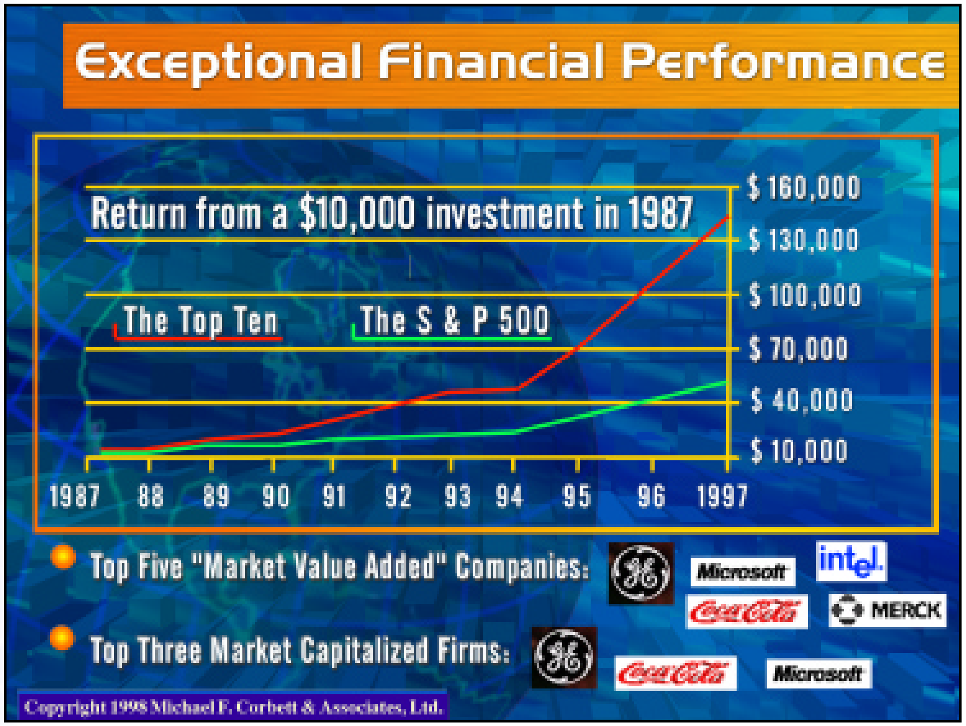
These are the essential questions being answered by this report, "How America's Leading Firms Use Outsourcing to Achieve Breakthrough Business Performance." The report, sponsored by and prepared for The Outsourcing Research Council by Michael F. Corbett & Associates, Ltd., offers specific insight into how outsourcing is being used by America's most successful organizations to enable their business strategies and to achieve the success in their markets, and for their shareholders, that they seek. It certainly provokes new thinking on the part of business leaders and, hopefully, offers a blueprint for others to follow.

FORTUNE Magazine's List of America's Most Admired Companies

To select the companies for this study, the most recent report of "America's Ten Most Admired Companies" by Fortune Magazine, as published in their March 2, 1998 issue, was used.

These ten firms certainly represent the types of organizations others look to for comparison within their own businesses. They also represent a cross-section of American businesses and industries. Some (Microsoft and Southwest Airlines) are relative newcomers, still managed by their founders, who have achieved unusual success in their markets. Others (GE, Coca-Cola, et al) are longstanding icons of American business. Multiple industries are represented, including: technology (Microsoft, Intel, Hewlett Packard); pharmaceuticals (Johnson & Johnson, Merck); consumer products (Coca-Cola); entertainment (Disney); diversified consumer and industrial product and service firms(GE, Berkshire Hathaway), and; transportation (Southwest Airlines).

A final point is that these companies were not selected because of recognized leadership in the application of outsourcing – they were selected by peers from across America because they are hugely successful and admired. As such, the relationship between this success and their use of outsourcing as a management tool was not a given at the start of the study, it is a relationship that was developed through an analysis of the common elements that contribute to that success.



And, make no mistake about the success of these ten firms.

Fortune magazine reported that a $10,000 investment in a portfolio of these companies' stock in 1987 would have yielded a return of about $150,000 in 1997 – three times the return that would have been seen from a similar investment in the S&P 500.

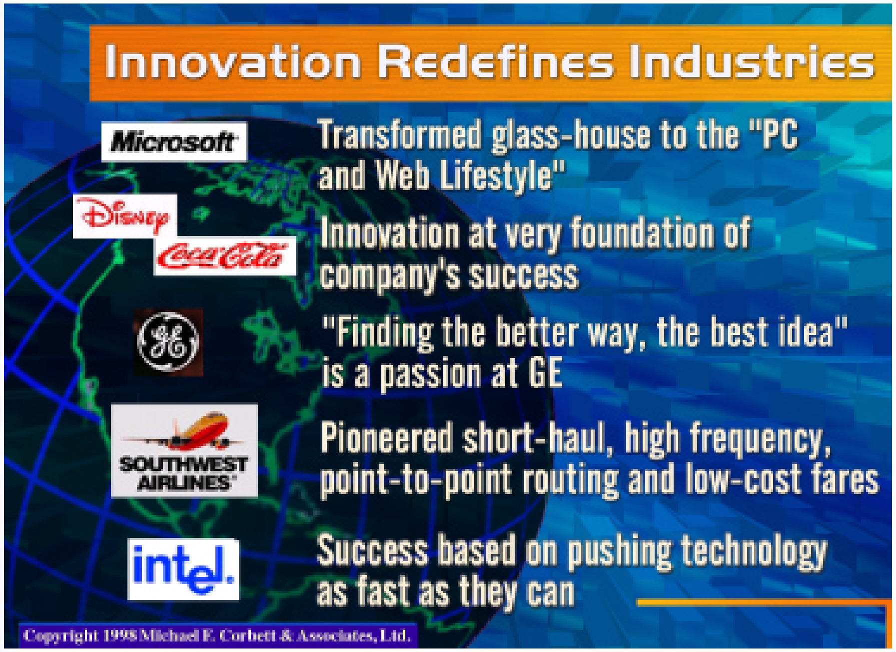
This is not to imply, however, that the performance of all of these firms has been equally strong. Microsoft, Intel, Coca-Cola and Berkshire Hathaway represent almost two-thirds of the gains while Johnson & Johnson, Merck, Walt Disney and Hewlett-Packard collectively represent just under 20%.

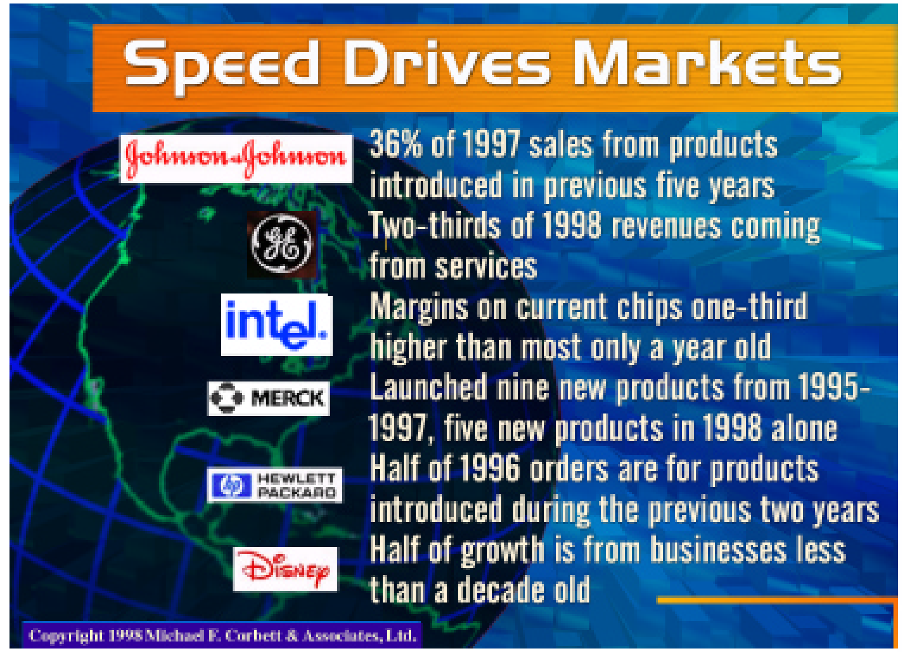
Five of these companies – GE, Microsoft, Coca-Cola, Intel and Merck — rate as the country's top market value added firms, recognizing the fact that these five have yielded a higher return on invested capital than all other U.S. companies. Three of the ten – GE, Coke and Microsoft – are America's largest companies based on total market capitalization.

So, with these ten firms selected as representative of America's most successful organizations, the focus of this report is to understand the relationship between this success and their use of outsourcing as a management tool.

Fortune Magazine selected these ten companies as America's Leading Corporations. Click on each company to see Fortune's write-up on the company. 1. General Electric; 2. Microsoft; 3. The Coca Cola Company; 4. Intel; 5. Hewlett-Packard; 6. Southwest Airlines; 7. Berkshire Hathaway; 8. Disney; 9. Johnson and Johnson; 10. Merck.

Defining Strategy: Innovation and Speed





The most striking similarity between these firms is the common elements of the business strategies that they employ. The first of these common elements is the use of innovation and speed to redefine the markets they serve and the industries in which they operate.

Certainly, **Microsoft** is a great example of the use of innovation and speed to redefine its markets and its industry. Microsoft was at the center of the revolutionary transformation of computing from the glass-house to the desktop. Its earliest products redefined computing from something that specialists created and the average user accessed, to a tool that anyone could shape to serve their unique needs. Innovations in product design, user interfaces and packaging drove the company to a leadership position in both the operating system and the application software and content fields.

To see what motivates Microsoft click here

When the company's success was threatened by the explosive growth of the Internet, enormous investments were quickly made and products introduced to position and then catapult the company to the front of this emerging industry segment. Today, Microsoft is again redefining its markets as it repositions its Windows operating system as a family of operating systems for everything from electronic appliances, such as handheld devices to the "digital nervous system" of major corporations around the world. Microsoft is striving to redefine the very way we work and live, recently referring in its annual report to "the PC and Web lifestyle."

Innovation and speed are equally apparent in the operations of **The Walt Disney Company**. In fact, over the last decade, half of Disney's growth has come from businesses that did not even exist in 1985. The goal is simple: to sustain Disney as the world's premier entertainment company. New businesses include: The Disney Stores, live theatrical entertainment, television and cable operations, as well as sites on the World Wide Web. Disney launched Disney.com in February 1996. Today, at least 25% of net surfers visit at least one Disney site per month and the company is making heavy investments to position itself as a major portal to the Web. Innovation has been the very foundation of Disney's success. Walt Disney pioneered the first cartoon with sound, the first use of stereophonic sound, the first theme park, and audio-animatronics. Today, the company employs over 600 engineers and scientists doing true R&D in the application of information technology, telecommunications and other related technologies to the entertainment business.

For the most recent financial information on Disney click here

In his 1997 letter to **General Electric** shareholders, Jack Welch explains that "finding ***the better way, the best idea*** from whomever will share it with us, has become our central focus". Speed, elimination of unnecessary work and seamless adaptability are among the cornerstones of GE's business strategy. Probably, the greatest innovation at GE is actually GE, itself. By any measure, GE has transformed itself from an industrial dinosaur into a global services company, and in 1998 more than two-thirds of its revenues will come from financial, information and product services.

GE Capital Services, referred to by Fortune as "Jack Welch's Secret Weapon" (Nov. 10, 1997) represented 39% of GE's earnings in 1996 and from 1991 through 1996 single-handedly contributed more than half of GE's total revenue growth. Transformations of this magnitude attest to the importance of innovation and speed as a business strategy.

Recent innovations at GE have resulted in a ten-fold increase in the life of a medical CT scanner x-ray tube; a quadrupled return on investment in superabrasive manufacturing through dramatically improved yields, and; a 62% reduction in turnaround time on railcar repair operations. Each of these innovations has helped redefine the markets the company serves. Possibly the most profound redefinition of GE's markets and industries is the result of the firm's rapid movement toward a services-based approach to its markets. From aircraft engines to diagnostic imaging equipment, GE is repositioning these markets as services markets where customers purchase total life-cycle management – product, financing, service and support – tied directly to the use and value of the equipment to the customer in the operations of its business.

The very existence and envied success of **Southwest Airlines** is a testament to the power of innovation and speed in the redefinition of a marketplace. Southwest pioneered short-haul, high frequency, point-to-point routing. This has enabled the airline to offer lower fares and more reliable service. Southwest's point-to-point operations represented a significant departure from traditional hub-and-spoke routing. As a result, the company's aircraft are at the gate only 20 minutes on average, thereby reducing the number of aircraft and gate facilities that would otherwise be required.

Southwest's fabled history | Southwest's financial performance | Facts about Southwest

Another historically sacred feature of an airline's profile has been its aircraft ownership. Southwest Airlines was one of the first to break with tradition and continues today to lease almost half of its fleet. Southwest also employs a very simple fare structure, featuring low, unrestricted, unlimited, everyday coach fares. In 1996, Southwest began offering ticketless travel through the company's home page. By the end of 1997, 60% of the airline's passengers were using ticketless travel.

Berkshire Hathaway, as a company, may be one of the least known of the ten examined in this report, but its principle shareholder, Warren Buffet, is about as famous an investor as any in modern times. Under Buffet's guidance, Berkshire Hathaway has become a diversified holding company owning subsidiaries engaged in a number of diverse business activities. The most important of its business operations is the property and casualty insurance business, in particular, GEICO Corporation, the seventh largest auto insurer in the United States.
Looking specifically at GEICO, that company's innovative direct-to-consumer approach to its market yields impressive financial performance. This, in turn, provides the cash "float" (the cash available from the time premiums are collected to when losses need to be paid). This float is then used by Buffett for investments in and ownership of other businesses – ranging from Dairy Queen to Coca-Cola and American Express.

To see the various businesses owned and managed by Berkshire Hathaway click here

Coca-Cola continues today to use innovation and speed to redefine its markets and its industries. Although the company serves 1 billion products a day, there are still 47 billion daily servings of some other beverage. Innovative ways of connecting with consumers is a cornerstone of the company's business strategy.
Movie tie-ins, Coca-Cola themed attractions at sports venues and innovative promotions, such as, "Refreshing Squads" distributing product at the beaches of Peru, are just some examples. Of course, the company's early success was a direct result of what were, at the time, very important innovations, such as: softdrink bottling which permitted its sale beyond the soda fountain; the subsequent creation of an independent bottling and distribution network based on product licensing, and; brand management through the use of product packaging and logos that pioneered modern-day techniques.

Merck & Co. Inc. is a recognized leader in developing new drugs. The company launched nine new products from 1995 through 1997 and is rolling out a record five new products in 1998. The success of these products also depends upon Merck's ability to demonstrate that they represent innovative treatments with truly differentiating therapeutic value.

In another area, managed pharmaceutical care, the company's Merck-Medco operation, is innovating new approaches to increase the safety, effectiveness and cost management of prescription drug care. This includes new technologies to speed prescription refills and the use of the World Wide Web for placing orders and reviewing coverage. Merck is also focusing on developing innovative approaches to the health management programs for chronic conditions such as diabetes, cardiovascular diseases and gastrointestinal illness.

To learn more about Merck and its products click here

Product innovation has long been a trademark of **Hewlett-Packard**. In fact, HP was the first of Silicon Valley's technology companies and is a trailblazer in its field. To continue to focus the company on new product innovation, CEO Lew Platt has instituted a new plan to hatch a series of internal "software startups" to attack promising product niches. HP's continued growth is based on a strong commitment to research and development. The company invests seven percent of its new revenue in R&D and couples that with an ability to manufacture and market leading-edge technology quickly. The most telling statistic on HP's reliance on innovation and speed is the fact that more than one-half of the company's orders in 1996 were for products introduced during the previous two years.

Click here to learn more about Hewlett- Packard's current business and history

Intel introduced the world's first microprocessor in 1971. Today, the company enjoys a 90% market share and the Intel brand is considered by experts to be one of the ten most valuable brand names in the world. The company's continued success is a direct result of its strategic focus on innovation and speed. While other companies may look to increase sales and profits by extending the shelf life of their products, Intel does the exact opposite. The company's profits are driven by the higher margins it commands for its latest chips.

For example, last December the margin on the company's Pentium 200-Mhz (introduced in June 1996) was 62% while the margin on its Pentium MMX 233-Mhz (introduced in June 1997) was one-third higher, at 83%. The bottom line is that Intel's success is based on pushing technology as fast as it can.

Learn more about Intel Chairman Andy Grove

Learn more about Intel CEO Craig Barrett

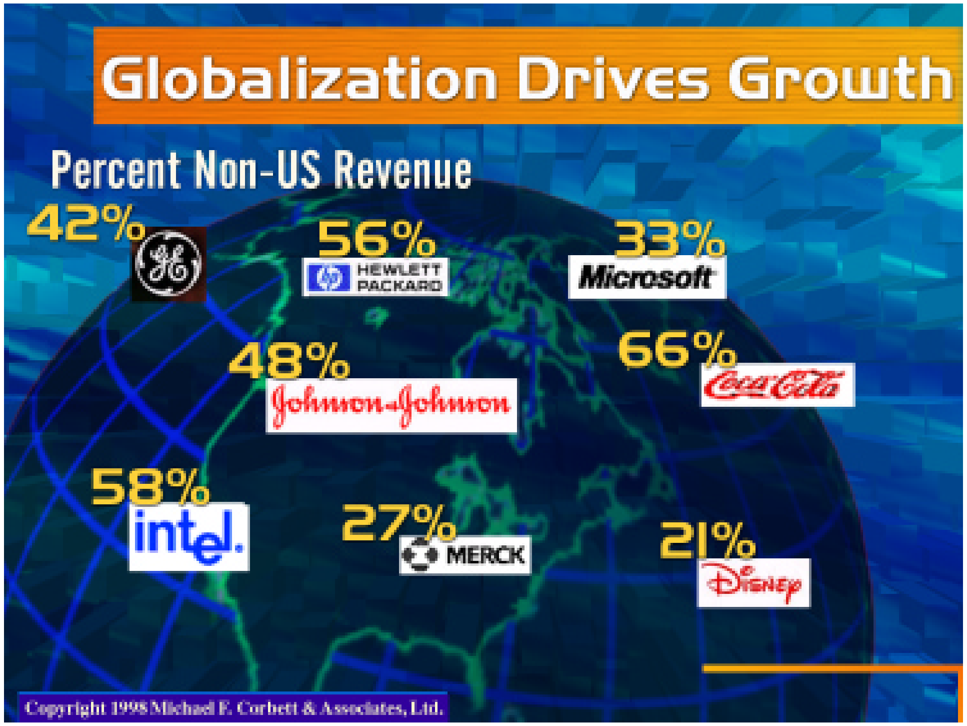
Click here for financial infomation

Finally, **Johnson & Johnson** states in their 1997 annual report that "Innovation will propel us forward." Again, 36% of the company's 1997 sales came from products introduced in the previous five years. The company recognizes about a dozen "growth platforms" — in such areas as cardiology, skin care and pain management – and is developing innovative, integrated care and treatment approaches. Some innovations are in packaging and marketing — such as Johnson's Pure Essentials, a specially formulated and packaged line of toiletries targeted at girls from 13 to 25 — and some represent pharmacological innovations — such as REGRANEX, a genetically-engineered topical gel for treating diabetic foot ulcers.

Click here for the Johnson and Johnson fact book

Defining Strategy: Globalization

The second business strategy common across most of Fortune's list of America's ten "Most Admired Companies" is the globalization of their businesses.



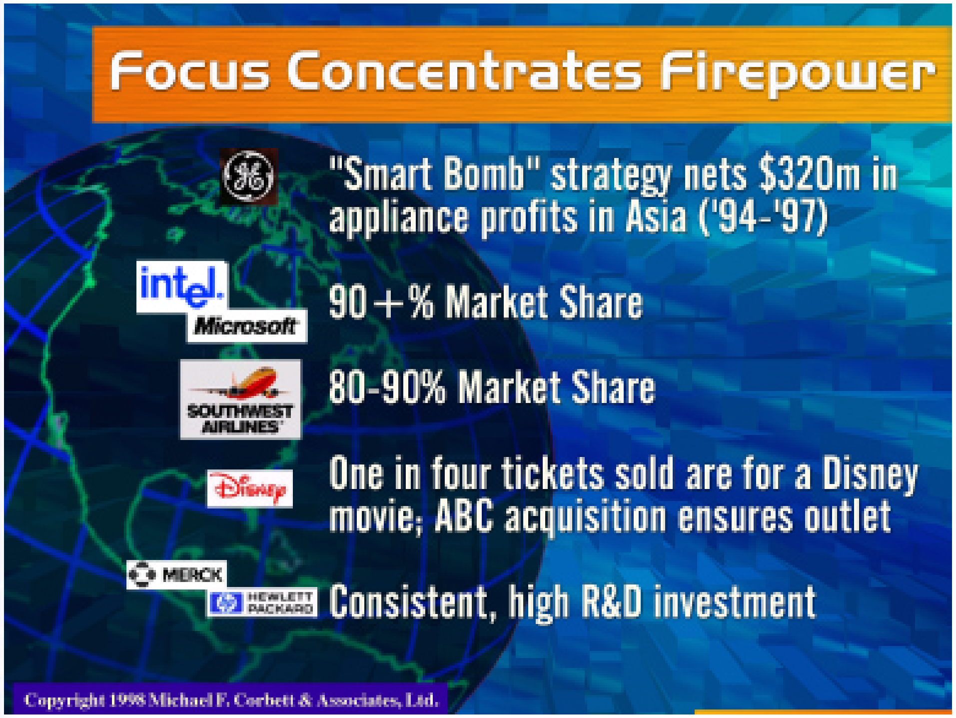
Microsoft generates one-third of its revenue from outside the U.S.; **GE** 42%; **Hewlett-Packard** 56%; **Intel** 58%; **Coca-Cola** generates two-thirds of its revenue and three-quarters of its profits from its operations outside the U.S.; **Johnson & Johnson** 48%; **Merck** is the fastest growing pharmaceutical company in Europe and its overseas sales represent 27% of its business; **Disney** generates 21% of its revenue overseas — its movies earn 50-100% more overseas than in the U.S. The only two exceptions to globalization are Berkshire Hathaway and Southwest Airlines, which are virtually exclusive U.S. operations.

The challenges of globalization are significant. As GE stated in its 1997 annual report "there will be dislocations and speed bumps along the way." Bad government policy can weaken competitiveness and lead to current fluctuations, uncertainty and turbulence. These represent significant challenges, but each of the firms is dedicated to growing their companies through growing their international markets.

Defining Strategy: Focus

Webster's defines focus as "a center of interest or activity; to concentrate, direct." This definition accurately describes the third common business strategy across America's ten "Most Admired Companies."

Focus takes a number of shapes and sizes, but in each and every case, the result of the company's focus is two-fold: first, to bring more firepower on the markets it operates in than its competition; second, to focus the organization's resources where they will produce the greatest return for shareholders. These are the essential elements of organizational focus as a business strategy.



From the beginning, **Southwest Airlines**' focus has been intense. They have focused all of their energy and resources on short-haul, low-cost, high frequency, point-to-point service between the cities the company serves. Southwest began operations in 1971 with three Boeing 737 aircraft serving three Texas cities – Dallas, Houston and San Antonio. As it grew, it stayed just as focused. This focus has enabled Southwest to be first in market share in 80 to 90% of the routes it serves. At year-end 1997, Southwest operated 261 Boeing 737 aircraft and provided service to 52 airports in 51 cities in 25 states. The company continues to operate a single type of aircraft, providing it enormous efficiencies in its operations and maintenance.

Market focus is an essential strategy at **GE** as well. GE's Appliance division CEO, David Cote, recently told Fortune, "We manage markets, not factories." The company's strategy involves examining each market's idiosyncrasies microscopically, then tailoring a mix of products, brands, manufacturing and retail approaches to wring the best performance from each. In Asia, for example, GE develops its strategy on a country-by-country, even region-by-region basis. As a result, GE's overseas appliance business made $320 million dollars from 1994 to 1997, whereas Whirlpool lost money and Maytag's results were spotty.

This focused strategy extends to all aspects of the company's operations. GE focuses on market segments where it can be number one or two and tests all investments against a lofty 20-25% rate of return. This focus on markets and return is also transforming GE from an industrial manufacturing company into a global services company. The company has the ability, using technology-based services, to make its customers' existing assets more productive, and reducing their capital outlays. This growing capability is expected to enable GE to increase product service revenues by more than 30% in 1998 alone.

According to Lew Platt, CEO, the common strategic thread across **Hewlett-Packard's** 25,000- product business is an effort to understand the company's customers more deeply than ever before and to then focus each business the company operates in on the unique conditions and markets it serves.

The focus at **Microsoft** has been clear since the company's inception – to design, develop and market software supporting PCs based on the Intel microprocessor. Over the years, the company has constantly expanded the suite of products it has in that marketplace. Today, the company's products address virtually every requirement from the basic operating system, through application suites, internetworking products (from information appliances through business-weight network servers), entertainment and games, and even supporting peripheral devices such as keyboards and gaming devices. The company's resources have been directed toward acquiring the brainpower required to fuel its growth and the resulting high return to shareholders has made Microsoft the number two U.S. company in Market Value Added, second only to GE.

Johnson & Johnson has developed its focus around therapeutic and product categories it calls “growth platforms.” The company also focuses on specific geographic markets with product families geared to the unique interests and tastes of those markets. This strategy enables the company to back each product with extensive market research and advertising and to ensure that the product is reliable and readily accessible.

The primary focus of **Coca-Cola** is on constant enhancement of its brand image and on innovative marketing, packaging and distribution of its products. The company’s marketing programs are carefully focused on the unique characteristics and evolution of its position in over 200 countries around the world. The goal, however, is simple, to link Coke and “moments of pleasure” in the minds of customers. This, in turn, leads to volume growth. At the same time, the company’s global bottler system minimizes the need to invest its shareholders’ capital as it expands its markets and market share. Where it does invest in its manufacturing and distribution network, Coke does so through equity positions in the bottlers. This equity position simultaneously consolidates and strengthens its bottler system while providing additional returns from the improved performance of the companies in which it is investing. Over 30% of Coke’s global business is now in the hands of nine key bottlers in which the company has an equity stake.

There is no question that the focus of **Disney** is family entertainment. As a result, one in every four movie tickets sold in North America is for a Disney-released movie. ESPN reaches over 70 million U.S. subscribers, making it the most widely distributed cable programming network in the world. The company’s recent acquisition of ABC does not represent a diversification; in fact, the investment was made to ensure access to the delivery channels for its product – family entertainment. Disney makes enormous, focused, ongoing investments in developing a wide-range of entertainment and then ensures a high return to its shareholders by leveraging those creative investments across multiple outlets. Movies, theme park attractions, merchandise, cable and television programming, web pages and hospitality all leverage off the same investment of creative energy and resources.

Merck & Co. focuses on development of new drugs and then demonstrating their differentiating capabilities to patients and caregivers. The reward and market dominance associated with highly successful new products create enormous revenue and shareholder value for the life of the patent. Merck's other focus is on Managed Care in the U.S. Merck is striving for preferred positions for its products and managed care formularies and for a leadership position in managed pharmaceutical plans through Merck-Medco Managed Care.

According to Andy Grove , then **Intel's** CEO, "When all is said and done, we are a manufacturer – a high-volume manufacturer." The company makes ferocious investments in manufacturing — $4.5 billion in 1997. This investment, plus planned ongoing investments, will make Intel the second largest in worldwide production capacity by 2002. On the other hand, Intel spent $2.3 billion in R&D in 1997. As a result of its focus on R&D, manufacturing and brand marketing Intel enjoys a 90% market share and was the eighth most profitable company in the world in 1996.

Defining Strategy: Management Systems

The final common element of the business strategies of America's ten most successful companies is their investment in a cohesive, repeatable management system and, most importantly, a management system that ensures consistent, predictable decision making and performance. In some cases, the cohesive, repeatable management process is clearly imbedded in the firm's leaders, who may also be the founders.

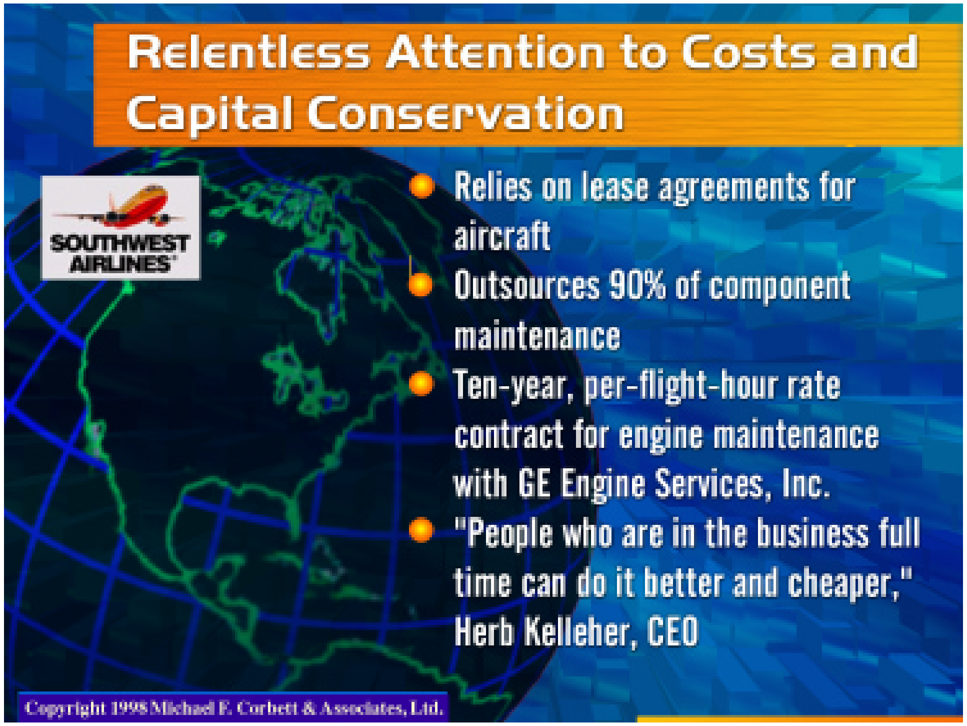
This is clearly the case at **Microsoft** (Gates), **Southwest Airlines** (Kelleher) and **Berkshire Hathaway** (Buffett). In other cases, the leaders may be just as strong, and have translated their passion into management systems that reach throughout the organization. Jack Welch has used Six Sigma at **GE** combined with a soaring ROI hurdle rate to make continuous improvement and a passion for finding better ways part of the very fabric of the company. **Johnson & Johnson's** Signature of Quality program has a similar impact at that company. **Hewlett Packard** is not only the inventor, but the top practitioner of many of the business philosophies and tactics that have led to Silicon Valley's global dominance in high-technology – pushing the envelope by giving employees the freedom to innovate and take risks.

And, what are the results? **Johnson & Johnson** has enjoyed 65 years of consecutive sales growth. Earnings per share at **Merck** have increased every year since 1988 with the exception of one (1993). Net revenue has grown consistently, on a year-to-year basis at **Intel** achieving an overall 30% compound average growth rate over the last decade. Returns at **Coca-Cola** over the past ten years are three-fold those of the S&P 500. Over the past 17 years, Jack Welch has led **GE** to earnings record after earnings record. **Southwest Airlines** has recorded 24 consecutive years of profitability and five consecutive years of record profits. Similar stellar and consistent performance can be seen across most of the remaining of the ten.

Outsourcing as a Strategy-Enabling Business Tool

Having reviewed the common strategy elements of America's ten "Most Admired Companies," as reported by Fortune Magazine, the essential question of this report is to better understand the role outsourcing plays in these firms' ability to execute their strategies.

The common characteristic is that, in fact, these companies consistently use outsourcing as a powerful tool in the execution of these strategies. This is particularly true, if one expands the definition of outsourcing to include strategic alliances, joint ventures, and other similar techniques for leveraging long-term, results-oriented outside relationships for activities traditionally performed within companies themselves.



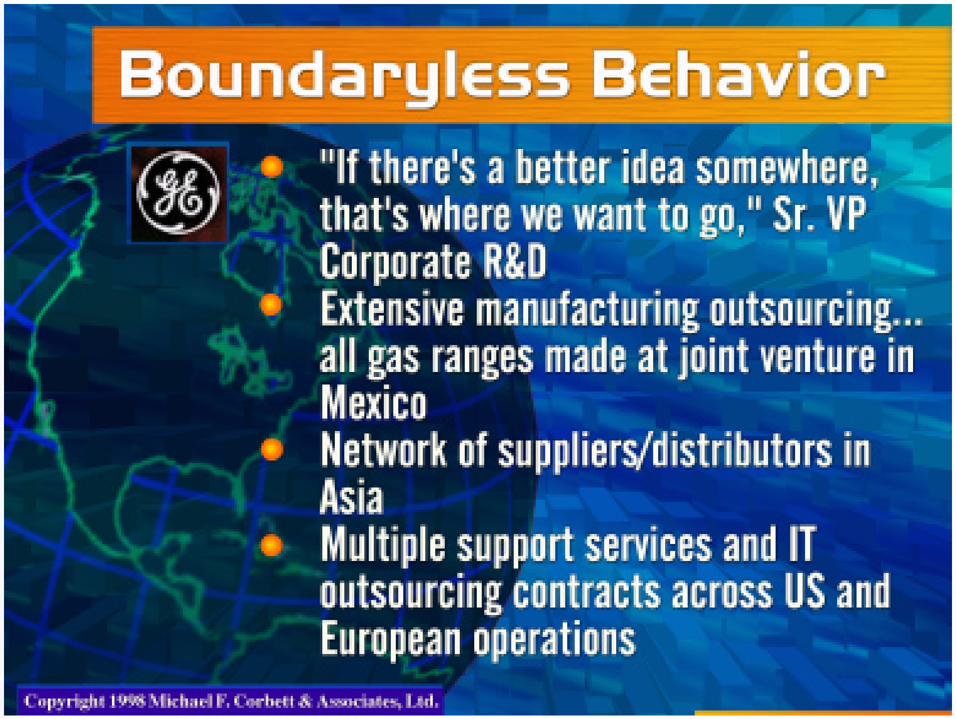
Southwest Airlines is an excellent first example. As discussed earlier, Southwest owes its success to an innovative approach to the airline business focused on short-haul, high frequency, low cost, point-to-point service. Successful execution of this strategy requires a relentless attention to costs and capital conservation. As a result, Southwest owns just a little more than half of its fleet, relying instead on leasing arrangements. This was a major departure from traditional airline operations and a move that many others have now followed. Southwest is also one of only two major airline operations (the other being FedEx) to outsource most of its maintenance. At the same time, Southwest has among the best safety records in the industry and for five straight years has been rated the top U.S. airline in on-time performance, baggage handling and customer satisfaction.

In the area of aircraft maintenance, Southwest outsources 90% of its component maintenance. Sixty percent of this is outsourced back to the original equipment manufacturer, whose rates are higher than anyone else's. But, Southwest needs reliability because it does not operate spare airplanes or engines. Overall, less than one percent of Southwest's flights were cancelled due to mechanical incidents in 1996. In August 1997, Southwest signed a groundbreaking ten-year engine maintenance contract with General Electric Engine Services, Inc., paying GE on a rate per flight hour basis for substantially all engine maintenance on the airline's 737-300 and -500 fleet. By consolidating its engine repair work and committing to a long-term, results-oriented contract, Southwest believes that it will spend substantially less for engine maintenance than it would have otherwise. Southwest reduced its capital investment in spare engines and avoided substantial additional investment in maintenance capability. The benefits are clear say Southwest's Mike Goldin, VP Purchasing and Scott Topping, Purchasing Manager, "We incented GE to ensure that on-wing performance was maximized, the longer the engine stays on the wing and performs the more money they make and the more our aircraft are in service".

Southwest approaches outsourcing as it would most every decision. "We look at every area of our business and put a business case together and ask ourselves, does it make sense for us to do this internally, there are no sacred cows", says Purchasing Manager, Scott Topping. "One of the things we ask ourselves is does this make sense within our culture, it's not just dollars and cents in every decision. How does it affect our people? Is this a high customer contact area? What are the risks?" Southwest has some clear qualities they look for in a relationship reports Topping. "I look for cultural fit, which, means are they customer driven in the truest sense, flexible, open-minded, enthusiastic, do they think outside the box". The Southwest purchasing team believes "to truly be a partner it must come from the heart". With regard to negotiation, Topping says, "I'm not going to beat you up about the cost of a pencil, I don't want anybody to lose money, making a commitment is very important to us". The airline recently signed outsourcing arrangements with Boise Cascade, Corporate Express for business forms, and Xerox. Most of these contracts, including the one with GE, are very long term.

The relationship and partnership with Boise Cascade is telling of their overall approach. Prior to their current partnership Southwest contracted for office products from Boise Cascade, almost $1.6 million dollars a year. Southwest's needs were far greater. When they creatively engaged the problem of delivering supplies to all of the cities in their network, Southwest saw an opportunity to consolidate and truly outsource the management and supply of not only office products but also industrial products and equipment. Southwest ultimately stayed with Boise Cascade, the contract is $12 million per year, and one supplier provides everything from pencils and paper to cocktail cups. "It gives us one delivery truck at our facility that always shows up on time. The resources that were required to escort the truck to the provisions area are significantly reduced, and we spend more time on our customers at those stations".

With regard to business decisions like outsourcing CEO Herb Kelleher has said, "people who are in [the] business full time can do it better and more cheaply". Southwest frequently studies the costs of both approaches, for everything they do, to make sure it continues to do things most efficiently.



Since **GE** was just mentioned in relationship to Southwest Airlines, it's only fitting to look at them next. (This report does not, in fact, focus on the simple and equally interesting reality that GE and many of the others are quickly becoming major *providers* of outsourcing services. But, much could be written about that as well!) GE focuses on being one or two in the markets it serves, achieving a very high rate of return from its investments and, what the company calls: "boundaryless behavior" – seeking the best idea from wherever it may come. This stance is the result of aggressive cultural change at GE. "It takes time, since Jack Welch took over, its been a constant effort to create a dramatic cultural change from the 1980's to now", says Randy Rowe, Manager, GE Corporate Initiatives Group.

In pursuit of “boundaryless behavior” the company has applied outsourcing to many internal operations long the purview of insiders. Human Resource activities, such as, benefits administration and pension work have been outsourced. Facilities operations, such as copy centers and foodservices, have been outsourced. GE has also outsourced areas within its information technology operations. For example, Digital Equipment Corporation (now Compaq) manages, operates and provides technical support for the company’s Aircraft Engines Division at thirteen locations around the U.S. as well as other aspects of GE’s internal technology systems. Overseas, AT&T, France Telecommunications International, Inc. and British Telecommunications PLC install and operate GE’s network switches on the carriers’ own premises. The company also taps software development firms in India and other parts of the world.

One extraordinary undertaking at General Electric is the move to electronic data interchange (EDI) communications with suppliers. The vision is “to give the person on the plant floor the ability to go directly into an extra-net, execute an order and have that order delivered electronically”. Currently, TPN Buyer Services, a web-based catalog ordering system, is in place to do just that at 20 GE Lighting Plants, with more on the way. “It improves our accuracy of information, enabling us to more effectively pay suppliers according to the negotiated terms, [thus] linking everything from ordering to fulfillment to settlement.” With outsourcing GE is seeing reduced cycle-times, better communication flow, improved accuracy, standardization within GE and across suppliers, and all at lower costs.

Outsourcing fits with GE’s Six Sigma approach and a philosophy hell-bent on simplification and speed among other things. In fact, outsourcing is all about speed and simplification, at some divisions as much as 60-70% of supplier communications are done electronically. It’s more than a technological fix as well, “as we expanded we evaluated the evolution of EDI, we looked at the option of our own value-added network, and we decided the best decision was to leverage the capabilities of an outside supplier”.

GE manages the relationship by creating a “shared need”, and “communicating the reality of what needs to be done. The General Electric Company cannot be competitive on it’s own, we rely on our supplier base. We have to work together on these things…sometimes we don’t have the right way to do it, and we rely on the supplier”. The approach is cooperative rather than adversarial.

There is still a lot of opportunity for vendor partnerships to advance the technology and processes at GE. “Suppliers are still struggling with integrating the inbound to their systems electronically, there is still some opportunity there.” The next step at GE is the realization of the corporate variety of e-commerce. A joint venture/outsourcing relationship with Thomas Publishing is underway in the information services unit for the creation and dynamic management of supplier content for the Maintenance and Repair Operations buying space [know as TPN Buyer Services]. This is an internet-based electronic catalog technology.

> The idea is that we are setting up relationships with our suppliers by utilizing an outsourcing firm to manage and host the content that can be easily interfaced with our purchasing transaction engines. The core competencies we are holding onto are identifying the products and services that we want, and the direct relationships with the suppliers. Thus, we are leveraging the things we don’t need; specifically, we don’t feel that we need to be hosting our supplier’s content inside our own firewall on our own server. We outsource that piece to this other firm. There is a commercial aspect for the supplier as well, they can take that same content and deliver it to other customers.

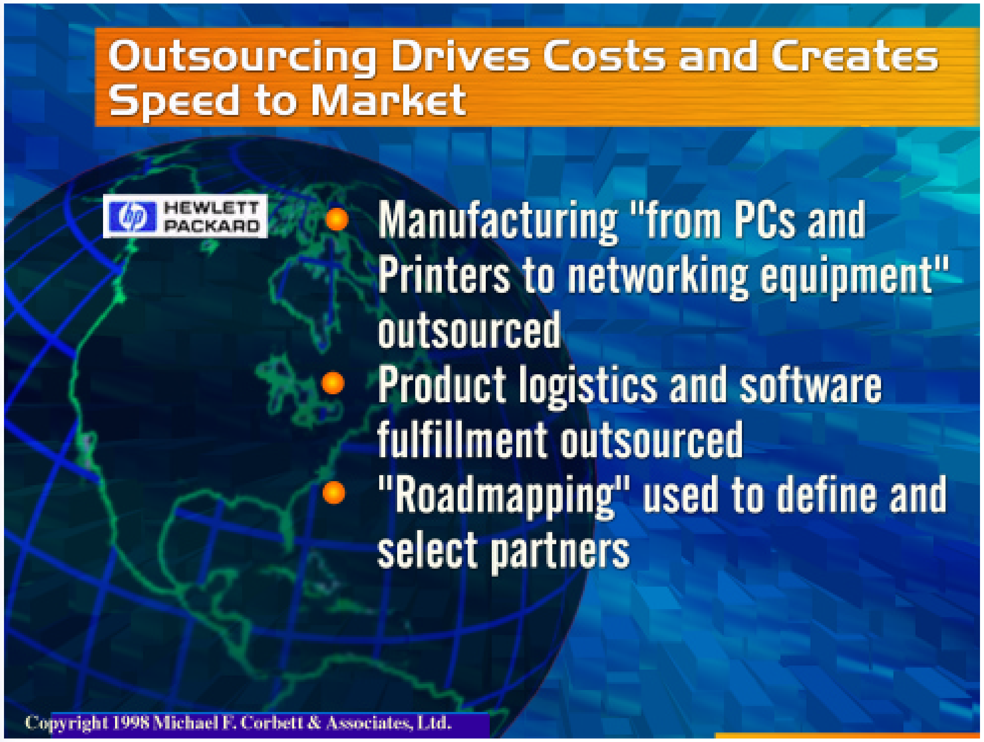
Equally interesting is how GE is using outsourcing and other types of strategic outside relationships to create value in its core business operations. Corporate R&D is increasingly approached through outside relationships. As Lonnie Edelheit, senior VP for corporate R&D at GE said in 1996, “If there’s a better idea somewhere else in the world, that’s where we want to go.” In the U.S., GE continues to restructure its manufacturing units. Plants and product lines are continually closed or sold or work is transferred to lower cost operations at other GE plants or outsourced. As an example, GE now makes all of its gas ranges at a joint venture in San Luis Potosi, Mexico with Mabe, a Mexican company. Electronic controls for most appliances are outsourced.

Most recently, outsourcing has proved to be an essential element of GE's much heralded "smart bomb" strategy for Asia and other global markets. Instead of investing in new manufacturing and distribution capacity, the company has entered into a wide array of joint ventures. In China, for example, GE has teamed with the Shanghai Group, an established distributor, to address both the distribution challenges and to help GE weave together a network of manufacturers capable of producing GE products. In Japan, GE teamed with the country's largest discount retailer and eliminated layers of intermediary partners and costs. In India and the Philippines, GE found sophisticated and financially healthy partners strong enough to supply the entire county. As can be seen, outsourcing enables GE's strategies at many levels.

Given **Intel's** focus on manufacturing, R&D and marketing, the company does little outsourcing in these areas. In support areas, however, Intel frequently relies on others. The recall of the company's Pentium processor in 1993 prompted an outsourcing relationship with USCO Distribution Services of Connecticut for both customer call handling and distribution of replacement chips. Intel has other logistics outsourcing contracts with Caliber and the Cerplex Group. In the area of in-house technology, Intel uses Entex to run its entire desktop environment. Intel uses outsourcing to surround its core competencies and to enable resources and energy to be focused on its core business.

Disney uses outsourcing as well as broader forms of outside relationships to enable its business strategies. When Disney expanded globally with Disneyland Paris, the company outsourced its computer operations in order to leverage the geographic expertise of local technology firms.

As the company's operations have grown in the U.S., outsourcing has also become an increasingly important part of how it meets the new challenges created by growth. After 23 years of internal operations, Disney closed its Food Processing Center at Disney World in Orlando, Florida in favor of outside providers. The commissary, as it was commonly known, provided foodstuffs and services to the 226 restaurants and food-and-beverage locations on Disney property. "Over the years, the commissary produced too many things and none too efficiently," observed Dieter Hannig in 1994, then director of food and beverage for Disney Resorts. Other changes include the transfer of employee cafeterias and selected facilities maintenance to outside providers. Another challenge of growth has been attracting employees. In Central Florida, for example, unemployment is as low as 3% making it increasingly difficult for Disney to get the people it needs to serve its guests. As a result, 15,000 non-Disney employees report to work every day at Disney World working for a host of outside companies drawing from labor pools around the U.S. and even around the world.



Outsourcing is an important part of how **Hewlett Packard** manufactures consistently high-quality products, markets leading edge technology, and services a broad range of customers across the world.

Outsourcing is also an important part of how the company constantly drives down costs to remain competitive in its more mature markets. "Most of the time it's more cost efficient to outsource than to build it into your business", says Jeff Coldani an executive with the Enterprise Solutions Group, which accounts for 1/3 of HP's business. "It also helps you balance your workforce better, if you are in a business that becomes cyclical, the PC part of the business is like that, you don't want to be constantly laying off employees, so if you can outsource some things it makes the balancing act easier."

HP cut the price of its Unix workstations by up to 40% in 1997 and was able to do so by reducing costs through consolidated operations and outsourcing more of the workstations' manufacturing than in the past. Overall, HP outsources the manufacturing of everything from PCs and printers to networking equipment. Probably the best example of HP's use of outsourcing to fuel its speed to market is that it has become the world's leading laser printer manufacturer using machines built around the Canon print engine. HP knew it couldn't invent a better engine cost

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effectively and would certainly introduce delays by trying. The company could, and did, create competitive advantage around marketing, price, software, interfaces and added value features.

Part of HP's use of outsourcing as a strategy-enabling tool stems from their highly decentralized corporate structure. It's a strategy that results in a number of close relationships with the supply chain. "HP is very decentralized, and there is a sense of responsibility to the local community. We have a lot of local partnerships that take place. A plant in Boise is going to do everything they can to get all the parts and services they need in the Boise area. We like to partner with companies that have local offices where we are, FedEx is a good example". Another example is Nypro, Inc., a precision plastic injection-molding firm, that built a plant near its HP customer in Corvallis, Ohio and located an HP technical development center right on its premises.

In setting up and managing its outside relationships, HP uses a technique called "roadmapping." Both organizations conduct extensive reviews to determine where the products are going, product needs, and customer needs. They then match up their views to develop a common roadmap for moving forward. "We treat them as partners, as equals, we treat them as we would like to be treated ourselves. Many of our vendors are customers also, they have our laser printers in their office, so we consider that". In the end, HP is very selective in the partners it chooses.

HP enables its business strategy through the use of outsourcing in supporting activities as well. The company has outsourced selected aspects of logistics operations, a part of the business that traditionally consumes more than 7% of the company's revenues. This includes the warehousing, fulfillment and distribution of HP's Software and Information Delivery Division products.

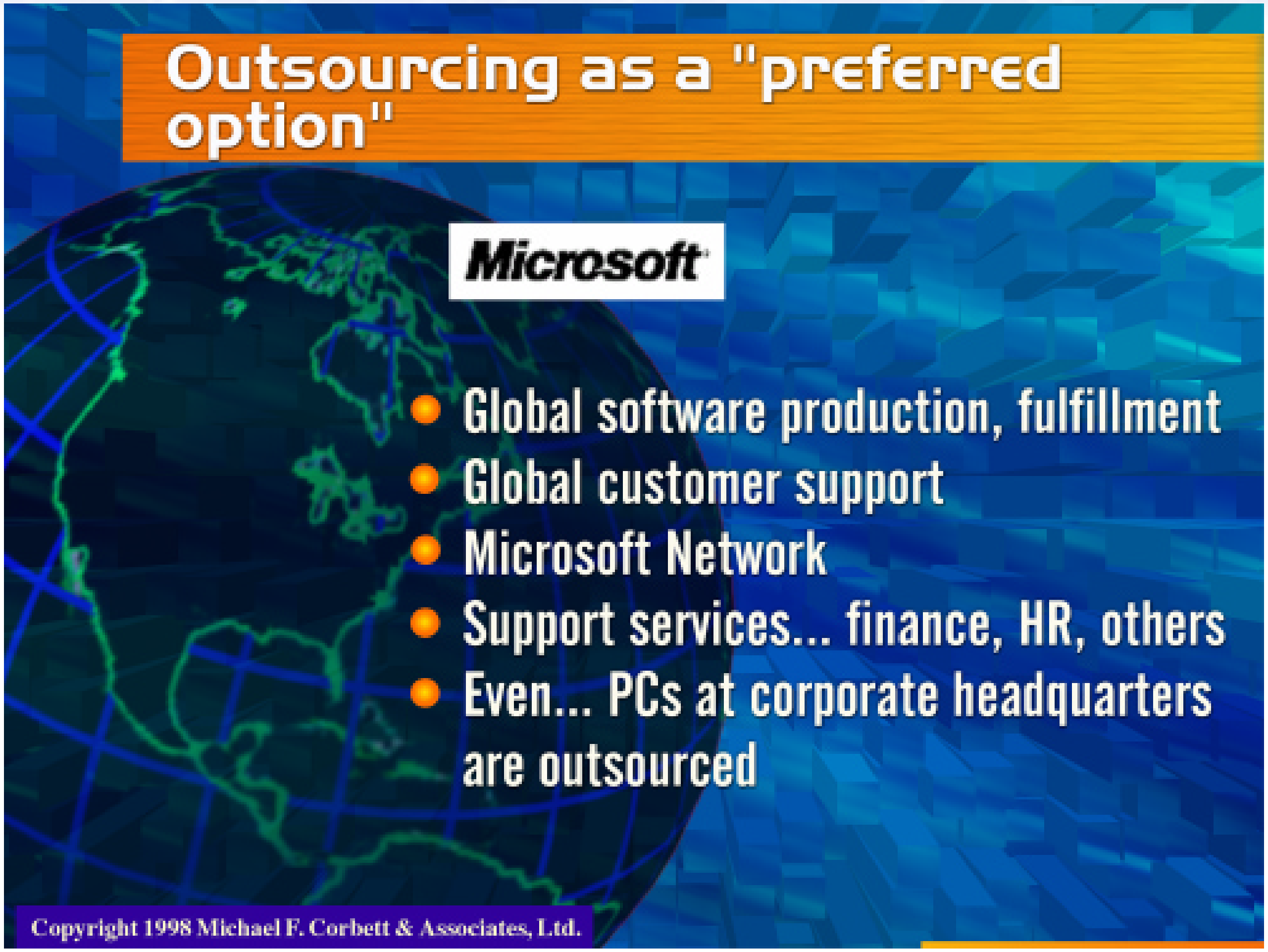
Johnson and Johnson has institutionalized a process for discovering and championing new outsourcing initiatives. Bob Smith, Manager of Strategic Sourcing, describes a 'core team' concept. The core teams identify opportunities, drive initiatives, speed the decision process, bring dedicated resources to the effort, and fine-tune the presentation to top corporate executives.

For **Johnson & Johnson**, entering into strategic relationships to accelerate the discovery and introduction of new products is key. "We are growing through partnerships of licensing and collaboration, particularly in the new product discovery area", says VP for Administration Mike Meyer. Over the past several years, the company has created up to 150 third-party licensing agreements annually and has invested more than $300 million dollars in more than 80 outside companies. Johnson & Johnson, as well as many other pharmaceutical companies, is also making increased use of third-party research organizations to speed the testing and regulatory phase of drug introductions. As with many other product companies, Johnson & Johnson gets product to market through long-term outsourcing relationships for warehousing and logistics firms and relies on others for various supporting activities such as financial collections.

The same things can be said for **Merck**'s use of outsourcing as a strategy-enabling tool. Additionally, at Merck's 1 million square-foot corporate headquarters in New Jersey the company chose to outsource all facilities operations as well as various aspects of HR benefits administration. Information technology is outsourced at its joint venture Astra Merck.

Coca-Cola's high return to its shareholders comes from its focus on brand development while outsourcing the heavy lifting – that is, bottling and distribution – to its network of bottlers. **Berkshire Hathaway**'s lead cash generator, GEICO, similarly uses a direct-to-customer approach to avoid the capital investment and costs of a traditional agent network. In both cases, outsourcing is enabling a lean operation not otherwise possible and one that many of the firms discussed are increasingly adopting in many aspects of their operations both here in the U.S. and overseas.

Finally, there's **Microsoft**. Since the company's inception, outsourcing has been the preferred option for any non-core activity where effective suppliers exist. Nick MacPhee, VP of Corporate Services, confirmed the elements of strategy discussed in this report and said, "Microsoft has viewed outsourcing as critical to the business from the beginning, we learned that from the beginning, and we're very good at it". Microsoft consistently leverages the expertise and resources of others so it can focus on its core competencies of product design, development and marketing.



Software product manufacturing, warehousing, fulfillment and distribution are outsourced. Product localization is outsourced. The Microsoft Network data center was built and managed by Digital Equipment Corporation (now Compaq). Customer sales and support are outsourced to a network of firms specializing in these areas. Most traditional, financial and human resource functions are outsourced. In fact, Microsoft has even outsourced the procurement and operation of its own PC network at its headquarters to Vanstar and Entex. Outsourcing has clearly been a tool at Microsoft, from the beginning, for enabling the firm to innovate, be fast to market, go global, and stay focused throughout its 20-plus year history.

Final Thoughts and Conclusions

There is a common thread running through America's most successful companies and their application of outsourcing. Outsourcing is proactively used by the ten leading firms to advance their existing, winning strategies. Outsourcing is used to different degrees and for different purposes, but in all the cases we reviewed its use supports grand strategy. It makes Southwest, Intel and Hewlett Packard faster and cheaper. It makes Johnson and Johnson and Merck faster and more innovative. It allows Disney, General Electric and Microsoft to globalize while remaining focused. It lets Berkshire Hathaway and Coca Cola leverage each other's capital. If there is one major point emerging, it is that outsourcing allows these firms to do what they already do well even better.

Not only have these firms blurred the upstream boundary between company and supplier, but they have also blurred the downstream boundary between company and buyer. "Boundaryless behavior" is elevated to an art at the leading companies. Companies like HP, Intel, and GE are almost as likely to sell outsourcing services as they are to buy such services. Undeniably their unique position gives these firms experience and considerable insight into negotiating and managing outsourcing arrangements. These firms are also giving new life to the idea of corporate diversification, they stand to make money at many points in the value -added chain.

Increasingly outsourcing is a part of trends toward larger, structural innovation in organizations. Strategic alliances and joint ventures with other corporations result in new entities, hybrids. In turn, the leading corporations like Merck and General Electric are buying services back from their corporate off-spring. This represents a number of opportunities for corporations. It's a way to simultaneously 1) divest your firm of non-core businesses and functions; 2) form a new, safe and reliable vehicle for corporate investment with a built-in key account at inception (the parent company); 3) assure a responsive vendor for the parent company; and 4) create a way to keep more of the company's spending within the corporation.

The leading firms consistently do two things when it comes to dealing with outsourcing vendors. General Electric, Hewlett-Packard, Southwest and others instill their own values in their vendors through training and cultural immersion, whether it means bringing in the vendor's personnel or going to their site. Southwest puts vendors through their culture training. General Electric has an on-line interactive training program called QUALITY COACH that they offer to key suppliers. It's so good GE is preparing to bring it to market. At HP, they train vendors as if they were HP personnel. A strong educational program is critical to tearing down the boundaries between company and vendor. The second common factor is a performance management process tied to the firm's quality process, whether it's called "roadmapping", "dashboards", or "balanced scorecards", it's in place. "At GE we do things because we want to make a high return on our investments, and the way we do that is by measuring and setting up expectations. So fundamental to our success is measurement of our people and our processes," says Randy Rowe of General Electric. Southwest has an employee dedicated full-time to performance management. Measuring and communicating performance through a defined program is a critical success factor for outsourcing among the leading companies.

Companies that use innovation and speed to redefine their markets and their industries do something else at the same time – they redefine themselves. When you expand into new markets – especially globally – it requires new thinking and new business approaches. When companies seek to bring more firepower on these markets than their competitors they had better understand what they are doing, why and be prepared to respond fast when the results fall short of expectations. When organizations have strong leadership, backed by strong management systems, each and every business decision gets challenged, torn apart and then put back together to achieve superior results.The underlying message may well be that the power of this strategy is that it creates a culture of constant reassessment of and discontent with the status quo. What they create is *change from within enabled by resources from outside*. This change means that the organization has to continually find new and better ways of doing business, and turn to outside suppliers for innovative solutions. Against this backdrop, outsourcing then becomes not a choice between two static options – continue to do it ourselves or hire someone else instead — but truly a way to move the organization forward. Outsourcing is truly one of the most powerful tools available for creating new competitive advantage and increased shareholder wealth.

Who Outsources What

- **Microsoft**

benefits administration
pension planning
proxy solicitation
internal audit
tax
pc-lan
procurement and support
MSN data center
product localization and translation
product manufacturing
fulfillment

distribution
value-added remarketing
direct cutomer support
direct customer sales

Who Outsources What

- **SouthWest Airlines**
  - office and industrial products supply and distribution
  - aircraft and engine maintenance
  - third party reservations and ticket-less operations
- **Merck**
  - all site service at world HQ
  - benefits administration
  - information technology at Astra Merck

Who Outsources What

- **Disney**
  - commissary and employee cafeteria
  - facilities maintenance
  - information technology at Disneyland in Paris
- **Coca-Cola**
  - worldwide network of independent bottlers
  - thrift 401(K) plan administration
- **GEICO**
  - (Berkshire Hathaway)
  - operates direct to customers, no dealer network

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Who Outsources What

- **Hewlett Packard**
  - manufacturing
  - electronics
  - assembly
  - software and information delivery
  - logistics
  - market research
  - benefits, pension
- **Johnson & Johnson**
  - logistics
  - collections

Title: Europe Makes Way for GE Capital
Author: Stanley Reed
Journal: Business Week, July 20, 1998
Abstract: General Electric Co.'s financial wing has become one of Europe's biggest nonbank finance players. It is in 21 European countries and has become a leader in fleet and aircraft leasing and in consumer finance. So far, GE Capital Europe has grown through acquisitions.

Strategically, GE Capital has taken the same course in Europe that has brought it success in the U.S. — snapping up unglamorous businesses in leasing, insurance, or consumer credit. The company puts in new management, if needed, and introduces more efficient technology and work methods.

Title: Lew Platt's Fix-it Plan for Hewlett-Packard
Author: Peter Burrows
Journal: Business Week, July 13, 1998
Abstract: Although Hewlett-Packard remains a top player in most of its markets (including PCs where it has vaulted from 27th place in 1992 to 4th place today), HP executives say that it "has become so focused on protecting its existing businesses that it has taken its eye off the critical job of creating tomorrow's new markets". For the 1997 fiscal year, the company recorded a 12% revenue growth rate, down from 22% the year before.

CEO Lewis E. Platt is focused on HP's future with a two-part fix-it plan. First he plans to cut costs and sharpen execution. Second, for the longer term, he plans to ensure growth by extending current businesses and creating brand new ones. To accomplish this Platt is giving managers more freedom to define their own goals and policies.

Title: The Return of Corporate Loyalty, ‘90s Style
Author: Aaron Bernstein
Journal: Business Week, June 22, 1998
Abstract: With labor tight, employers are starting to do more to keep workers. “The company is responsible for providing the environment in which people can achieve their full potential, and employees are responsible for developing their skills,” says Raymond V. Gilmartin, CEO of Merck & Co. “That’s the key to our ability to attract and retain talent, and it defines the new employment relationship as I see it today.”

Title: Can Merck Grow Without a Megamerger?
Author: Amy Barrett
Journal: Business Week, June 22, 1998
Abstract: Wall Street expects a big slow down in Merck’s growth rate after 2000 as a number of its drugs go off patent and lose a lot of sales to cheaper generic versions. Merck Chairman Raymond V. Gilmartin is confident that a series of new drugs coming along will help win back Wall Street. In May he struck a deal to sell Merck’s interest in a slow-growing joint venture with DuPont Co. for $2.6 billion. Another agreement should restructure Merck’s venture with Astra and it could net Merck more than $10 billion over several years.

The money Merck obtains from these deals could go toward investments in small pharmaceutical and biotech companies, a strategy that Gilmartin has been pursuing.

Title: The Wallenberg Empire: It May Never Be the Same
Authors: Stanley Reed and Ariane Sains
Journal: Business Week (international edition), June 22, 1998
Abstract: Hakan Mogren, Chief Executive of Swedish drugmaker Astra, is close to buying out Astra’s U.S. marketing joint venture with Merck & Co. for as much as $10 billion over several years. However, the venture would give Merck control of key Astra products in the U.S. and a 50% share of their sales, which totaled $2.2 billion last year. Astra shares leaped 11% on news of the Merck buyout.

Title: How Jack Welch Runs GE (Part 1)
Author: John A. Byrne
Journal: Business Week, June 8, 1998
Abstract: Chairman and Chief Executive of General Electric Co., Jack Welch, talks about "sharing best practices" and "boundaryless behavior". His Six Sigma program is the largest quality initiative ever mounted in corporate America. Balancing the short-term and the long-term is what management is. Welch set a new contemporary paradigm for the corporation that is the model for the 21st century. The company boasts the most talent-rich management bench in the world. GE has been transformed into a keenly competitive global growth engine by having more than 600 acquisitions and a forceful push abroad into newly emerging markets. Welch is atop a business empire with more than $304 billion in assets, $89.3 billion in sales, and 276,000 employees scattered in more than 100 countries around the globe. Welch does this "through sheer force of personality, coupled with an unbridled passion for winning the game of business and a keen attention to details many chieftains would simply overlook."

Title: HP and Oracle Deliver Seamless Multivendor Solutions for the New Electronic World
Author:
Journal: Hewlett-Packard, June 3, 1998, online
Abstract: Hewlett-Packard and Oracle Corp. provide customers with new levels of high availability, performance and investment protection. These efforts will be designed to enhance Hewlett-Packard's strategy to harness the utility of the Internet, which is closely aligned with Oracle's network computing strategy.

Title: HP's Position On Intel's Merced Schedule Update
Author:
Journal: Hewlett-Packard, June 1, 1998, online
Abstract: Hewlett-Packard believes that IA-64 is the platform for the future, and is committed to lead the transition to the new architecture. The HP/Intel alliance is solid; and, it continues to be a key strategy for both companies.

Title: Common Stocks: The Walt Disney Co.
Author: Richard Young
Journal: Intelligence Report, April 1998
Abstract: Half of Disney's growth over the past 10 years has come from businesses that did not exist in 1985. "One out of every four movie tickets sold in North America is for a movie released by Disney. ESPN reaches over 70 Million U.S. subscribers, making it the most widely distributed cable programming network in the U.S."

Title: Intel's Enterprise Strategy For the New Century
Author:
Journal: An Aberdeen Group Strategy Profile, April 1998, online
Abstract: "Intel's strategy is built on maintaining its current market penetration at the desktop through the midrange systems level, while opening the high-end computing market to Intel Architecture-based servers by:

1. Building high performance Intel Architecture processors for the highest performance enterprise applications.
2. Lowering the costs while improving the performance of Standard High Volume servers based on extending Intel Architecture-32 bit. (These standards allow multiple vendors to build Standard High Volume-compatible servers, increasing product choices, volume and value.)"

Title: Johnson & Johnson
Author:
Journal: The Motley Fool, March 31, 1998, online
Abstract: Johnson & Johnson is the world's largest and most diversified health care product maker, producing items ranging from a leading pain reliever to the world's number one contact lens brand. The company operates in three sectors: consumer products (with items such as toothbrushes and bandages), professional products (such as surgical instruments and joint replacements), and pharmaceuticals (including antihistamines, cancer treatment and contraceptives). The product line continues to be expanded through an aggressive R&D program. Johnson & Johnson has also shown significant company growth through its acquisitions. There were more than 30 acquisitions in the 1990s alone.

Title: The Coca-Cola Company
Author:
Journal: The Motley Fool, March 30, 1998, online
Abstract: Coca-Cola is the world's largest soft-drink company, with a 48% market share and two of the three top-selling soft drinks. It has more than 160 brands of beverages, including Minute Maid, which are sold in about 200 countries. About two-thirds of the company's sales and three-fourths of its profits come from overseas.

Title: Intel Corporation
Author:
Journal: The Motley Fool, March 28, 1998, online
Abstract: Intel is the world's # 1 maker of microprocessors, with 90% of the market. The company also makes computer flash-memory chips, microcontrollers, networking products, and video conferencing systems. Intel acquired Chips & Technology in an effort to move into the graphics chips market. They are continuing to expand and upgrade their products. Intel is expanding and currently has plants in other countries. Nearly 60% of their sales comes from outside the U.S.

Title: Microsoft Corporation
Author:
Journal: The Motley Fool, March 28, 1998, online
Abstract: Microsoft is the world's #1 independent software company. (IBM is #1 overall.) Its software includes operating systems, spreadsheets, word-processing programs, games, and reference works.

Title: Intel Helmsman Relinquishes Role
Author: The Associated Press
Journal: The Poughkeepsie Journal, March 27, 1998
Abstract: Andy Grove is relinquishing his role as CEO of Intel. Grove helped to create the world's biggest chip maker and lead Intel to $25 billion in revenues for 1997. Today the Intel chips are inside of more than 85 percent of the world's personal computers.

Title: The Coca-Cola Company
Author:
Journal: The Coca-Cola Company 1997 Annual Report, March 27, 1998
Abstract: Mission: The Coca-Cola Mission Statement is all about commitment. "We exist to create value for our share owners on a long-term basis by building a business that enhances The Coca-Cola Company's trade-marks." Some of the assets of Coca-Cola include the world's most powerful trademark, the most effective distribution system, its resources, satisfied customers, and global leadership.

Profile: The Coca-Cola Company supplies the concentrates and the beverage bases used to make its products. The company provides management assistance to help its bottlers (who provide the required capital for investments in land, buildings, machinery, equipment, trucks, bottles and cases) to ensure the profitable growth of their businesses.

Earnings: 1997 earnings for The Coca-Cola Company and subsidiaries showed powerful worldwide unit case volume gains. Also completed in 1997 was an accelerated bottler alignment. The net operating revenues for The Coca-Cola Company and subsidiaries in 1997 were $18.9 billion, which was a 1% increase over 1996 revenues of $18.7 billion.

Newsworthy: The Coca-Cola Company is actively investing in the Middle East and North Africa. Coca-Cola is also planning for the acquisition of its North/Central Italian and South Korean Bottling Assets by two anchor bottlers.

Title: Form 10-K405 for Johnson & Johnson
Author:
Journal: Form 10K, Johnson & Johnson, filed March 27, 1998, online
Abstract: Johnson & Johnson, employing approximately 90,500 people worldwide, is engaged in the manu-facture and sale of a broad range of products in the health care field in many countries of the world. Johnson & Johnson's primary interest, both historically and currently, has been in products related to health and well-be-ing. Total 1997 revenues worldwide for Johnson & Johnson were $22.6 billion.

Title: How Berkshire Creates Value
Author: Dale Wettlaufer
Journal: The Motley Fool, March 17-18, 1998, online
Abstract: Berkshire generates massive amounts of cash to buy whole companies. Three ways that Berkshire Hathaway creates shareholder value are using other people's money at no cost, indefinitely deferring tax payments on the increase in the value of the company's investments, and buying entire companies with good to excellent economics. Berkshire uses "float" that it generates. The float is the cash that insurance companies use between the time they take it in as premiums and have to pay it out as insured losses and other expenses. The insurance subsidiaries are extremely important to the value creation capabilities of Berkshire Hathaway. GEICO operates in a seemingly low-margin business, cuts out the middleman, and markets directly to their customers. This is a cost advantage over its competitors. Capital efficiency, and not margins, is the essence of the "light" business model with a high stock market valuation.

Berkshire's operating subsidiaries add significant value to the company, also. Many of the companies (such as Ginsu knives, See's Candies, the Buffalo News, FlightSafety, H.H. Brown and Dexter shoes, and Kirby) are light on capital and heavy on cash flow.

The key to Berkshire is that the company is a light business. It makes use of others' capital and generates a huge return on that capital.

Net operating profit after tax was $350 million in 1997, not counting finance subsidiaries and investments.

Title: Cash-King Portfolio Report
Author: Al Levit
Journal: The Motley Fool, March 16, 1998, online
Abstract: Coca-Cola announced recently that it will invest $160 million to build a second drinks-concentrate plant in Ireland. This new factory will supply 75 countries throughout the world.

Title: Walt Disney World Co., Strategic Sourcing
Authors: Joe Wilbanks and Whitney Taylor
Journal: Outsourcing Summit, March 12, 1998
Abstract: Walt Disney World opened on October 1, 1971 with three resorts and 5,500 cast members. Today there are 15 resorts and some 50,000 cast members. For 1997, the Walt Disney Company realized a record breaking revenue of $22 billion.

The Walt Disney Company has taken on the challenges of outsourcing, alliances, and other key strategic business opportunities to continue to lead the pack. To provide the highest quality cast, in an area that boasts 2.5-3.5% unemployment, outsourcing has become a viable strategy for performing some of the core and essential non-core functions.

Title: In Brief: IBM to Buy GE's Data Outsourcing Business
Author:
Journal: Poughkeepsie Journal, March 5, 1998
Abstract: IBM plans to buy General Electric Co.'s data center outsourcing business. IBM will take over and run GE Capital Services' mainframes and midrange-computer processing business.

Title: Bullish on Japan
Author: Brian Bremner
Journal: Business Week, March 2, 1998
Abstract: GE Capital, General Electric's financial services unit, announced a $1.2 billion joint venture with Toho Mutual Life Insurance to sell life and health coverage.

Title: GE Fact Sheet
Author:
Journal: GE Fact Sheet, February 27, 1998
Abstract: Thomas Edison founded the Edison Electric Light Company in 1878. A merger in 1892 resulted in the creation of the General Electric Company.

Today, GE is a diversified technology, manufacturing and services company with a commitment to achieving worldwide leadership in each of its businesses. GE operates in more than 100 countries around the world, including 250 manufacturing plants in 26 different nations.

If ranked independently, eight of GE's businesses would be on the ***Fortune*** 500.

General Electric had 1997 revenues of $90.84 billion. Their R&D expenditures for 1997 were $1.9 billion.

Title: Compaq's Power Play
Authors: Gary McWilliams, Ira Sager, Paul C. Judge, and Peter Burrows
Journal: Business Week, February 9, 1998
Abstract: Compaq merges with Digital to create a new computer giant with approximately $37.5 billion in revenues. Compaq is the biggest seller of Windows software and Intel chips in its PCs. Microsoft Windows software runs on 87% of desktop machines and Intel's microprocessors have approximately 89% of the world's $21 billion computer processor market. Microsoft spends a hefty 17% of sales on research and development, Intel spends 9.4%, and Compaq invests only 3.3%.

Title: Microsoft Corporation
Author: Al Levit
Journal: The Motley Fool, January 29, 1998, online
Abstract: According to Hoover's Online, Microsoft is the #1 independent software company in the world. Microsoft licenses the operating systems that are used by about 90% of all personal computers. Other than operating systems, Microsoft offers business productivity programs, an Internet Explorer, and other options for companies establishing Intranets.

Microsoft 1997 revenues were $11.4 billion.

Title: Forecast 1998
Author:
Journal: Money/Forecast 1998
Abstract: Coca-Cola is in the beverage industry. They make Classic Coke, Diet Coke and Cherry Coke. It also makes Fanta, the world's number three soft drink and Minute Maid, the leading juice brand in the U.S.

Disney movies earn 50% to 100% more internationally than in the U.S. and the gap is growing as more multiplexes open overseas. In 1997 Disney continued to consolidate after the $20 billion acquisition of Capital Cities/ABC in February 1996.

General Electric it the largest publicly traded company in the world. It ranks first or second in all dozen of its divisions, from aircraft engines to broadcasting (NBC) to light bulbs. In 1997 GE Capital, its consumer-finance unit grew even faster than the rest of the company and now accounts for 38% of net income.

Hewlett-Packard makes computers and peripheral devices. It has the broadest product line among large-cap technology companies, including PCs, printers, servers, workstations and electronic testing devices. In 1997 Hewlett-Packard acquired VeriFone, an electronic-payment software company, as part of a strategy to sell more products over the Internet.

Intel Has a 90% share of the market for microprocessors. 1997 revenues were $25.2 billion. In 1997, Intel introduced the Pentium II which doubled the speed of the Pentium processor. They also launched the StrataFlash chip, which doubled the storage capacity of memory chips.

Johnson & Johnson makes health-care products. They are best known for consumer products like Band-Aids, but their fast growing pharmaceutical business generates 58% of the profits. In 1997 they acquired Biopsys Medical, maker of diagnostic products, and Gynecare, maker of women's health products.

Merck is a pharmaceutical company. It is the nation's largest and the world's third largest drug-maker. Merck has contracts with managed-care organizations that cover prescription drugs for 135 million members.

Microsoft is a computer software company which has its operating systems running 90% of the personal computers. Last year Microsoft spent $2.2 billion on R&D.

Title: Merck & Co., Inc.
Author:
Journal: Merck & Co., Inc. 1997 Annual Report
Abstract: "Merck is a global research-driven pharmaceutical company that discovers, develops, manufactures and markets a broad range of human and animal health products, directly and through its joint ventures, and provides pharmaceutical benefit services through Merck-Medco Managed Care."

The two most important elements of Merck's "Strategy for Growth" are: "Discover important new medicines through breakthrough research and, secondly, demonstrate the value of our medicines to patients, payers and providers." Merck's overriding financial goal is to "remain a top-tier growth company by performing in the top quartile of leading health care companies". The three operating priorities of Merck are: "Maximize revenue growth through an unwavering commitment to research, effective introduction of new products and successful marketing of existing products. Secondly, achieve the full potential of managed pharmaceutical care. Thirdly, preserve the profitability of the core pharmaceutical business through continuous improvements in productivity and organizational effectiveness." Within the Business Units' "Strategy for Growth", Merck utilizes joint ventures with Astra, Chugai, DuPont, Johnson & Johnson, Pasteur Merieux and Merial to leverage the unique strengths and talents of its partners and to expand access to new products and markets. These strategic alliances are contributing to Merck's overall growth. Another growing area is Merck-Medco Managed Care which manages prescription drug care to its members. The number of people covered by these plans increased to over 51 million in 1997, with 291 million prescriptions managed on behalf of their clients. Among their clients are: Blue Cross/Blue Shield, Hercules, Burlington Industries, TRW, Owens Corning, American Airlines, NeighborCare, Medical Mutual of Ohio, the Public Employees Health Plan of Utah, and the U.S. Department of Defense.

In the area of research, Merck is "accelerating the pace of innovation through external collaborations and licensing agreements in product discovery and new technology".

Merck & Co., Inc. realized $23.6 billion in sales for 1997, up from $19.8 billion in 1996.

Title: General Electric Company
Author:
Journal: General Electric Company 1997 Annual Report
Abstract: General Electric has a wide diversity of divisions, including aircraft engines, appliances, capital services, lighting, medical systems, the National Broadcasting Company, Inc. (NBC), plastics, power systems, electrical distribution and control, industrial control systems, information systems, and transportation systems.

General Electric Company and consolidated affiliates had revenues in 1997 of $90.8 billion. Global (non-U.S.) revenues rose to $38.5 billion, now 42% of total revenues.

GE is today a "global service company", and in 1998 more than two-thirds of its revenues will come from financial, information and product services.

GE is currently implementing "Six Sigma", a disciplined methodology to achieve near-perfect quality. Five basic activities make up Six Sigma: Defining, Measuring, Analyzing, Improving and then Controlling processes. These projects focus on improving their customers' productivity and reducing their capital outlays, while increasing the quality, speed and efficiency of GE's operations. At GE today "finding the better way, the best idea, from whomever will share it with us, has become our central focus". Six Sigma delivered more than $300 million to 1997 operating income, and is expected to double in 1998.

The Aircraft Engines division has multiyear service contracts with Federal Express, Southwest Airlines, UPS and U.S. Airways.

GE Capital Services has "a three-pronged strategic focus: continued globalization of our revenue stream, dedication to providing value-added services and a commitment to Six Sigma quality that is unequaled in the financial services world". GE Capital Services is involved in the areas of: Equipment Management, Specialty Insurance, Consumer Services, Specialized Financing, and Mid-Market Financing.

GE's Lighting division has a sourcing organization that continues to capitalize on their worldwide presence to attain the best products, price and service available.

The Information Services division secured a number of important new electronic data interchange (EDI) customers in 1997, including Kmart, the Association of American Railroads and Chrysler Corporation. They also increased global alliances during 1997 continuing to build the world's largest electronic trading community.

Title: Hewlett-Packard
Author:
Journal: Hewlett Packard 1997 Annual Report
Abstract: The Hewlett-Packard Company designs, manufactures and services products and systems for measurement, computation and communications. Their basic business purpose is to create information products that accelerate the advancement of knowledge and improve the effectiveness of people and organizations. HP products and services are used in industry, business, engineering, science, medicine and education in more than 120 countries.

Hewlett-Packard is one of the world's largest computer companies. More than 55 percent of its business is generated outside the U.S., mostly in Europe.

Hewlett-Packard's net revenue for 1997 was $42.9 billion, an increase of 12% over last year's net revenue of $38.4 billion. Hewlett-Packard's continued growth is based on a strong commitment to research and development. Each year the company invests about 7% of its net revenue in R&D (about $2.7 billion in 1996).

Title: Berkshire Hathaway Inc.
Author:
Journal: Berkshire Hathaway Inc. 1997 Annual Report

Abstract: Berkshire Hathaway Inc. is a holding company owning subsidiaries engaged in a number of diverse business activities. The most important of these is the insurance business conducted through a number of subsidiaries. GEICO Corporation, one of these subsidiaries, is the seventh largest auto insurer in the United States. An intrinsic part of the insurance business, “float” is money that is held by Berkshire Hathaway, but not owned by them. Float arises because premiums are received before losses are paid.

Investments at the end of 1997 included approximately 10.5% of American Express, 8% of Coca-Cola, 9.5% of “Freddie Mac”, 8.5% of The Gillette Company, 16.5% of The Washington Post Company, and 8% of Wells Fargo & Company.

Berkshire Hathaway Inc. publishes the Buffalo News. Non-insurance subsidiaries include FlightSafety International, Dexter Shoes, H.H. Brown Shoe Company, Lowell Shoe, Inc., Kirby, Borsheim’s and Helzberg’s Diamond Shops, Nebraska Furniture Mart, R.C. Willey Home Furnishings, Star Furniture Company, See’s Candies, and Dairy Queen.

Berkshire Hathaway’s acquisition criteria are for simple, sensibly-priced businesses with good returns on equity and low debt.

Berkshire Hathaway’s 1997 total revenues were $10.4 billion.

Title: The Coca-Cola Company
Author:
Journal: The Coca-Cola Company 1997 Annual Report
Abstract: Sales of Coca-Cola and other company products have exceeded 1 billion servings per day. And, the Coca-Cola Company intends to continue their strategic effort to produce profitable volume growth for their exceptional stable of brands. The company's concentrate business generates substantial cash but consumes relatively little, because their capital is largely in place. That fact along with their strategic use of debt, provides them with exceptional financial resources to continue strengthening their business.

Total Coca-Cola revenues for 1997 were $18.9 billion.

Title: Microsoft
Author:
Journal: Microsoft 1997 Annual Report
Abstract: Microsoft's top priority in fiscal 1998 is simplicity: reducing the total cost of ownership and reducing complexity. In fiscal 1998 Microsoft expects to spend nearly $2.6 billion on research and development.

Microsoft's revenue grew 46% in the fiscal year ending June 30, 1996 to $8.7 billion and 31% in fiscal 1997. Microsoft 1997 revenues were $11.4 billion. Approximately one-third of the revenues came from European and other international operations.

Title: The Walt Disney Company
Author:
Journal: The Walt Disney Company 1997 Annual Report
Abstract: Ever since Walt and Roy Disney began the Disney Brothers Cartoon Studio in 1922, financial success for the company has always resulted from following the muse of originality and the taskmaster of quality. According to Chairman and CEO Michael Eisner, there have been three phases in Disney's history. Phase One covered the Disney company from its founding until 1983 when a number of non-Disney labels were intro-

duced. Phase Two began in 1983 and lasted until the purchase of Cap Cities/ABC (including ESPN) in 1995. Part of the Disney legacy is innovation. A big emphasis in Phase Two and even bigger in Phase Three is to become innovators once again.

Disney Revenues for 1997 were $22.5 billion, which represented a 20% increase from fiscal year 1996. Disney Attractions division increased its revenues by 11%, achieving record revenues of $5 billion. ESPN contributed to Broadcasting's total of $6.5 revenues.

Title: The Walt Disney Company
Author:
Journal: The Walt Disney Company 1997 Fact Book
Abstract: Disney's overriding objective is to create shareholder value by continuing to be the world's premier entertainment company from a creative, strategic, and financial standpoint. The company strives to build upon the integrity of the Disney name, while preserving and fostering the fundamental values of quality, imagination and guest service.

Title: Johnson & Johnson
Author:
Journal: Johnson & Johnson 1997 Annual Report
Abstract: Johnson & Johnson employs 90,500 employees worldwide and is engaged in the manufacture and sale of a broad range of products in the health care field in virtually all countries of the world.

Revenues for Johnson & Johnson in 1997 were $22.6 billion, an increase of 4.7% over 1996.

"Growth through innovation remains our single most important objective." The innovative thinking should reach all the people, across all the functions — not just in research and product development. That's how you build shareowner value.

Title: Intel's 1997 Revenue and Earnings Set New Records
Author:
Journal: Intel News Release, 1997
Abstract: Intel's 1997 revenues were up 20% to $25.1 billion. 1997 was the eighth consecutive year of both record revenue and earnings for Intel. R&D spending is expected to be approximately $2.8 billion for 1998, up from $2.3 billion in 1997.

Title: Southwest Airlines Co.
Author:
Journal: Southwest Airlines Co., 10-K, December 31, 1997
Abstract: Southwest Airlines Co. is a major domestic airline that provides primarily shorthaul, high frequency, point-to-point, low fare service. At yearend 1997 Southwest Airlines operated 261 Boeing 737 aircraft and provided service to 52 airports in 51 cities in 25 states throughout the United States. Operating revenues for 1997 were $3.8 billion.

Title: The Best International Growth Stocks
Authors: Peggy Edersheim Kalb and Scott Kalb
Journal: Fortune, December 29, 1997
Abstract: Seven top international growth stocks were recommended. Among them was Panamco. It is the largest soft drink bottler in Latin America, and the third-largest "anchor bottler" for Coca-Cola in the world.

Title: Intel — Can Andy Grove Keep Profits Up in an Era of Cheap PCs?
Authors: Andy Reinhardt, Ira Sager and Peter Burrows
Journal: Business Week, December 22, 1997
Abstract: Intel is just beginning to create processors specifically designed for the low-cost, basic PCs.

Intel has 90% of the market share in PC processors, and their sales have grown 30% - 50% annually for the past four years. In 1996 Intel became the eighth most profitable company with sales of $20.8 billion and earnings of $5.2 billion. Intel spent approximately $4.5 billion in 1997 on new chip manufacturing plants, and forecasts that capital expenditures will climb to $5.3 billion in 1998.

Title: Jack Cracks the Whip Again
Authors: Aaron Bernstein, Susan Jackson, and John Byrne
Journal: Business Week, December 15, 1997
Abstract: General Electric Co. CEO, Jack Welch, prepared to restructure to put GE's industrial businesses in better shape to withstand global competition after the chairman retires in 2000. "Plants and product lines may be closed or sold, wages cut, and work transferred to nonunion plants and subcontractors both here and abroad."

Title: Asia's Challenge (int'l edition)
Authors: Pete Engardio, Jonathan Moore, and Michael Shari
Journal: Business Week, December 1, 1997
Abstract: In order for Asia to rebound from the crisis, a new, more focused breed of company must lead the way. Among the first signs of a strategic shift is the Coca-Cola Company taking over South Korea's biggest Coke bottling operation from the Doosan Group for $430 million on Nov. 10, 1997.

Title: Sign of the Times: Help Wanted
Author: Gail DeGeorge
Journal: Business Week, November 10, 1997
Abstract: In central Florida (the Orlando area - home to Disney World, etc.), the local unemployment rate is less than 3%, making it difficult to fill positions. Human resources staff for local companies must reach to other

geographic regions to fill openings in such a tight labor market. There are 3,300 more spots to be filled in this area over the next six months as Disney World and Universal Studios open new attractions. With companies downsizing, and more aggressive use of outsourced and temporary labor, more employers are throwing enticements at prospective workers.

Title: Jack Welch's Secret Weapon
Author: John Curran
Journal: Fortune, November 10, 1997
Abstract: GE Capital is the world's biggest equipment lessor, leasing airplanes, railcars, cars, trucks and satellites. In the past two years, GE Capital has moved aggressively into computer services and life insurance, and invested billions of dollars overseas.

The Middle-Market Financing makes up 11% of GE Capital. Vendor Financial Services is part of that division. The Vendor Financial Services capitalizes on the outsourcing trend by taking over the product financing for companies like Northern Telecom.

Title: Silicon Valley on the Rhine
Authors: Gail Edmondson, Stephen Baker, and Amy Cortese
Journal: Business Week, November 3, 1997
Abstract: SAP, based in the German town of Walldorf, soared to global dominance with its software for managing vital business operations. SAP's R/3 runs the back offices of nearly half of the world's 500 largest companies. It schedules the manufacture of washing machines at General Electric Co. and ships soda pop on time at Coca-Cola Co. Companies such as Microsoft Corp. and Intel Corp. are not just SAP customers, they are its closest allies. SAP programmers collaborate on software development with Microsoft. Intel and SAP have formed Pandesic, an electronic-commerce joint venture.

Title: Disney Site Revamp Part of Larger Web Strategy
Author: Steven Vonder Haar
Journal: The ZDNet News Channel, November 3, 1997, online
Abstract: The Walt Disney Co. this week announced plans to revamp the Disney.com site, including a broader overhaul in the company's strategy for distributing entertainment-oriented content online. The overhaul is the first phase of a two-part strategy for expanding the company's online presence. The Disney Daily Blast entertainment service is also being expanded. Marketing the expanded Disney Daily Blast will begin next year through partnerships with Internet service providers (ISPs).

Title: US Airways: Not Much Room to Maneuver
Authors: Dean Foust and Wendy Zellner
Journal: Business Week, October 13, 1997
Abstract: Southwest Airlines, which provides a point-to-point service, is a low cost carrier. Its operating costs are the lowest, and its operating margin is the highest of the major U.S. airlines.

Title: Suppliers Are From Saturn, Customers Are From Jupiter
Author: Karen A. Edelman
Journal: Across the Board, October 1997
Abstract: After studying long-term customer-supplier partnerships, several findings were noted. The best companies were much more likely to collaborate with suppliers in the development of products; they usually had a supplier on site for R&D collaboration; they had suppliers share in the strategic and product planning; and they had suppliers give input on product plans.

Hewlett-Packard uses a technique called "roadmapping" in which both sides conduct extensive technical reviews to determine product needs, customer needs, and where the products are going. They are able to adjust their combined strategy to meet market demands. Another key to HP's success in maintaining long-term customer-supplier ties is the company's accountability and expertise. Lastly, HP is very selective about doing business only with established firms.

Title: Disney Corporate Level Strategy
Author:
Journal: Walt Disney Corp., Fall 1997, online
Abstract: "The continued financial success of the Walt Disney Company can partially attributed to the implementation of the company's strategic objective: to sustain Disney as the world's premier entertainment company; to protect and build upon the Disney name and franchise; and to preserve and foster quality, imagination and guest service. Disney achieves this objective through the corporate level strategies of diversification and strategic alliance." Disney has made strategic alliances with companies, such as McDonald's, to promote new movie releases. Another strategy of strategic alliance was exhibited by the ABC acquisition.

Title: Sara Lee's Plan to Contract Out Work Underscores Trend Among U.S. Firms
Authors: Robert L. Rose and Carl Quintanilla
Journal: Wall Street Journal, September 11, 1997
Abstract: The Sara Lee Corporation plans to sell factories and concentrate on managing its many brands to try to get more profit out of fewer assets. Other companies, such as Coca-Cola Co., have chosen to avoid manufacturing altogether.

Title: Pandesic Pursues I-commerce Service on Web
Author: Matthew Nelson
Journal: Infoworld, September 8, 1997
Abstract: U.S. companies outsourcing Internet-commerce services are expected to increase from 2.3 percent to 21.3 percent in the next three years. Pandesic will provide its I-commerce solution through partnerships with Hewlett-Packard, Compaq, CyberCash, USWeb, Yahoo, and others.

Title: IT Outsourcing Takes Hold
Author: Danna K. Henderson
Journal: Air Transport World, September 1997
Abstract: Southwest Airlines will shift their reservations system to an in-house system developed in partnership with Hewlett-Packard.

Title: GE Investor Fact Sheet
Author:
Journal: GE Investor Fact Sheet, August 12, 1997
Abstract: GE is one of the world's largest and most successful diversified companies. GE operates in over 100 countries around the world. Virtually all of GE's businesses hold number one or two positions in their markets.

GE assesses its growth opportunities and continually renews its internal processes. GE rewarded shareholders with consistent double-digit EPS growth and an average 15-year total return of 23 percent. "By challenging itself to set new benchmarks for quality, globalization and service in all its diverse operations, GE plans to keep its financial performance growing at double-digit rates in the years ahead.

In 1996 revenues rose to a record $79.2 billion, up 13 %. The total return to shareowners was 40 %. More than 40 % of GE's revenues are derived from non-U.S. markets.

Title: Tasmania Has a Devil of a Hiring Problem
Author: Thomas Hoffman
Journal: Computerworld, July 28, 1997
Abstract: The IS labor crunch in Tasmania led Trust Bank to off-load its information systems operations to Hewlett-Packard Co. under a five-year, $16.5 million outsourcing deal late last year.

Title: GE's "Smart Bomb" Strategy
Author: Linda Grant
Journal: Fortune, July 21, 1997
Abstract: General Electric Co. has launched a successful marketing strategy in Asia called the "Smart Bomb" strategy. GE only targets those markets in Asia where they can earn more than 20% on their investment. This strategy involves examining "each country's idiosyncrasies microscopically, then tailor a mix of products, brands, manufacturing facilities, marketing, and retail approaches to wring the best performance from each."

After much searching for one manufacturing factory for all of Asia, it was decided that GE would take it country by country, region by region. GE Appliances CEO David Cote realized the need to select a local partner with similar objectives and the desire to maximize profits. So, for their first step, GE formed a joint venture with distributor Shanghai Communication & Electrical Appliances Commercial Group. Over three years of smart bombing in Asia has yielded GE joint ventures with Japan's Kojima, a big discount retailer; India's Godrej, the top Indian maker of refrigerators and laundry products; and Manila's Philacor, No. 2 in Philippine appliance sales.

The GE Appliance division has been profitable since its first week of operations there in January of 1994. GE's overseas appliance business has made $320 million over the last three years.

Title: Outsourcing Becomes Strategic
Author: Deborah Asbrand
Journal: Datamation, July 1997
Abstract: Many of the top outsourcing vendors have been enjoying double-digit revenue increases. Hewlett-Packard was among the big winners with a $3.2 billion jump (an increase of 51%) over 1995.

Title: Killer Strategies That Make Shareholders Rich
Author: Gary Hamel
Journal: Fortune, June 23, 1997
Abstract: CEO Phil Knight attributes Nike's success to a strategy of continuous reinvention. According to Knight, "We're constantly reviewing how the world has changed and how we're reacting to it." Even companies like Coca-Cola and GE are subtly making changes. "Coke has dramatically reconfigured its global operation to give the company substantially more distribution and marketing oomph. Over 30% of Coke's global business is now in the hands of nine key bottlers in which the company has an equity stake."

We are living in a world where "digitalization, deregulation, and globalization are profoundly reshaping the industrial landscape". New economic life forms are emerging, such as: virtual organizations, global consortia, and Net-based commerce. "Unless today's established corporations learn to reinvent themselves and their industries, much of the new wealth will be created by newcomers."

Seventeen "stars" topped the FORTUNE 1,000 in shareholder return. Among the top companies growing in sales were Intel and Microsoft.

Intel kept ahead by constantly improving the chip design. CEO Andy Grove created the "Intel Inside" campaign, proving that a part of a product can be branded. Intel's total return to investors from 1986 - 1996 had an annual rate of 33.1%.

Microsoft had established itself as the king of the PC software world. Microsoft's total return to investors for 1986 showed a 51% annual rate, while the revenue growth for 1986 - 1996 had an annual rate of 46.8%

Title: The Ins & Outs of Outsourcing
Author: Sandy Schwalb
Journal: Database, June/July 1997
Abstract: For information professionals, the way of doing business is changing and evolving. In 1995 General Electric outsourced its information services. Management simply felt that someone else can do a job cheaper and better.

Title: AAR — A Smoother Flight
Author: Harlan S. Byrne
Journal: Barron's, May 5, 1997
Abstract: AAR is heading for substantial earnings growth due partly to the growing trend toward the outsourcing of maintenance by civilian carriers and the U.S. military. AAR has a 10-year contract with General Electric's Aircraft Engines unit. GE has taken over British Airways' engine repair and maintenance operations in the United Kingdom. AAR is providing a customized inventory-management service, including supply and repair of parts and components for engine maintenance. AAR has similar long-term deals with GE in Brazil.

Title: GE Venture Developing ‘net Purchasing System
Author: Mitch Wagner
Journal: Computerworld, April 21, 1997
Abstract: A General Electric Co. spin-off (TPN Register in Bethesda, Maryland) decided to outsource Internet-based service designed to help Fortune 1,000 companies manage their supply chains.

Title: Outsourcing: The U.S. Business Revolution, Spring 1997
Author: Michael F. Corbett
Journal:
Abstract: Exel Logistics, a $3 billion international logistics and moving services company provides support to Johnson & Johnson. Exel Logistics services include: packaging, EDI, bar-coding, dedicated transportation, consulting, real estate, returns, light assembly, labeling, billing, brokerage, inventory control, reporting, local trucking, order entry, pooling, pick and pack, break bulk, storage, shrink wrapping, customized store displays, and import/export. Johnson & Johnson also uses Ashton-Hunter which specializes in collections outsourcing. Ashton-Hunter provides services for on-site collections and customer retention programs.

Merck, Inc., is a $17 billion pharmaceutical firm which outsources mailroom operations at its world headquarters in New Jersey to Pitney Bowes Management Services. The Pitney Bowes contract is just one of 15 outsourcing contracts covering every aspect of site services at this 1 million-square-foot facility. Merck also contracts with Ceridian Employer Services, which is part of the Information Services segment of the Ceridian Corporation. It provides a wide range of services to assist customers with managing the data integral to their human resources processes.

General Electric Company’s Aircraft Engines division selected Digital Equipment Corporation to take over management, operations, administration and technical support of the division’s distributed departmental computer systems at thirteen locations across the United States. These were not just computers bought from Digital Equipment, they included systems from multiple vendors, peripherals, like printers and disks, and software. Food services is another area that General Electric outsources, as well as copy centers and mail services. In the mid-1980s, GE was one of the first companies to explore outsourcing at its R&D facility in Schenectady, New York with GE mail services being outsourced to Archer Management Services (AMS). Copy centers are also outsourced to AMS. Food services are outsourced to ARAMARK. GE's main reasons for outsourcing were to reduce operating costs and improve employee morale.

Hewlett-Packard Company is an international manufacturer of measurement and computation products and systems. The company's Systems Management Service represents a selective approach to outsourcing designed to complement the client's internal resources. Some of its major clients are Levi Strauss, J.P. Morgan, and NatWest Markets. Hewlett-Packard, a specialist in selective outsourcing solutions for distributed, client/server environments, was chosen by NatWest Markets, part of the National Westminster Bank Group, to implement and operate the expansion of its wide area network linking distributed computer equipment from multiple vendors. Hewlett-Packard, a specialist in selective outsourcing solutions for distributed, client/server environments, was chosen by the bank to implement and operate the system.

The Cerplex Group, Inc. provides technical services for manufacturers and third-party maintainers in a variety of industries, including computer and peripherals, process controls, telecommunications, aviation, automotive and medical equipment. Intel is one of their major clients.

Caliber Logistics designs and manages integrated distribution systems. It services customers in industrial manufacturing, energy services, telecommunications, consumer products, high technology and automotive industries. Both Microsoft and Intel are major clients of Caliber Logistics.

Berlitz Translation Services provides technical document translation, software/multi-media localization, software engineering and testing, desktop publishing and graphic services, interpretation services, audio-video services, and translatability and localization services. Microsoft is a major client of Berlitz.

Logistix is an integrated supply-chain management company specializing in the software industry. Hewlett-Packard and Microsoft are among its major clients.

Microsoft is a client of Digital Equipment Corporation. Digital's global outsourcing solutions include: client-server outsourcing (design, implementation, operation, support), Internet web management, and business recovery services. Microsoft is also a client of Entex Information Services. Entex provides day-to-day management of PC procurement, installation, network hookup, help desk support, moves, adds, changes, and disposal. Software Support, Inc. provides Internet support, electronic support, corporate end user and help desk support, complete OEM call center support and network support for Microsoft. Microsoft also uses Vanstar Corporation, which builds and manages networks.

Title: Beyond Outsourcing: Managing IT Resources as a Value Center
Author: N. Venkatraman
Journal: Sloan Management Review/Spring 1997
Abstract: When outsourcing, there must be an effective strategy framework recognizing interdependent sources of value from IT resources and a specific approach for managing each source. One source is IT's role in the business processes and within that, the IT organization's degree of service center orientation. At Astra-Merck, "IT people... live and work in the process areas that make up the business. They are not isolated in a support department." The investment center is another component of the value center. Merck and Johnson & Johnson have IS R&D organizations with a focus on "looking at technologies that are ripe for development." As Wayne P. Yetter, CEO of Astra-Merck, observed, "We do not consider technology investments in isolation. We look at capabilities, such as developing drugs faster or providing customers with service they can shape themselves. If technology is necessary to make a capability work, then technology investments are part of the package."

The strategy behind outsourcing is to balance the required skills and competencies from internal and external sources. Outsourcers bring in their expertise, freeing up valuable internal resources for higher value-added activities. Owens Corning contracted with Hewlett-Packard to manage its legacy systems so that it could concentrate its internal efforts on rapidly implementing its chosen SAP R/3 enterprise software and creating a new operating platform for growth.

Title: The Coca-Cola Company
Author:
Journal: Financial Topics for The Coca-Cola Company, April 1997
Abstract: The Coca-Cola Company is the world's largest producer and distributor of soft drink syrups and concentrates. Company products are sold through bottlers and fountain wholesalers and distributors in nearly 200 countries around the globe. In 1996, company products represented about 48% of the total soft drink unit case volume consumed worldwide.

Management's primary objective is to increase shareowner value over time. To accomplish this objective, the company has developed a comprehensive business strategy that emphasizes volume growth and margins and maximizes long-term cash flow through investments that offer attractive returns. The Coca-Cola Company's goal for the 1990s is to expand its global business system to reach increasing numbers of consumers.

Title: Landing the Best Outsourcing Deal
Author: Thomas Hoffman
Journal: Computerworld, March 10, 1997
Abstract: One suggestion for negotiating an outsourcing deal is to evaluate bids to ensure high service levels. When Canada Trust signed GE Capital Services Corp. last month to a two-year deal to manage its 4,000 corporate PCs, the bank had to lower its cost-savings expectations to attain higher service levels.

Title: Our Profession is Changing — Whether We Like It or Not
Author: Betty Eddison
Journal: Online, January/February 1997
Abstract: Contracting for services has become increasingly popular in U.S. corporations and organizations as a tool to help organizations to focus. In the summer of 1995, General Electric Co. decided to outsource the operation of its headquarters' information service to Teltech Resource Network Corporation. Teltech helps companies to gather, analyze, and manage the critical information they need to compete in today's global marketplace.

Title: Vanstar
Author:
Journal: Vanstar, Company Overview, January 22, 1997, online
Abstract: Vanstar Corporation is a leading network integrator, providing services and products to build, manage and enhance personal computer network infrastructures. Microsoft is a client of Vanstar.

Title: Hoover's Company Profiles: Hewlett-Packard Company
Author:
Journal: Hoover's, Inc., 1997, online
Abstract: The Hewlett-Packard Company ranks among the top 10 providers of desktop computers, servers, peripherals, and services. The company continues to aggressively court emerging markets through acquisitions and alliances.

Hewlett-Packard was founded in 1938 by Bill Hewlett and David Packard, and encouraged by Professor Frederick Terman (considered the founder of Silicon Valley). In 1972 the company pioneered personal computing with the world's first handheld scientific calculator, the HP-35. By 1986, the most expensive R&D effort — $250 million — had produced a family of HP computers based on an architecture called RISC. In 1997 Hewlett-Packard replaced Texaco on the Dow Jones Industrial Average. Also that year, HP joined Microsoft in a partnership to support Windows NT.

82% of the 1996 revenues totaling $31.4 billion came from computers, service and support. Electronic test and measurement accounted for $3.8 billion, or 10% of the total 1996 revenues. Of the 1996 sales, $21.4 billion, or 56% were revenues from outside the U.S.

Title: Coca-Cola FEMSA 1996 Annual Report
Author:
Journal: Coca-Cola FEMSA 1996 Annual Report, online
Abstract: Coca-Cola FEMSA has maintained a consistent strategy since its inception to achieve selective growth and increase profitability, in order to consolidate its position as one of The Coca-Cola Company's key bottlers.

Title: Intel
Author:
Journal: Intel 1996 Annual Report
Abstract: Intel introduced the world's first commercial microprocessor 25 years ago, the 4004. Today Intel supplies the computing industry with the chips, boards, systems and software that are the "ingredients" of computer architecture.

Intel's strategy for growth is twofold. First, deliver the high-performance processors that drive today's connected PCs and related products. Second, work with other industry leaders to expand the PC's role as a consumer and business communications device, driving future sales.

More than half of Intel's 1996 revenues came from outside North America. Revenues for 1996 were $20.8 billion, an increase of 29% from 1995.

Title: Southwest Airlines
Author:
Journal: Southwest Airlines 1996 Annual Report
Abstract: Southwest Airlines is the nation's low fare, high Customer Satisfaction airline. The company, which began in 1971, primarily serves shorthaul city pairs for the business commuter as well as leisure travelers. Southwest Airlines has one of the best overall Customer Service records and one of the lowest operating cost structures and consistently offers the lowest and simplest fares in the domestic airline industry. Southwest also leads the industry in mechanical reliability.

A decision facing Southwest employees is where to go next. By the end of 1996 Southwest provided service to only 49 cities in 24 states. However, over 100 U.S. cities have requested Southwest service because they understand the significant positive impact Southwest has on their communities.

Southwest Airlines operating revenues for 1996 were $3.4 billion, an increase of 18.6% over 1995 revenues.

Title: U.S. Cellular Calls HP for Help
Author: Thomas Hoffman
Journal: Computerworld, December 9, 1996
Abstract: U.S. Cellular Corp. wasn't sure the required client/server skill set. U.S. Cellular tapped Hewlett-Packard Co. to help it with skills and retraining assessment.

Title: Golden Days
Author: Harlan S. Byrne
Journal: Barron's, December 9, 1996
Abstract: With outsourcing on the rise throughout corporate America, the market for computer services has boomed to perhaps $100 billion a year. The outsourcing of data centers was born out of businesses' desire to cut costs.

This year, General Electric put together a group of units, mostly acquired, to create GE Capital Information

Technology Solutions. Starting with $5 billion in revenues, the GE subsidiary is aiming to become a major force in the computer-services field. To bolster its operations, GE Capital Information Technology Solutions acquired the data center of Andersen Consulting and entered into a joint marketing agreement. Steffan Gurns, a GE marketing official, says “We’re bidding on lots of business, including several large outsourcing contracts of more than $1 billion apiece.”

Title: Jack Welch’s Encore
Author: Tim Smart
Journal: Business Week, October 28, 1996
Abstract: For years, General Electric Co. sold medical imaging equipment to the 300-plus hospitals run by health-care giant Columbia/HCA Healthcare Corp. Then in March, 1995, GE began servicing all of the chain’s imaging equipment. In early 1996 it added managing virtually all medical supplies to the deal. In February, 1996, GE Medical bought National Medical Diagnostics, a leading independent servicer of imaging equipment. GE is now providing management skills to help Columbia improve the way they run their hospitals. Columbia saved tens of millions of dollars, and GE has gained a greater lock on one of its biggest customers.

Chairman and CEO of GE, Jack Welsh, has stated his goal “to remake GE into what may be the world’s only $70 billion growth company”. Over the last year, Welsh launched two programs aimed at reviving GE’s growth. The first is a drive to boost GE’s quality that could one day yield billions in added earnings. The other is to raise revenues by pushing GE deeper into services.

Nearly 60% of GE’s profits come from services. GE Capital Services has grown sevenfold since 1985, from revenues of $3.8 billion to $26.5 billion today.

Welch is now pushing managers in GE’s core industrial units to grab a bigger share of related services. GE brings in $7.8 billion by servicing NatWest Securities Corp.’s huge installed base of industrial equipment.

GE signed a joint venture in May, 1995 with the Milan-based power company Societa Nordelettrica. The pair will offer utility maintenance and operation services throughout Europe. Also in 1995, GE and Andersen Consulting joined forces to beat major competitors for a 10-year, $350-million contract to manage LTV Corp.’s mainframe-based computer needs. GE is running a power plant for Ocean States Power in Rhode Island. GE signed a 10-year contract with British Airways in March under which GE will do 85% of the engine maintenance work on British Airway's entire fleet. In July, 1996, GE Capital added CompuNet a fast-growing German outsourcer. In September, 1996, GE made a $1 billion, multi-year contract to service USAir Inc.'s GE engines. GE Capital has built up a $5 billion global computer outsourcing business to compete for deals running computer networks for others.

In summary, GE is focusing more on services in the areas of: medical systems, aircraft engines, power generation, transportation, and capital.

Title: Outsourcing Hits the Desktop
Author: Tom Groenfeldt
Journal: Journal of Business Strategy, July/August 1996
Abstract: Computer outsourcing services have moved to the desktop where outsourcing specialists will take over responsibility for managing PCs and workstations. Greg Carmichael, manager of information systems at GE Power Systems, wants to concentrate on building gas turbines. So he and Tracy Nolan, manager of operations and technology, are happy to let Digital Equipment Corp. manage the division's 7,500 desktop personal computers and 1,100 Unix workstations. Managing the PCs and workstations is not GE's core competency, so they outsource.

By working with Digital, which has a close partnership with Microsoft, GE has been able to obtain information about Microsoft's development plans that it would not have learned on its own.

Title: Coca-Cola Moves Thrift Plan to Barclay MasterWorks
Author: Christine Williamson
Journal: Pensions & Investments, July 26,1996
Abstract: The Cola-Cola Company will more completely outsource the administration of its approximately $2 billion Thrift 401(K) Plan from SunTrust Bank to Barclay MasterWorks.

Title: Airlines' Use of Outside Upkeep to Grow
Author: Susan Carey
Journal: Wall Street Journal, June 19, 1996
Abstract: Airlines' use of outside maintenance providers will continue to grow despite the Federal Aviation Administration's new requirements of airlines using such services. Both Federal Express Corp. and Southwest Airlines, two companies with among the best safety records in the industry, outsource most of their heavy maintenance.

Title: Caliber Logistics, Inc. (ROLS)
Author:
Journal: Caliber Logistics Overview Information, March 12, 1996
Abstract: Caliber Logistics (ROLS) supports seven Hewlett-Packard locations. Caliber produces Hewlett-Packard's hot selling ink jet color printer. Caliber also provides a JIT inbound materials management program to support their manufacturing facility; manages all inbound transportation; and the receipt, storage and picking of production materials. Caliber provides shuttle service to Hewlett-Packard's manufacturing plant.

Title: Outsourcers Zero In on Intranets
Author: Craig Stedman
Journal: Computerworld, March 11, 1996
Abstract: Hewlett-Packard and America Online, Inc. announced that they will team up to build and manage intranets for resource-conscious customers. This combination utilizes HP's Unix servers and sales channels with AOL's backbone network, firewall and user support services.

Title: Should You Seek Outside Management?
Author: Dennis Whittington
Journal: Pension Management, March 1996
Abstract: Some of America's largest companies are trying to turn their internal plan management programs into profit centers by offering their techniques on a contract basis to other companies. Geoffrey Norman, executive vice president of GE Investments, says "We've been in the investment management business since the 1930s." GE Investments was one of the first internal fund managers to succeed as an external manager. In some cases, when GE doesn't have the expertise in a market that looks interesting, GE Investments will hire an external manager.

Title: Look Out, Here Comes India
Author: Jaikumar Vijayan
Journal: Computerworld, February 26, 1996
Abstract: Cost is one reason U.S. companies are looking to India for software development. General Electric Corp. is one of many companies that is tapping software developers in India and elsewhere, often for 40% to 60% less than the cost of U.S. developers. Jeff Kaplan, an analyst at Meta Group, Inc., a research and consulting firm in Boston says that "More and more U.S. companies are seeking to out-task as many specific lower level functions as they can in order to retain as many strategic functions as they can."

Title: Logistix and Hewlett-Packard Announce Strategic Outsourcing Partnership
Author:
Journal: Logistix News Release, January 1996
Abstract: Logistix and Hewlett-Packard announced a strategic outsourcing partnership. Logistix will provide all warehousing, fulfillment, and distribution services to the HP Software and Information Delivery Operation (SIDO) Division. Since it began working with SIDO, Logistix has succeeded in tripling SIDO's daily shipment volumes and reduced overhead costs approximately 40 percent. Hewlett-Packard is a leading global manufac-

turer of computing,
communications and measurement products and services. Logistix is a world leader in software manufacturing and outsourcing services for high-technology companies.

Title: Outsourcing at Microsoft
Author:
Journal: TechWeb News, January 8, 1996, online
Abstract: Microsoft Corp. has selected Vanstar Corp. to manage all of its PC procurement, including delivery and installation.

Title: HP Call Center Melds PCs, Unix
Author: Jean S. Bozman
Journal: Computerworld, December 4, 1995
Abstract: To fill a need for large user sites choosing to outsource the development of customer service all management systems, Hewlett-Packard will announce a turnkey call center system this week.

Title: Microsoft Hires Outsider Entex For Computers
Author: Quentin Hardy
Journal: Wall Street Journal, November 10, 1995
Abstract: Microsoft has hired Entex Information Services to oversee the management of 16,000 Microsoft computers and computer networks. The three-year contract is estimated at $40 million. Entex employees will even take the help desk calls.

Title: Microsoft Hires Outsider Entex For Computers
Author: Quentin Hardy
Journal: Wall Street Journal, November 10, 1995
Abstract: Microsoft hired Entex Information Services to oversee the management of 16,000 Microsoft computers and computer networks. The three-year contract is estimated to be valued at $40 million. It is a sensible decision, since Microsoft people are needed to make the software (the core competency), as opposed to performing routine support and maintenance. Under the new Microsoft contract, Entex will oversee running all the software company's hardware and network systems.

Entex also looks after the computers at Intel Corp.

Title: Lightening the Corporate Load
Author: Gene Koprowski
Journal: Washington Technology, November 9, 1995
Abstract: Microsoft Corp. CEO Bill Gates has outsourced essential business functions from finance to PC purchasing and communicating electronically with vendors through in-house web pages. Microsoft has outsourced other areas, too, such as: manufacturing and operations, order fulfillment, telephone support, network functions, financial work, benefits administration, pension planning and its help desks.

Title: Windows to the World
Author: Paul Briggs
Journal: Canadian Transportation Logistics, November 1995
Abstract: Microsoft's Windows95 was released worldwide on August 4. Microsoft outsourced the distribution in North America to Roadway Logistics Systems, Inc. (ROLS).

Title: Outsourcing — Special Advertising Section
Author:
Journal: Fortune, October 16, 1995
Abstract: Where creative solutions are concerned, Archer Management Services (AMS) helps by providing services to achieve an efficient mailroom, an organized stockroom, a state-of-the-art records department, and a cost-effective copy center. In the mid-1980s, General Electric began to explore outsourcing for its R&D center in Schenectady, NY. A "downsized" mail room was outsourced to AMS.

Title: MCI Expands Outsourcing Operations With Major Contract From Microsoft
Author: John J. Keller
Journal: The Wall Street Journal, October 2, 1995
Abstract: MCI Communications Corp. has been directing customer service for Microsoft's new on-line network since August. The contract is valued at more than $150 million over five years. This outsourcing pact makes Microsoft the largest customer for MCI's new business of running its customers' call centers. For now, MCI's deal with Microsoft is strictly customer support.

Title: Aramark Outsources IT to Hewlett Packard
Author:
Journal: Service News, October 1995
Abstract: Aramark has selected Hewlett-Packard Co. for shrink-wrapped software support, hardware maintenance, and seven-by-24 network monitoring.

Title: Steel Corp Outsources IS
Author: Marilyn Cohodas
Journal: Service News, October 1995
Abstract: The LTV Corp. has signed a $350 million outsourcing agreement with Andersen Consulting of Chicago to operate and manage the steel maker's information systems for the next ten years. The contract comes on the heels of an IT outsourcing alliance between Andersen Consulting and GE Capital, a leader in financial services and asset management.

Title: Network Outsourcing — Everybody's Doin' It
Author: Bella Stander
Journal: Service News, August 1995
Abstract: More and more companies are turning to outside providers to help them with their computer networks. United Health Care (UHC) contracted with Hewlett-Packard to monitor its router network around the clock, provide router hardware support and convert the router network of its Florida offices.

Title: News Shorts: Super Handhelds on Horizon
Author:
Journal: Computerworld, May 8, 1995
Abstract: Hewlett-Packard Co. and Advanced Micro Devices, Inc. will jointly produce a new generation of handheld computers with advanced functions and communications capabilities.

Title: News Shorts: IBM Acquires GE Business
Author:
Journal: Computerworld, May 8, 1995
Abstract: Last week, IBM signed a letter of intent to acquire the assets of General Electric Co.'s multivendor computer maintenance business, an Atlanta-based unit that focuses on PC networks.

Title: Andersen Jumps into Full-Service Outsourcing
Author: Julia King
Journal: Computerworld, May 1, 1995
Abstract: Andersen Consulting's outsourcing business targets such markets as client/server-based information technology, logistics and customer service. In April, 1995, Andersen Consulting announced an alliance with General Electric Capital Corp. in Stamford, Conn., which will act as an information systems subcontractor and provide mainframe services to Andersen Consulting clients.

In 1991, Astra Merck, a pharmaceutical company in Wayne, Pa., brought in Andersen Consulting to implement an information technology plan. After three years, Wayne P. Yetter, Astra Merck's CEO considers Andersen Consulting to be a strategic partner and credits Andersen with molding much of Astra Merck's business plan. The relationship began as an IT project, but was intertwined with strategy, people and the business processes.

Title: Microsoft Finds Partner to Support Windows NT Users
Author: Peggy Watt
Journal: Network World, March 20, 1995
Abstract: Microsoft Corp. has partnered with Vanstar Corp., a leader in the field of network planning, installation and maintenance. Vanstar supplies Microsoft's desktop computers and handles installations, among other things.

Title: Outsourcing Important for Company's Survival
Author: James Denn
Journal: Capitaland Report, Times Union, February 26, 1995
Abstract: As part of General Electric Co.'s plan to outsource production work, a number of local companies will see a substantial increase in business this year. For the past few years, officials at the Power Systems division plant have been looking to lower costs and make the production of steam turbines and generators more efficient and profitable. Although the outsourcing means less work for GE's Power Systems division employees in Schenectady, it's a boom for private vendors. In 1994 GE paid Feuz Manufacturing Inc. of Rotterdam $2 million for manufacturing services. Greno Industries Inc. in Scotia is also getting considerable business from GE.

Title: The Basics of Financial Function Outsourcing
Author:
Journal: Strategic Outsourcing, The Economist Intelligence Unit and Arthur Andersen, 1995
Abstract: Microsoft's business strategy places strong emphasis on outsourcing and related partnerships. The company has successfully outsourced the preparation of its tax compliance and filings for regions outside the U.S. in which it does business.

According to Microsoft's CFO Michael Brown "if it is not a function relating to core competence, and if an outside provider can handle it more effectively, then outsourcing is the preferred option." Outsourcing is used for headquarters catering, to production and distribution. In the area of finance, corporate audit, payroll, benefits administration, managing share certificates, and Microsoft's use of external tax expertise have all been outsourced.

One area of finance that has been explicitly outsourced is offshore compliance: fiscal accounting and tax. Microsoft relies on major accounting and legal firms to co-ordinate and expedite its tax planning and compliance for its foreign business activities. Microsoft even has help from the "Big Six" on tax expertise, planning and return preparation in international jurisdictions. Brown insists that "outsourcing is a viable and invaluable means to competing in today's increasingly "virtual" marketplace."

Title: Outsourcing, Special Advertising Section
Author:
Journal: Fortune, December 12, 1994
Abstract: Pitney Bowes manages Merck & Co., Inc's mail and copier needs. Merck, one of the world's largest pharmaceutical firms has all aspects of site services outsourced at its 1 million-square-foot world headquarters in New Jersey by a network of fifteen management services providers. Bill Tortoriello, director of site services, says the 250 vendor employees involved represent a seamless team, all working together. To accomplish this, they have invented ways to measure performance, tie it to meaningful goals, and build in real incentives.

Hewlett-Packard is an international manufacturer of measurement and computational products and systems with 96,200 employees and 1993 revenues of $20.3 billion. HP Service and Support contributed nearly 25% of those revenues.

General Electric Company's Aircraft Engines Division selected Digital Equipment Corporation to take over management, operations, administration, and technical support of the division's mid-range departmental computer systems at 13 locations across the United States. This support included computers bought from Digital Equipment as well as systems from multiple vendors, peripherals like printers and disks, and software. Sherm Clark, manager, aircraft engine systems operations at GE, says his company's primary goals are "to reduce costs and provide greater productivity by concentrating on our core business and engaging the services of a partner who can deliver the required levels of service."

Title: Should Vendors Using Third-party Support Publicize or Keep it Quiet?
Author: Ed Foster
Journal: Infoworld, December 12, 1994
Abstract: Microsoft announced last month that it plans to use five support companies to supplement its own support forces when Windows95 ships. The companies providing support include: Digital Equipment Corp., Keane Inc., MicroAge Inc., Softmart Inc., and Unisys Corp.

Title: For Communicators, It's Already Here!
Author: Dave Freeland
Journal: IABC Communication World, December 1994
Abstract: The 21st century is already here. Technology is racing ahead on fast forward. The issue is speed, pure and simple. There is no time for the organization to develop other than absolutely critical performance skills it cannot find in the hiring marketplace. General Electric's Jack Welch believes that it is more important to share our values than it is to make the numbers. Welch feels that the values driving GE — speed, elimination of unnecessary work and seamless adaptability — will beget the numbers. So far he has been right.

Title: Mickey Mouse and Family May Want You
Author: Marilyn Alva
Journal: Restaurant Business, November 20, 1994
Abstract: Due partially to high labor costs and shifting food market trends, the Food Processing Center of Disney was shut down. The commissary provided foodstuffs and services to 226 restaurants and food-and-beverage locations on Disney property. The entertainment conglomerate is bringing in contract feeders to take over its employee cafeterias. Outsourcing is intended to give Disney's chefs and managers more flexibility by giving them the ability to purchase from anywhere in the country.

Title: Digital Consulting Begins Three Major Customer Contracts
Author:
Journal: Today, July 4, 1994
Abstract: The Operations Management Services arm of Digital Consulting has three major outsourcing contracts that may be work over $20 million over the next five years. General Electric Co. was one of the companies involved. Two business centers within GE obtaining the services are the Corporate Research and Development operation, and the Industrial & Power Systems business.

Title: Electronic Commerce Speeds Benetton Business Dealings
Author: Marsha Johnston
Journal: Software Magazine, January 1994
Abstract: Benetton clothing stores throughout France (and headquarters in Ponzano, Italy) utilize the value-added network (VAN) services of General Electric Information Services (GEIS), based in Rockville, Maryland. Benetton's uses GEIS for "electronic commerce" which includes E-mail and database access in addition to electronic data interchange (EDI). GEIS' technology is comprised of two main parts — the network and three super computing centers. At a GEIS computing center, the network receives orders from all Benetton agencies world-wide and uses the codes to order them, for example, by country. This is part of the "value add" GEIS provides.

Title: Innovators in Outsourcing
Author:
Journal: Forbes, October 23, 1993
Abstract: MATRIXX provides sales, customer service and direct response to such companies as Procter & Gamble, American Express, AT&T and Microsoft.

Title: Microsoft Signs Services Over to Brann
Author: Mat Toor
Journal: Marketing, July 29,1993
Abstract: Microsoft outsourced most of its UK telephone customer services operations to the telemarketing firm Brann Contact 24. The outsourced team will handle general inquiries and responses to Microsoft's marketing campaigns, as well as handling basic technical inquiries.

Title: Airlines Lighten the Load
Author: Joan M. Feldman
Journal: Air Transport World, November 1992
Abstract: Major carriers, whose labor contracts inhibit efficiency, are farming out more functions. Big U.S. airlines lease major portions of their fleets. Reservations, ticket distribution and a chunk of marketing also have moved out of airline offices into the hands of outsiders. Southwest Airlines, one of only two consistently profitable U.S. airlines, contracts out D checks, all heavy engine maintenance and 90% of component work. Southwest's Chairman Herb Kelleher says contracting "is a function of size. The size of the fleet determines the number of people you need." But, he warns, "the opportunity for economics of scale is not very large." Southwest makes more productive use of the people it does need. Southwest frequently studies the costs of outsourcing heavy maintenance or bringing it back inside the company to ensure they continue to do things most efficiently. When investing in equipment, Southwest hates spending too much. Southwest's management motto is: "We manage in good times so we do well in bad times."

Commuter carriers started the trend to third-party crew training. Now, major U.S. airlines are becoming interested. FlightSafety International, as of mid-September, was about to sign a breakthrough deal with a Big Three airline to provide part of its crew training. That would greatly boost FSI's revenues from major airlines, expected to be 6% of this year's total of $292 million.

Title: Keeping an Eye on the Carriers
Author: Elisabeth Horwitt
Journal: Computerworld, February 3, 1992
Abstract: General Electric Co. announced almost three years ago to have partners AT&T, France Telecommunications International, Inc. and British Telecommunications PLC install and operate its overseas network switches on the carriers' own premises. This has saved GE significant amounts of money. However, GE insisted from the start that ultimate responsibility for monitoring and managing the network and providing user support would remain with GE's network control center in Princeton, N.J. Jeremy Frank, vice president of European telecommunications at research firm Gartner Group, Inc. says "GE's ability to get three rival global carriers to work in triple harness is the most ground-breaking aspect of the company's strategy."

Title: How to Profit Using Third Parties
Author: E. J. Muller
Journal: Distribution, May 1991
Abstract: Joel Baudouin, U.S. logistics manager for Hewlett-Packard, said that 7.1% of HP's annual revenue was spent on logistics, or about $850 million. That was much higher that it should have been, so HP elected to outsource logistics operations in selected segments of the business. Their goal was to improve customer satisfaction, increase operating flexibility, and change the company focus away from distributing products and back to manufacturing.

Title: Exec Promotes IS, Worker Alignments
Author: Bernard Mathaisel
Journal: Network World, March 25, 1991
Abstract: Ernst & Young partner, Bernard Mathaisel, suggests downsizing from mainframes to workstations and forming staff teams. Mathaisel felt it was a logical move to outsource Disney's computer operations in Europe when the firm decided to open a Disneyland in France.

Title: Rent-a-Techie
Author: Stephen Kindel
Journal: Financial World, November 14, 1989
Abstract: CDI Corp. supplies temp engineers to companies. For the past 30 years, CDI has had work nearly every week from GE and IBM.

Title: To Focus on Strategic People Issues Human Resource Managers Turn to Outsourcing and Workflow Automation
Author:
Journal: Ceridian Corporation
Abstract: In order to redesign an internal benefits administration process, Merck & Co., Inc., the world's largest pharmaceutical company, partnered with Tesseract. The result was a self-service system that would enable employees to access and update their human resources information without requiring any paperwork or other intervention.

Executive Summary

Management Summary

FORTUNE Magazine's List of America's Most Admired Companies

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Coca-Cola
Hewlett Packard
intel
GE
Disney
Berkshire Hathaway
Johnson & Johnson
Southwest Airlines
Merck

Defining Strategies of America's Leading Corporations

Innovation and Speed

Management Systems

Globalization

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Outsourcing as a Strategy-Enabling Business Tool

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