

Executive Q&A transcript

Q1. Now, you're an outsourcing business, but outsourcing is quite a big term. What does outsourcing mean to Capita?

Paul: I think outsourcing to us really means taking responsibility for activities that were previously run by the clients themselves. And when we do that we really have, fundamentally, three objectives.

One is to provide a demonstrable improvement in service quality.

The second is to save our clients a material amount of money.

The third, and probably most fundamental, is to actually look at transforming the underlying business on behalf of our client, ultimately to improve the success and profitability of that client.

It's a very easy cliché to say that you will go in and take responsibility and run something better – but Capita will enter into a service contract whereby we will be measured on a daily, weekly or monthly basis to deliver services to a far higher standard than was previously delivered from within that client's organisation. And we are very happy to be measured on that performance

Gordon: The benefits of outsourcing have really evolved over time. At the beginning... saving money was the highest thing on people's agenda. But I think that as the service delivery model from an organisation such as Capita has been able to improve and improve, we've been able to deliver far wider benefits than just purely saving money.

Paddy: An example would be a customer that worked within the retail sector. Initially, the contract we had with that customer was very much about transforming the business in terms of making it more cost-effective. Trust has built up with that customer over time, and we now find ourselves in a situation where we're actually selling on behalf of our customer to their customers and increasing their sales in a considerable way.

Q2. Benefits of outsourcing with Capita - So you're not just taking something off their hands, you're actually helping them move forward in some way?

Paddy: Move forward and enhance – introduce new ideas and new ways of approaching a business, which can actually sometimes benefit the customer in ways that they would not have expected when they first engaged with us.

So what has Capita done to make this possible? What makes you a good partner?

Paul: I think the thing that makes us a very good partner is all of the basic things around the fact that we now have a unique level of scale, greater than anywhere else in the UK. And we can bring some of the benefits of that scale to bear on behalf of our clients. We also have a considerable amount of expertise. You know, our clients may not view running a contact centre as being the core part of their lives, but to us that is a core part of life: it's what we do. We have an unparalleled level of expertise within Capita at doing things such as that, and we are very happy to share that expertise with our clients.

Simon: So typically, when we're going for, for example, a local government opportunity, we'll bring in our HR capability, our call centre capability, our property skills and our IT skills. We'll blend that together and give that to a client as a packaged offering which will actually very much enhance the services they have, going forward into the future.

Paul: On the softer side, I also think we are very good people to do business with. We don't over-sell to our customers, so we only sell what we believe we can genuinely deliver. And we now have a 20-year track record of being reliable, straightforward people to deal with.

I think clients find us a very open organisation with which to do business.

Gordon: And just to build on that, that really starts from the very beginning of the bidding process, where it's absolutely vital that there's clarity on what is being proposed on both sides.

Paul: I think we've also got to pay a huge amount of tribute to the 30,000 people that work within Capita.

And I think we are very blessed by the calibre of the managers and the people that we have within Capita that help us to achieve that.

Paddy: Yes – it's a bit of a cliché, but we are a people company. That's what we're about, and we deliver our services through our people. And we're very fortunate: as a management team we try and instil in our people that we're a service company, we're out there to deliver to our customers, we want to do it in the best way possible, we want to do it in a very human way and we want to have some fun while we're doing it. As a team we try to push that across, and we're very, very fortunate that we've got a bunch of people who actually go out there and they do that every day.

Q3. How do people view being outsourced?

What about the people who transfer to you? People often view being outsourced with some trepidation: is that misplaced?

Paul: I think it's natural that at any point of change people are going to be anxious. And I think, again, we've built up a brilliant track record over the years of working – first and foremost – to allay that anxiety.

What you frequently see is [that] by good communication you can very quickly turn anxiety almost into a state of excitement about the fact that it's going to be a new challenge in people's careers.

Paddy: We bump into some very, very good people. They know they're very good, it's just that in the environment that they're working in they've not been given the opportunity to actually show just how many skills they've got, or [what] they've got to offer. What we do is actually open up some doors for them really.

Paul: In many instances the services that we're taking responsibility for have possibly been under-invested in. That might be by way of investment in the leadership of the operation or it could be in technology, or it could be in training.

And, really, as Paddy has illustrated, in many instances it's a case of liberating what are, fundamentally, extremely good people – giving them the tools to do the job better. It's interesting to see how many people will actually thrive in that environment.

Gordon: Very often on our contracts, the things that make a big difference are thought through and come from the roots of the organisation, and often from people that have transferred.

So I think the way we treat people and the way we manage the organisation are critical to the culture of continuous improvement.

Q4. How will Capita's growth be sustained?

Now you're aiming to maintain strong growth for the foreseeable future. Is that sustainable? How do you resource that?

Paul: We believe that strong growth is sustainable, and I think you probably need to look at it from two perspectives.

First of all, the external forces: is the market for what we do large enough to sustain Capita's growth? We believe it is. The marketplace is measured as being somewhere between £95bn and £100bn a year for the sort of services that we deliver. So although Capita is, by some distance, the market leader at what it does, there is still a huge amount of growth potential.

I think you also need to look at our internal capability at sustaining that growth and the sort of systems and processes and procedures that we have in place to help us with that.

And how do you manage it?

Paddy: If we look at people for instance, we are very fortunate in that a number of the contracts that come to us through some of the outsourcing arrangements actually bring numbers of people with them.

Obviously, you can't sustain all of your growth through that kind of input, so we're constantly also looking in the outside marketplace to bring senior management into the group of the quality and type that we need to continue to grow our business.

And presumably you have infrastructure and resources that they can draw on?

Simon: One of the key things that we've been doing within the Group over the years is consolidating a lot of our infrastructure, and we've been developing what we call business centres. In these business centres we're able to run a whole range of shared services, and what these do is provide both cost efficiency to customers and also much higher service quality.

We've also now developed an offshore facility in India. There are two or three locations within India that we now operate from. And we actually offer clients a blended model of service delivery, both onshore and offshore, to enable them to have the best of both worlds in customer service, customer quality and cost efficiency.

Gordon: Another important point out of all this is how you financially control the business. We are very rigorous in our day to day and monthly financial management. I think we've got fantastic disciplines in terms of controlling the business and understanding it.

Also, in terms of corporate finance, we are very cautious in how we develop the Group. We will be making acquisitions that we can very much bolt on to our existing infrastructure. We spend modest sums of money – £10-20m – so there's no big funding requirement from an acquisitions point of view.

It makes us a very safe organisation to actually deal with.

Q5. And what impact will any economic slowdown have on your growth plans?

Gordon: Well, we're not really greatly impacted by where we are in the economic cycle. Most of what we do is providing a back office support function to our customers, which is required whichever part of a cycle we're at. If there is an impact, where there is a bit of an economic tightening it's more likely that more customers will need to look at their cost saving initiatives and other initiatives that are going to improve their competitive position.

So if anything, economic slowdown is good for us in terms of opportunities.

Paul: I think it's fair to say, if you look over the last six months or so, that we have definitely seen an increase in the number of enquiries and opportunities we've had from the financial services sector. I think they've now anticipated that 2008 will be a harsher climate. And on the back of that we've seen quite an increase in the number of enquiries from people who are looking to us, first of all, to try and save them some money and, secondly, to see if we can move the service quality forward for them.

So to sum up then, what's your strategy for sustained growth going forward?

Paul: Well, I think we have been accused in the past of being a fairly boring company. In fact, I think we once won the Boring Company of the Year Award – which from our perspective we view as something of an accolade and something that we're quite proud of.

We think that we have a winning formula in what we've done over the last 20 years, and certainly the plan over the next five years is to continue to do much the same. Our strategy is very much to be UK-focused; we are also focused on white collar outsourcing.

We've got very clear guidelines about what we do want to do and, equally important, about what we don't want to do. And I think from our shareholders' perspective – and also from our customers' perspective and, indeed, the staff that we have working for us – they will see us adopt a very similar strategy over the next five years to the one that we have historically adopted.