



A Buyers' Guide to Arvato Bertelsmann

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Arvato: Quick Primer, 1

Arvato is one of the eight divisions of Bertelsmann and a consolidation of more than 200 individual companies that started as a captive unit of the Bertelsmann group's media and publishing companies in 1835 in the German city of Gütersloh. More than a century since its inception, Arvato's primary business remained into document management for the parent group of publishing companies.

Later on, Arvato started to diversify into new avenues of business by acquiring Lesering Book Club. This led to providing services to external clients to market books directly to readers and the expansion of warehouses and shipping capacities in the mid 1950s. Further diversification into record production came from the acquisition of the Schallplattenring record club and the Sonopress production company, with the popular Ariola label having its roots here. In the next three decades, Arvato continued to expand its presence globally by way of acquiring other document, printing, and audio production houses.

With documents and music production under its realm, the leadership started looking at new revenue streams and there came the software and hardware distribution business. However, Arvato's real success in the service segment came when the provider decided to address the customer service market in 1993 by winning the loyalty program Miles & More for Lufthansa and again in 1995 by providing customer support for Microsoft's Windows 95 operating system in Germany, Austria, and Switzerland.

Each CEO brought new ideas that pushed Arvato one notch higher in its evolution of a services and technology company. In 1996, another deliberate business group was created, Bertelsmann Finanz Services GmbH, to relieve the Bertelsmann group from its administrative activities. In 2000, Arvato expanded to Healthcare and the year 2005 saw it acquiring contracts in the public sector. Production and services became more closely intertwined as customers woke up to the new era of integrated services and even today, the transformation continues.

Since 2014, Arvato changed its strategic directions to go global and tap into opportunities outside of European countries. This has driven restructuring efforts and fine-tuning of its solution groups. These solution groups operate largely independently catering to client markets and operations. Each solution group is lead by an individual chief executive officer. There are four primary solution groups: customer relationship management, supply chain management, financial services, and information technology services.

Arvato: Quick Primer, 2

Today, services range from preparation and distribution of printed materials and digital storage media, data management, customer care, digital CRM services, supply chain management, digital distribution, financial services, professional and individualized IT services, and direct marketing of media.

Since 2012, Arvato has replaced its group CEO twice. In August 2017, rather than appointing a new CEO for Arvato, the parent company decided that the role will be replaced by a joint team consisting of the Bertelmann's group Chief Executive Thomas Rabe, finance chief Bernd Hirsch, and personnel chief Immanuel Hermreck, which will join Arvato's management board to help oversee the business. A lack of dedicated management will impact its strategic agility, given its already dwindling margins and the slowdown in certain service lines this . However, stabilizing the business will be the key priority for this high profile joint team that will be replacing a permanent Arvato CEO.

Other Quick Facts about Arvato are:

Total number of employees: 71,080 As of March 2017

Geographic Presence (Estimated):

- Continental Europe ~ 45%
- UK&I ~ 12%
- North America ~ 10%
- South America ~ 3%
- Philippines ~ 15%
- Singapore ~10%
- India ~ 5%

Strategy

- The strategy of integrating and reducing silos of diverse business units remains a priority. The philosophy of giving independent profit & loss and appointing CEOs by service lines and geographies is continuously observed and upgraded.
- The focus remains on capturing more and more integrated work from IT, high-tech, and e-commerce services segments.
- Organic and acquisitive expansion of services, backed by Bertelsmann's three pillars of growth—Education, Media, and Digital Services—Arvato directly or indirectly continues to acquire or share synergies with the companies acquired by the group in two of the main pillars, Education and Digital. E.g. in 2014, Relias Learning jumpstarted the Bertelsmann Education Group and now works closely with Arvato to go to market for such launching of Relias Learning for the UK health sector in 2016.
- Arvato continues to increase acquisition in three growth platforms: healthcare, e-commerce, and financial services.
- To expand globally, especially in the emerging markets such as Asia, the Middle East, and Africa.
- Due to increased pressure on maintaining margins, the focus is shifting on optimizing and increasing productivity, particularly in Accounting, IT, and HR.
- Arvato Systems is constantly working on building new tools and technology solutions, organically or inorganically, based on the group and other service line expertise. One such tool that is on priority to increase market penetration is in the healthcare and pharma sector—the serialization of medicines that will help control fraud. This tool has been introduced to the market in 12 European countries and the focus is on increasing its adoption and client base.
- Arvato Systems targets double digit growth and acquisition of external clients that will compliment the services that it is currently offering to Bertelsmann and taking on important IT infrastructure-related tasks.
- In F&A BPO, Arvato has been investing in Analytics and other tech startups that can be leveraged to move up the F&A value chain. E.g. the latest partnership with LatentView Analytics in the area of digital transformation of financial business processes.
- Arvato is focused on developing smart contract strategy—translating legacy contracts to smart contracts—which has the potential to update/transform business processes that could disrupt existing staffing, process, and so on.
- Arvato works on numerous opportunities and joint partnerships with universities across Europe to fill IT skill gaps and attract the best of talent for its growth verticals along the way.
- Arvato has a targeted vertical strategy for healthcare, consumer packaged goods, high tech, entertainment, and telecom.

Strengths and Weaknesses

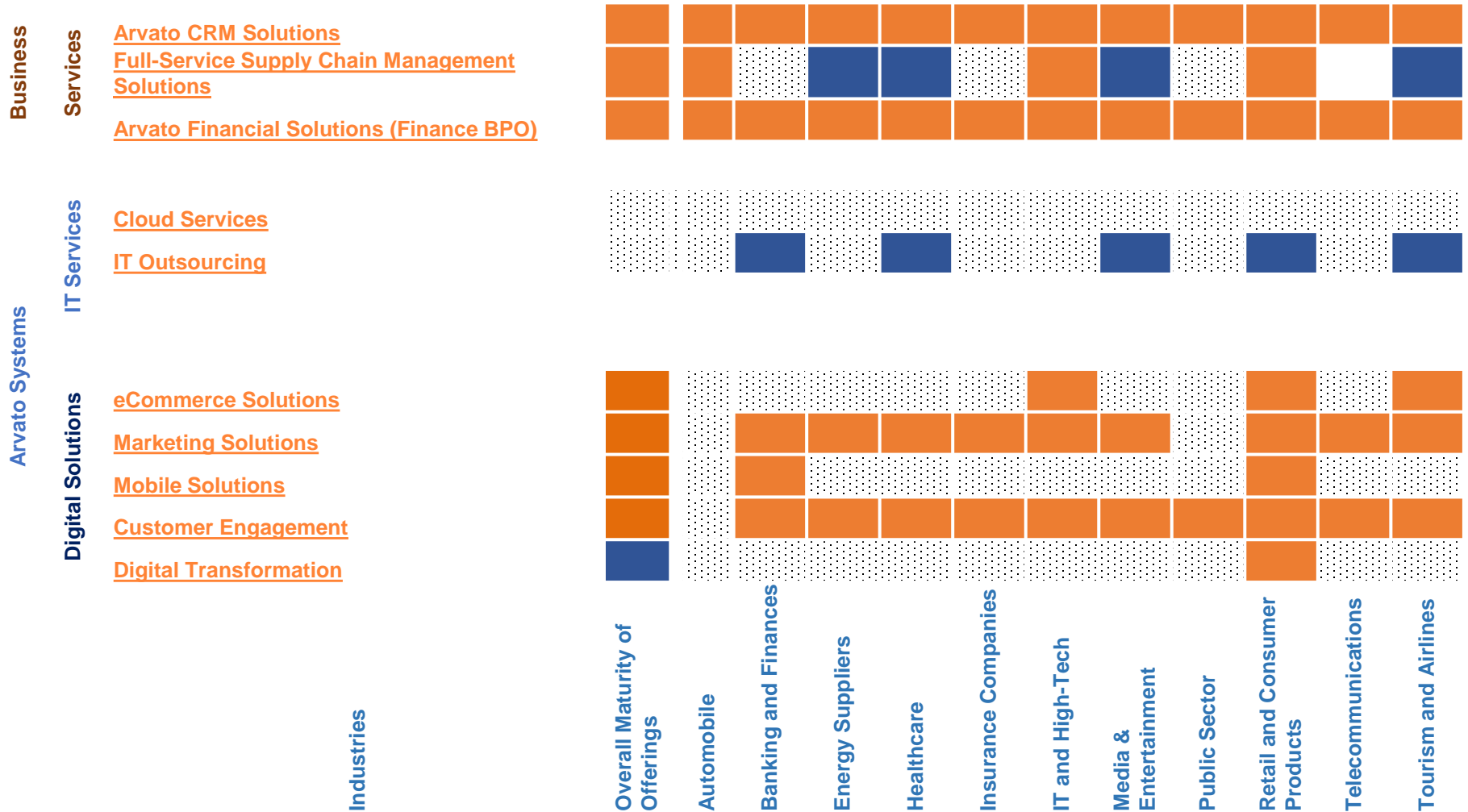
Strengths

- Arvato has integrated its complexities and diversified businesses into providing integrated services.
- The physical logistics and supply chain business is supported by back-office and supporting SCM services, especially for the e-commerce clients.
- Arvato leverages digital services from the group's dedicated digital media division that has years of experience in customer UX designs.
- Strong market penetration in the UK public sector by providing shared services for IT and BPO.
- Arvato increasingly engages in outcome-based and gainsharing models, with one-third of contracts being transaction-based.
- A real-time fraud detection and proactive deterrence tool and service is being used in banking, insurance, telecom, and retail. Arvato taps into its ecosystem of acquisitions, partnerships, and talent for this offering.
- Arvato is very active in hosting multiple events every year ranging from focused customer workshops to end customer panels and focus groups, client days and master classes, all of which are intended to encourage development and sharing of expertise.
- A strong vision and aim to integrate broad adoption of IoT and digital services into the way that supply chains work in their target client industries.
- Use of analytics to reduce out-of-stock exposure for its e-commerce clients.


Weaknesses

- Leadership churn and stability, especially group CEOs churn that has an adverse impact on long-term strategic directions and short-term operations delivery.
- Two key service lines, Systems and CRM, seen decline in revenue due to falling volumes from key accounts. CRM had a slew of slowdown in telecommunications sector.
- Arvato seems to be struggling to grow its F&A business process services client base beyond the established enterprises that have been in its portfolio.
- Clients would like to see more proactivity in identifying problems and shaping meaningful opportunities.
- Lack of presence in the US and Canada in terms of clients and delivery centers.
- Synergies with acquired companies require time and effort; this also puts pressure on operating margins. The result is visible with almost flat operating margins over the last few quarters.
- Constant changes in strategy and management can have adverse effects on winning client trust and share of wallet.

Service Offerings Grid



Legend

-  HfS Blueprint Assessments Highlight These Services at Par Excellence
-  HfS Research Sees Tremendous Potential backed by Investments and Traction
-  Not Enough Data to Make an Assessment

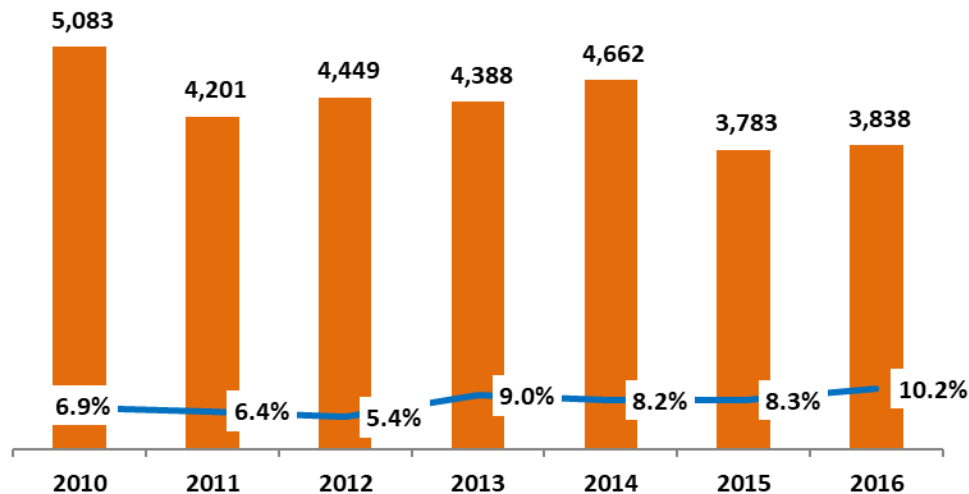
Clients*

Arvato has a number of customers across public and private enterprises. The following is a quick representation of its clients mentioned in the public domain.

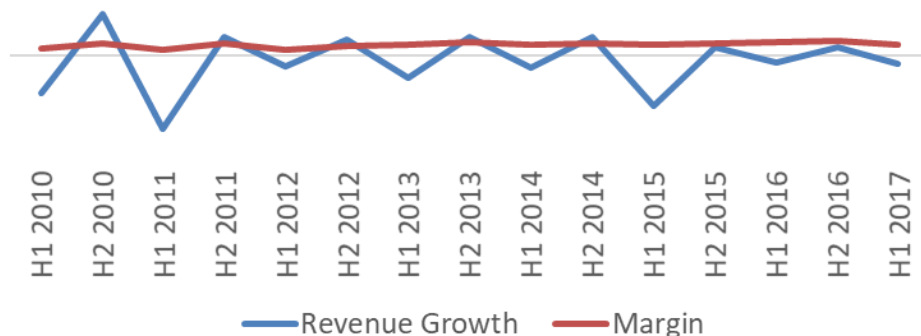


Arvato's Financial Performance

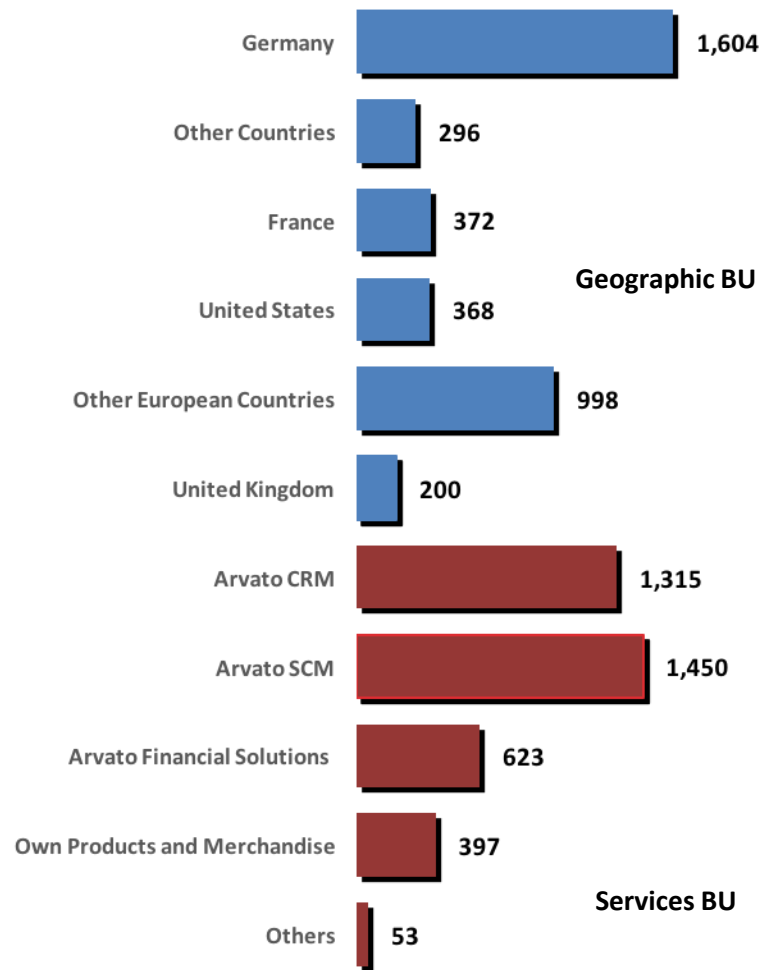
Revenue (Millions of Euro(€)/Operating Margin % by Financial Year)



Growth vs. Operating Margin by Bi-annual Intervals



FY 2016 Revenue (Millions Euro(€) by Business Units)



Source: HfS Research, Revenue Tracker, 2017

Blueprint Performance



Arvato Profiles From HfS Blueprints (2014–2017)

This report contains service provider profiles of Arvato from 16 current HfS Blueprints covering business processing and engineering services.

Arvato was already seen by our team of analysts at HfS this year:

- *Building strategic depth in fraud and risk management using technology and talent with focus on retail, commerce, financial services. (Barbra McGann, Finance & Accounting As-a-Service Business Process Outsourcing Services Blueprint, 2017)*
- *Delivering supply chain and e-Commerce solutions for consumer-facing industries with a global fulfillment network and technology platforms. (Charles Sutherland, Chief Research Officer, Supply Chain Management As-a-Service, 2016)*
- *A service provider with strong O2C capability, a partnering mindset and industry depth. (Phil Fersht, Barbra McGann, Finance & Accounting As-a-Service Business Process Outsourcing Services Blueprint, 2016)*

Blueprint Performance Summary

Three Blueprints from 2014 to 2017

Winner's Circle	High Performer	Execution Powerhouse	High Potential
1. Supply Chain Management As-a-Service, 2016		1. Finance & Accounting As-a-Service Business Process Outsourcing Blueprint, 2016 2. Finance & Accounting As-a-Service Business Process Outsourcing Blueprint, 2017	

Arvato

Execution Powerhouse

Building strategic depth in fraud and risk management using technology and talent with focus on retail, commerce, financial services



Blueprint Leading Highlights	Strengths	Challenges
<ul style="list-style-type: none"> Quality of Account Management Use of Analytics to Drive Actionable Insights Use of Technology to Support Business Processes Industry-Specific Capability for eCommerce 	<ul style="list-style-type: none"> Business-Outcome Focused Services Design: Arvato’s overarching approach is to focus on creating depth and breadth in targeted industries, and work with clients to break apart legacy processes and build in plug-and-play solutions, particularly in eCommerce. In doing so it is looking across business functions. For example, with one client it is now working across four groups – IT, SCM, CRM, and F&A – to support launch and growth in a new geo for an established retailer. Reduce Fraud and Manage Risk: Arvato has worked with Microsoft to build on its specialty area of eCommerce in retail. A real-time fraud detection and proactive deterrence tool and service is being used in banking, insurance, telecom, and retail. Arvato taps into its ecosystem of acquisitions, partnerships, and talent for this offering. arvato’s portfolio covers the retail checkout process, card payment services, and insurance claims management. The solutions use RPA and behavioral analytics. Finance As-a-Service Commercial Model for O2C: Arvato increasingly engages in outcome-based and gain-sharing models, with one-third of contracts being transaction based. A very small percentage of contract work is FTE-based. It is growing a strategic portfolio of “plug-and-play” BPaaS for commerce. Enterprise Client Relationships: For enterprise clients, Arvato provides cultural development for client teams, training its own professionals on their assigned client culture and also facilitating interactions with the clients directly. It’s developed some strong integrated links to a handful of clients. RPA Lab: Arvato’s RPA Lab that functions as a central platform for the development of automated financial services and houses the order-to-cash incubator. This approach welcomes clients to test solutions and trade internal resource commitment for a variable expense buying into Arvato’s elastic hub-and-spoke delivery model. 	<ul style="list-style-type: none"> Stay Focused and Scale: Arvato seems to be struggling to grow its F&A business process services client base beyond the established enterprises that have been in its portfolio. The commerce and retail capability and credibility is strong with a select group of clients, and can serve as an extension further into telco and media, but some clients are feeling that Arvato is disjointed and unorganized. Clients would appreciate a single point of contact for service delivery. Client Experience and Innovation: Arvato has made an interesting strategic acquisition with Ramyan for customer experience management. It’s not yet clear how it will put the behavioral economics capability of this company into practice with itself and clients beyond the fraud and risk solutions, but provides an opportunity for Arvato to better understand its customer base and issues in F&A. We have heard feedback that Arvato can be reactive and slow. Clients would like to see more proactivity with identifying problems and shaping meaningful opportunities. Record-to-Report: Arvato’s business and investment focus is primarily in Order-to-Cash with Procure-to-Pay a relevant but distant second. There is not a focus on Record-to-Report although it is not ignored.

Value Chain Coverage:

Procure to Pay
Order to Cash
Record to Report
Finance Transformation
Analytics

Relevant Acquisitions / Partnerships	Client Profile	Service Delivery Operations	Proprietary Technologies
<p>Acquisitions:</p> <ul style="list-style-type: none"> Intevalor (2017) Ramyam (2016) for customer experience management & analytics AfterPay (2014) OTC specialist Gothia (2013) invoice processing, Europe <p>Partnerships:</p> <ul style="list-style-type: none"> NuData Security: for fraud management INFORM: for insurance fraud GDV: HIS Systems for insurance fraud prevention, Germany Elavon: to support card payments online PAY.ON: for payment gateway services Orbiter: for device tracking 	<p>Arvato targets the G2000, IT/ high-tech, e-commerce, and public sector in particular</p> <p>200+ clients, including Microsoft, Sony, Vodafone</p> <p>Target industries:</p> <p>Electronics and high-tech, e-commerce, retail, consumer goods, banking, insurance, media and entertainment</p>	<p>Headcount: ~7000</p> <p>Delivery Centers (49):</p> <ul style="list-style-type: none"> Continental Europe: 44% UK and Ireland: 29% North America: 10% South America: 3% Philippines: 12% Singapore: 14% India: <1% 	<ul style="list-style-type: none"> Rich Interactive Secure E-messaging (RISe) Aggregated Billing Engine (ABE) Caseflow, Cash Collector: Collection and CashApps Electronic Business Information System (eBIS) FIAS: billing and payment system iCas, ICed: arvato risk management OPUS: Order management system / invoicing RSS: arvato risk management; Seeburger (EDI) SPF: system for payment and fulfillment X-Link: platform that enables 3PL models for global collections PayByBill service Checker: automated bill reviewer NOC.AI: Holistic platform for digitalization of business processes Quitaqui: Self-service payment management tool Oyster: White-label E-Commerce platform (SaaS & data hub) Digital Account Check: SaaS solution for banks



Blueprint Leading Highlights	Strengths	Challenges
<ul style="list-style-type: none"> Actual Delivery Of Services Geographic Footprint Flexibility To Deliver End-to-End and Point Solutions Acting As A Capability Broker For Clients Delivering Industry-Specific Solutions 	<ul style="list-style-type: none"> Global Scale Drives eCommerce Solutions: Unlike many of the other service providers in the Blueprint, arvato maintains an extensive fulfillment and warehousing capability particularly in Europe, which gives arvato the scale to support eCommerce processes in a way that few others can. Being A Capability Broker To Clients: HfS is impressed by the breadth of solutions offered by arvato to SCM clients. By undertaking process redesign, IT transformation and financial engineering, arvato has met clients' custom supply chain needs. Client and market discussions attest to the depth of arvato's solution design and the provider's willingness to act as prime bringing together many different services to complete a specific enterprise solution. Industry Orientation: arvato has a targeted vertical strategy (healthcare, consumer packaged goods, high tech, entertainment and telecom in particular) and has built out specific solutions such as a smart metering logistics solution. This orientation toward vertical solutions instead of cross-industry solutions is where the SCM BPO market is heading. This industry approach is reinforced by commercial models that may include "royalty" components where arvato is paid on a percentage of total sold revenue. SCM Vision And IoT Integration: Briefings with HfS by arvato on their vision for the future of SCM BPO integrating IT, logistics management and business operations were compelling. arvato shared the outline of a strategy to integrate broad adoption of IoT and digital services into the way that supply chains work in their target client industries. 	<ul style="list-style-type: none"> Intelligent Automation: Sessions with arvato and market interviews highlight that although the service provider is beginning to adopt robotic process automation (RPA) in SCM operations, the scope of deployment is still limited compared to the very extensive use of automated systems in warehouse and fulfillment operations. HfS expects to see significant expansion in RPA deployments at arvato in 2016. Arvato's "royalty" and "volume" contract models should provide incentives to deploy even if many of the more physical aspects of the solutions (e.g., warehouse management) may have less initial RPA application.
Order Management		
Inventory Management		
Manufacturing Management		
Transportation Management		
Aftermarket Services		
Master Data Management		
Sustainability Services		

Relevant Acquisitions / Partnerships	Key Clients	Global Operations	Proprietary Technologies / Platforms
<p>Acquisitions:</p> <ul style="list-style-type: none"> •Netrada (2014) for eCommerce Services with 3,000 staff coming over •Stok UK (2014) for logistics and fulfillment in medical device supply •Ogli (2014) for eCommerce support in Turkey <p>Partnerships:</p> <ul style="list-style-type: none"> •SAP •Magnto •Demandware •150+ Shipping Partners 	<p>40+ major SCM BPO clients, including:</p> <ul style="list-style-type: none"> •Microsoft •Tom Tailor •Douglas •Cisco •Sennheiser •Esprit •C&A •Tommy Hilfiger •Hugo Boss 	<p>Locations: 14,000+ SCM BPO FTEs across 65 SCM BPO locations globally:</p> <ul style="list-style-type: none"> •North America (3) •Latin America (2) •UK (2) •Continental Europe (51) •China (3) •Japan (1) •Other APAC (3) 	<ul style="list-style-type: none"> • Control Tower: For end-to-end supply chain visibility and intervention

A service provider with strong O2C capability, a partnering mindset and industry depth.

Blueprint Leading Highlights	Strengths	Challenges	
<ul style="list-style-type: none"> Quality of Account Management Quality of Service Delivery Flexible Pricing Models and Investing in the Account Delivering Industry Specific Solutions Investing in Future Talent and Technology 	<ul style="list-style-type: none"> Deep Collaborative Long-term Client Relationships: arvato partners with most of its clients by making investments such as re-badging, re-aligning existing workforces globally, and investing in pilot programs. A number of clients have stayed with arvato for more than decade, exhibiting its client-centric culture and engagement. arvato teams develop a wealth of knowledge over time on their clients' institutional processes, which provides valuable context for future work and is a major reason why half its engagements have established gain-share pricing mechanisms. Designed Order-to-Cash Incubator: This program facilitates clients to test innovative solutions on technology, analytics and processes built by arvato to evaluate whether it is feasible to shift to the new way of working. Passionate Leaders: Clients frequently cite that arvato's F&A BPO practice is led by passionate leaders which have a strong belief in its unique value proposition to develop and maintain long-term healthy collaborative relationships. Industry Capability: arvato has marquee clients in retail, e-commerce, insurance, media and government verticals. Industry-specific solutions include addressing fraud in insurance, and payment services in ecommerce. Its recent stake in Intervalor adds depth and capability in credit and collections for automotive as well. Unique Sales to Cash with F&A, CRM, and SCM Support: arvato's approach is to consider and support operations from the sale to the close of payment, covering finance, customer service, and supply chain. This strength comes from its heritage in supporting retail and commerce clients such as Sony and Microsoft. 	<ul style="list-style-type: none"> Brand Recognition In U.S.: arvato has a stated strategy for growth in the U.S., where its brand is weak. It needs to position itself against some well-recognized competition. arvato needs to define and communicate its distinctive and unique positioning, and encourage its clients to be more forthcoming about their experience. Broader Set of Capability For F&A: In order to continue to grow and compete in F&A, arvato will need to expand through hiring, partnering, or acquiring to add broader depth in finance analytics and industry specialization for core F&A processes. The service provider doesn't need to necessarily own all the capability for F&A but should have partnerships or a plan to continue competitive growth in targeted focus areas. Proactive on Innovation: HfS heard some feedback from clients that appreciate the quality and depth of arvato's performance, but would like arvato teams to be more forthcoming with relevant ideas to identify and address business problems and opportunities. It is not seen as a "creative force." The incubator approach for order-to-cash may be one that needs to be more extensively positioned with clients to get more engaged. Transformational Consulting Capabilities: arvato is perceived by some clients to lack consulting capabilities to take complex engagements to the As-a-Service model. Our research does show some focus to embed RPA into their offerings, but this is not as advanced as several competitive providers. 	
<p>Value Chain Coverage:</p> <ul style="list-style-type: none"> Procure to Pay Order to Cash Record to Report Finance Transformation Analytics 			
Relevant Acquisitions / Partnerships	Client Profile	Service Delivery Operations	Proprietary Technologies
<p>Acquisitions:</p> <ul style="list-style-type: none"> Intervalor 40% Stake (2015) AfterPay (2014) OTC specialist Gothia (2013) for invoice processing, Europe <p>Partnerships:</p> <ul style="list-style-type: none"> INFORM: for insurance fraud GDV: HIS Systems for insurance fraud prevention, Germany Elavon: to support card payments online PAY.ON: for payment gateway services Orbiter: for device tracking 	<p>arvato targets the G2000, IT/ High Tech, e-commerce, and Public Sector in particular</p> <p>200+ clients, including Microsoft, Sony, Vodafone</p> <p>Target Industries:</p> <p>Electronics & High Tech, E-commerce, Retail, Consumer Goods, Banking, Insurance, Media & Entertainment</p>	<p>Headcount: ~7,100</p> <p>Delivery Centers (49):</p> <ul style="list-style-type: none"> Continental Europe – 44% UK&I – 29% North America – 10% South America – 3% Philippines – 12% Singapore – 14% India - <1% 	<ul style="list-style-type: none"> Rich Interactive Secure E-messaging (<i>RISe</i>) Aggregated Billing Engine (<i>ABE</i>) <i>Caseflow, Cash Collector:</i> Collection and CashApps <i>Electronic Business Information System (eBIS)</i> <i>FIAS:</i> billing and payment system <i>iCas, ICed:</i> arvato risk management <i>OPUS:</i> Order management system / invoicing <i>RSS:</i> arvato risk management; Seeburger (EDI) <i>SPF:</i> system for payment and fulfillment <i>X-Link:</i> platform that enables 3PL models for global collections <i>PayByBill service Checker:</i> automated bill reviewer <i>Heycom Info:</i> automation tool <i>Robbie:</i> automation tool

Additional Supply Chain Services Providers: Arvato

Arvato



Order Management	Inventory Management	Manufacturing Management	Transport Management	After Market Services	Master Data Management	Sustainability Services
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Profile Data	Key Clients	Global Operations Centers	Sub Services Provided
<ul style="list-style-type: none"> Arvato is a leading player in the UK and European supply chain industry, with solutions that span full BPO, order-to-cash and direct-to-consumer services. Arvato is Euro 5 Billion subsidiary of Euro 16 Billion Bertelsmann AG, a German Media Group. 	<ul style="list-style-type: none"> Leading Japanese Consumer Electronic Company Leading Music Company Leading US Consumer Electronic Company 	<p>Headcount: 62,000 (Total Headcount)</p> <p>Locations: Over 110 locations in 40 countries</p>	<ul style="list-style-type: none"> Order Entry Order Maintenance Order Reporting Spare Parts Planning Approving Returns Transport Planning Operating a 4PL Order Fulfillment Forward & Reverse Logistics

About the Author



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Overview

Hema Santosh is one of the versatile analysts who enjoys quantitative and qualitative aspects of the research at the same time. Hema is responsible for The Buyers Guides and supports various Data analytics initiatives at HfS Research.

Over the last decade, Hema has worked across all the facets of IT Services and BPO research providing insights that are key to taking strategic decisions. She understands the nuances and dynamics of the BPO and Technology industry. Her experience ranges from custom research, competitive analysis, outsourcing deals analytics, location assessments, quantitative studies to qualitative research. She has held senior research positions in organizations such as, Information Services Group, Accenture, NTT DATA and ITFinity Solutions.

Academically, Hema holds an MBA specializing in Marketing from Manipal University, a full time 'Management Program for Women Entrepreneurs' from Indian Institute of Management (IIM), Bangalore and a Bachelor's degree in Commerce from the University of Mumbai.

Apart from HfS Research, Hema has one more full time job and that is, rearing her three young sons. Her sojourn is travelling to wild-life sanctuaries and solving a SuDoKo puzzle whenever she can grab some free time.

HfS: Revolutionizing the Industry

HfS' mission is to provide visionary insight into the major innovations impacting business operations: automation, artificial intelligence, blockchain, digital business models and smart analytics. We focus on the future of operations across key industries. We influence the strategies of enterprise customers to develop operational backbones to stay competitive and partner with capable services providers, technology suppliers, and third party advisors.

HfS is the changing face of the analyst industry combining knowledge with impact:

- ThinkTank model to collaborate with enterprise customers and other industry stakeholders
- 3000 enterprise customer interviews annually across the Global 2000
- A highly experienced analyst team
- Unrivalled industry summits
- Comprehensive data products on the future of operations and IT services across industries
- A growing readership of over one million annually

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