



ATM OUTSOURCING

Using a Return-on-Value Analysis
to Build a Better ROI

November 2020



THE **BIG PICTURE**

ROI, return-on-investment, is a straightforward, financially-grounded concept with details that can get tricky fast. A primary input used to help make build/buy decisions, ROI should be considered anytime a major strategic investment is called for, such as when attempting to compare costs between in-house and outsourced ATM management. Determining a one-size-fits-all ROI calculation is impossible since financial institutions come in all shapes and sizes, each with different needs and approaches based on local environments and competitive strategies. In addition, the value of an ATM managed (outsourced) service is often not fully realized until after its implementation, generating hidden benefits not easily uncovered in a typical ROI analysis. And yet, there are guidelines and strategies you can deploy to determine a reliable ROI for wise investment decisions.

The importance of the ATM in today's self-service environment is undisputed. Given the complexity of the channel and the need to deliver always-on performance that keeps pace with tomorrow's technology, this is the time to ensure your ROI is capturing the full benefit of

ATM outsourcing. For this deeper, value-based analysis, a Return on Value or ROV assessment is needed. ROV is commonly defined as the amount of Value Built In (VBI) that an organization gains as a result of continuous improvement. Improvement is generally measured across technology, customer service, and staffing resources.

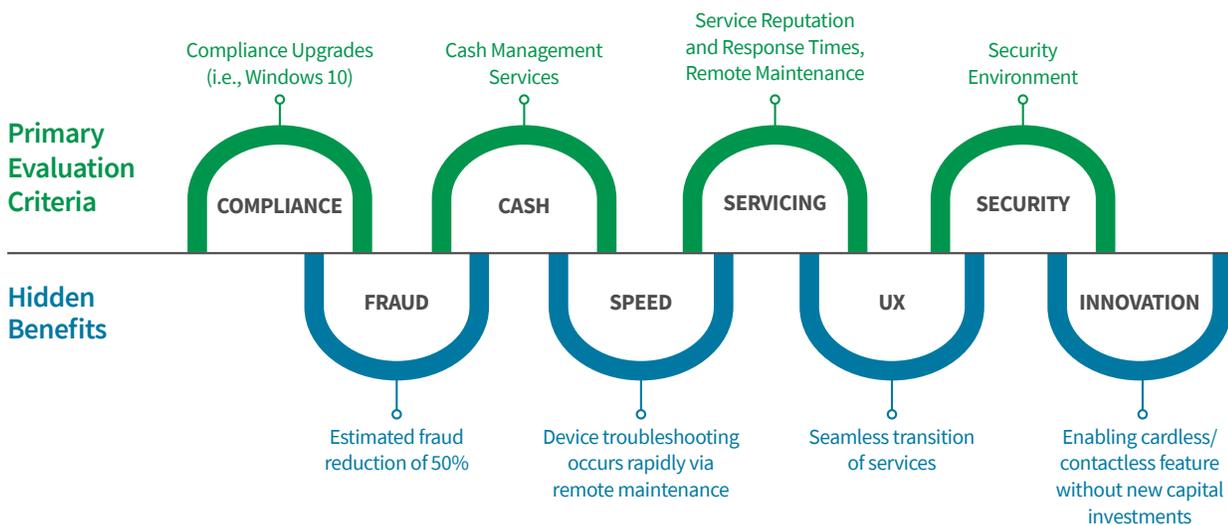
Making your next ATM outsourcing decision based on ROI alone answers the “what” question, but not the “why” question that can reveal the true benefit of your best vendor relationship. We illustrate how the concept of ROV played out for a large Midwestern bank, post-implementation. We also provide a tool you can use today to begin to build out your own ROV analysis as part of your vendor evaluation process.

A BRIEF CASE STUDY IN **ATM OUTSOURCING DECISION MAKING AND RESULTS**

The bank in our case study is a large regional player, with over \$20 billion in assets that was considering ATM outsourcing for the first time in its history. It was looking for a solution comprehensive enough to free up all of the back-end resources needed to manage its ATM channel. The contemplated change was a paradigm shift in management strategy, moving from a home-grown and internally staffed solution for which the bank maintained total control, to empowering a third-party to do this work on its behalf.

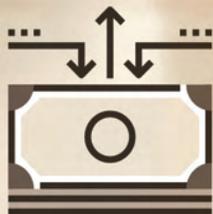
While the selection process pinpointed specific requirements, the post-implementation experience revealed many of the hidden benefits of a comprehensive ATM outsourcing strategy.

Figure 1: **ATM Managed Services Criteria and Hidden Benefits**



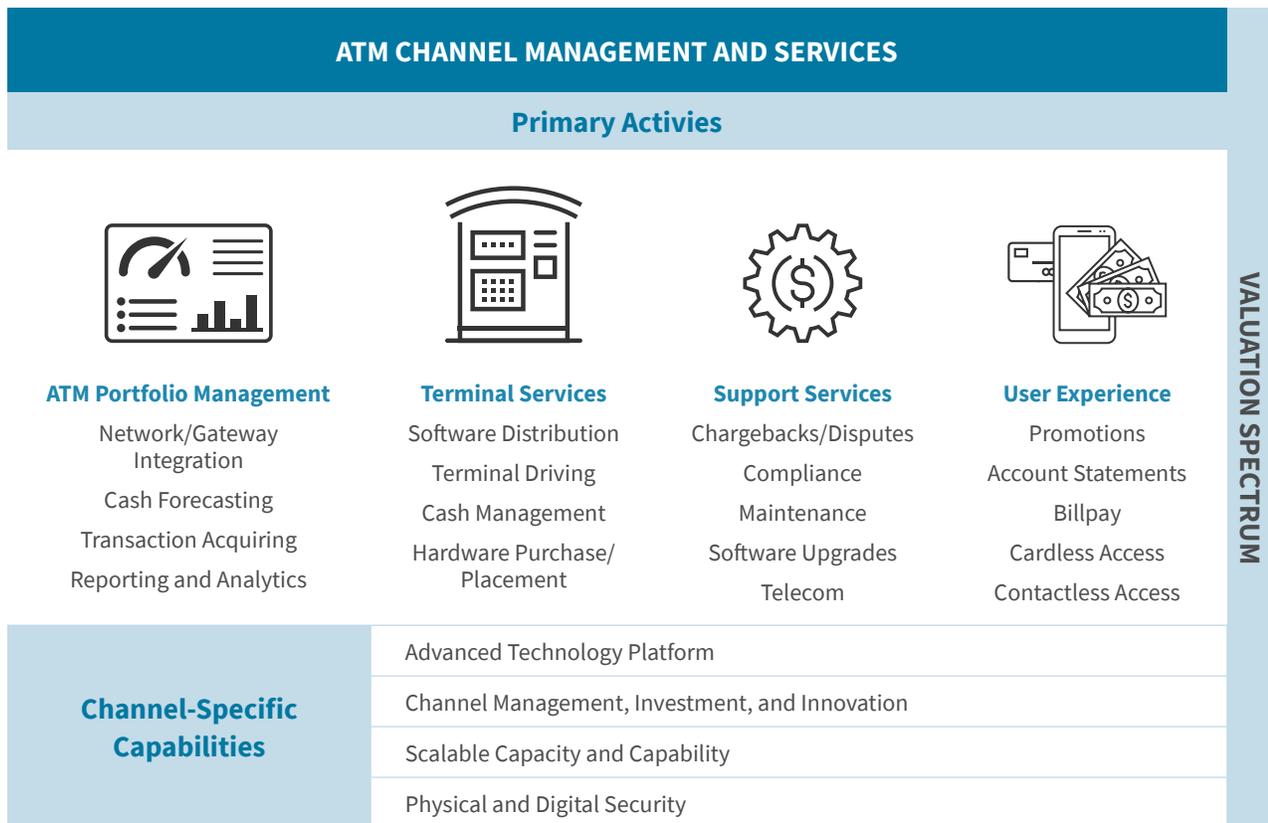
ROV

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One of the most important benefits of outsourcing was the financial institution’s ability to reallocate resources in both front-line and management staff. By fully outsourcing the management of its ATM fleet, the bank estimated savings of three-to-four FTE in branch operations. Further, executives estimate they have reclaimed 90 percent of the time they previously spent on managing this channel. These benefits represent a significant cost saving that is not easily quantified in a typical ROI analysis, which tends to focus on costs pertaining to Primary Channel Activities, as depicted in Figure 2. However, it is in the Channel-Specific Capabilities where the deeper value of a vendor relationship becomes apparent.

Figure 2: **ATM Managed Services Valuation Spectrum**



This beneficial impact is specific to each organization and that’s where you’ll find our ROV tool to be the most helpful. It’s designed to complement and work along with your ROI analysis to allow a higher degree of rigor to be put against your vendor selection analysis. In this way, your final decision can be based on its full value, not simply one aspect of the solution.

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ROV ANALYSIS TOOL

Using our ROV Analysis Tool, an organization can evaluate solutions on a more meaningful level by incorporating benefits such as management time removed/saved, innovation delivered, competitive advantages, and technical gains. Unlike a typical ROI, an ROV analysis incorporates the use of value statements, such as “Eliminates our capital expenditures in this channel”. The tool can be modified with statements that are most meaningful to your organization. Let’s take a look at the main constructs of the tool:

- **Operational Benefits** including staffing reduction, capital expenditures, and channel overhead.
- **Risk Management Benefits** including fraud losses, chargebacks, and security.
- **Competitive Benefits** including speed to market, customer experience, and innovation.

Figure 3: ATM Managed Solution: ROV Analysis

		Weight	Rating	Best Possible Score	Actual Score	% of Best Score
OPERATIONAL BENEFITS						
1.0	Improves our ability to control channel overhead	5	75	500	375	
1.0	Gives us a more predictable channel budget	5	75	500	375	
1.0	Reduces front-line staffing allocation to channel management	4	100	400	400	
1.0	Reduces management allocation to channel management	4	100	400	400	
1.0	Increases our operational efficiencies	5	100	500	500	
1.0	Eliminates our capital expenditures on this channel	4	100	400	400	
				2700	2450	91%
RISK MANAGEMENT BENEFITS						
1.1	Lowers fraud losses	5	75	500	375	
1.1	Improves physical security	3	75	300	225	
1.1	Improves digital security	4	75	400	300	
1.1	Reduces time to recognize and mitigate fraud event	5	90	500	450	
1.1	Eliminates risk of non-compliance with changing channel mandates	3	25	300	75	
				2000	1425	71%
COMPETITIVE BENEFITS						
1.2	Allows us to compete more effectively through this channel	4	85	400	340	
1.2	Supports our getting to market faster with new features	3	50	300	150	
1.2	Gives us access to advanced technologies	3	85	300	255	
1.2	Improves our ability to scale this channel more efficiently	3	90	300	270	
1.2	Provides our accountholders with an improved experience	4	50	400	200	
				1700	1015	60%

HOW TO **USE THE TOOL**

We've built out the tool with a list of value statements most commonly mentioned by financial institutions assessing a potential ATM outsourcing solution. You may customize these statements to adhere more closely to your individual organization's value goals.

Weight – How Important is this to your organization?

This is your ranking of how important that value statement is to your organization on a scale of 1-5, where 1 is least important and 5 is most important.



Rating – How well does the vendor meet this value goal?

This is your rating of how well the solution meets your value goal on a scale of 1-100 where 1 is not at all to 100 where it completely meets that goal.



Best Possible Score – The highest possible score for this value goal.

This is a calculated score that defines the highest possible score for that value goal derived from multiplying the Weight by 100.

$$\text{Weight} \times 100 = \text{Best Possible Score}$$

Actual Score – The score assigned to this value goal for that solution.

This is a calculated score that defines the actual score based on your ratings and is derived from multiplying the Weight by the Rating.

$$\text{Weight} \times \text{Rating} = \text{Actual Score}$$

% of Best Score – How close does the Actual Score get to the Best Possible Score in this entire category of value goals?

This is a calculated percentage of how closely the solution adheres to your Best Possible Score on an overall category basis. It is derived by dividing the Actual Score by the Best Possible Score.

$$\text{Actual score} \div \text{Best Possible Score} = \% \text{ of Best Score}$$

As stated earlier, this tool is designed to augment your traditional ROI analysis and add a higher degree of rigor to your vendor analysis. Using it to work through your value statements should also deepen your organization's focus on defining the specific drivers of an ATM outsourcing solution that have the most value for you.

IN CONCLUSION

Each financial institution is unique with different financial, operational, and strategic goals and expectations. There is no simple answer as to whether or not services should be outsourced to a third-party, but hundreds of institutions make that decision each year. In our recent online poll, 50 percent of participants indicated they are considering an outsourcing solution for all their ATMs.

ATM portfolio managers and retail banking executives must individually evaluate the merits of in-house versus outsourcing options to select the best solution for their institution. We believe there are baseline measurements that go into any ROI calculation, particularly for expenses that are completely eliminated. However, just focusing on whole expense cutting results in an incomplete financial cost and benefit analysis.

We believe that using an ROV analysis in conjunction with your ROI pro forma provides critical benefits including:

- Improving staff's focus on defining and considering the value the organization wants to receive from its vendor solution, regardless of how this channel is managed today.
- Enabling beneficial statements to be quantified on an objective basis across all vendors.
- Uncovering the hidden benefits of an ATM outsourced solution before its implementation.
- Instilling confidence in your organization's ability to make the right vendor selection.

The stakes for self-service have never been higher, while the importance of cash as a payment method, and cash access as a competitive differentiator, remains critical. Yet, capturing the beneficial value of a vendor solution also includes understanding how it will address the critical technical, operational, and competitive goals of your organization. Incorporating an ROV analysis into your vendor selection process gives you the objective, goals-based information you need to make the right decision for a partner that will be alongside you for the long-term.



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