

Outsourcing savings

Gary Halleen's Mendota Heights-based firm cuts costs on billing and accounts payable for big clients.

BY TIM HUBER
Pioneer Press

Three decades ago, Gary Halleen was working on the concept of the paperless office for 3M Co.

Today, he's building Mendota Heights-based API Outsourcing Inc. into a fast-growing and profitable business by taking the paper out of the billing and payments process for the likes of General Mills, Supervalu, Northwest Airlines and Time Warner Inc.

What API does is really quite simple. It automates billing and accounts payable for corporate clients, cutting their costs, reducing overhead, freeing up capital for other uses and improving cash flow. Northwest Airlines uses API to process its air waybills. API takes that mass of paperwork, scans it into electronic form, processes it and puts it into the hands of the carrier's customers, either in the old paper format or, increasingly, as e-mail.

"There's big savings involved here," Halleen said. "It's all about money when it's all said and done."

Money and how it's spent and ways to save it gave Halleen the idea for API. At the time, he was running a company called Com Squared. Halleen had started that company, sold it and agreed to keep running it for five years. As that job was winding down, he was working on the idea for API.

Com Squared sold document-imaging software to big corporations, but Halleen noted with frustration that the back offices of corporate America tend to get less money than they need for operations and to purchase pricey software and hardware.

Halleen set up API to avoid those pitfalls. Customers pay a



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Gary Halleen founded API Outsourcing Inc. in 1998. Since then, he's grown the company from four customers to better than a dozen today and from two employees to 80 spread across the headquarters in Mendota Heights and sites in Two Harbors, Minn., and Madison, Wis. The company is on its way to generating \$20 million in annual revenue.

fee ranging from about 25 cents to as much as \$3.50 per transaction, though \$1 is more typical. National figures show companies pay something on the order of \$6 per transaction if they do it themselves. API can do it cheaper than most of its customers because it can use the same equipment and people to run transactions for a dozen customers, whereas its customers would be using the same equipment and people only for themselves.

The savings are immediate, because API's customers need not shell out big bucks for fancy equipment or to pay their own computer people. They also get to free up capital that would have been spent on computer equipment, programmers and financial workers.

"You can now use that capital for your own core competency," Halleen said.

Saving money for others has, in turn, become a financial pleasure for API since it stopped losing money in 2002. "Since then we've made profits, and we've made really nice profits," Halleen said.

Halleen started API in late 1998 and has built the business quickly. It has grown from four customers the first year to better than a dozen today and from two employees to 80 spread across the headquarters and sites in Two Harbors, Minn.,

and Madison, Wis. The company is on its way to generating \$20 million in annual revenue.

Tony Carideo, who runs an investors relations firm in Minneapolis, was one of several judges who picked Halleen as a 2004 Entrepreneur of the Year for accounting firm Ernst & Young.

Saving money for others has become a financial pleasure for API since it stopped losing money in 2002.

"The company seems to have come up with a really great and timely idea," Carideo said. "They've executed well on it, targeting the right business."

Next year, API plans to add more automation.

Halleen has broader ambitions for 2005 as well. Though API has customers from coast to coast, much of its business is concentrated in the Midwest. API's customers include Minnetonka-based uniform company G&K Services, Wisconsin's Kohler Co., St. Paul-based Affinity Plus Federal Credit Union and Davenport, Iowa-based newspaper chain Lee Enterprises.

"We now want to spread nationally," Halleen said. API is adding sales representatives to call on more potential companies, but Halleen expects to rely on what has gotten the company where it is today: networking. API signed up Delta Airlines, for instance, because of its relationship with Northwest.

As API attempts to expand, it figures to face the same tough competitors it's already up against, including IBM, Accenture and Perot Systems Corp. On the purely electronic billing side, API competes with the likes of iPayables and regional printing companies.

The big challenge facing API is expanding nationally and doing more business with giant corporations — no small feat for a tiny, 6-year-old outfit. Carideo said API will have to offer lower prices and precise products. "You compete with a lower cost structure and with a more targeted service," he said.

No story about an outsourcing company in 2004 would be complete without mention of the debate about sending U.S. jobs overseas.

API's customers need fewer of their own employees, but choosing the company does not mean shipping jobs overseas. API's jobs are all in the United States, a fact the company uses to its advantage: Some companies are leery of the stigma that

comes with firing Americans and replacing them with foreign workers.

Typically, if a company replaces 50 U.S. workers, it needs a like number overseas, Halleen said. But API can provide the same service with fewer people, enabling the company to pay decent wages that start at \$8.50 an hour for clerical workers in Two Harbors to more than \$200,000 for some at headquarters.

Also, working with an outsourcing firm that operates in the middle of the United States eliminates headaches such as long airline flights and 12-hour time differences, he said.

"The big onslaught of off-shore has helped us," Halleen said.

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EXECUTIVE SUMMARY

Company: API Outsourcing

Location: 1355 Mendota Heights Road, Mendota Heights, 651-675-2600

Web site: www.apioutsourcing.com

Founded: 1998

Ownership: CEO Gary Halleen, investors including Minneapolis-based LFE Capital, Duluth-based North-east Ventures, Minneapolis-based Carefree Capital and Space Center Ventures

Projected 2004 revenue: \$20 million

Employees: 80

Challenge ahead: Expanding nationally and doing more business with giant corporations

TALK BACK

Know any successful entrepreneurs? Mail your suggestions to Casey Selix, Sunday Business Team Leader, 345 Cedar St., St. Paul, MN 55101, or e-mail sundaybusiness@pioneerpress.com.