WHY A GOOD BPO SERVICE PROVIDER IS NOT ENOUGH FOR A SUCCESSFUL BPO SERVICE DELIVERY

The case for a tighter cooperation between service provider and software vendors – and why the customer should care

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EXECUTIVE SUMMARY

While many early generation BPO deals showed patterns typical of system integration and process reengineering – both disciplines matured in the 90s - success in BPO is more than just process redesign and technology. It is about operational excellence and as such it must leverage both the operational and transformational skills of the provider – and should be driven by the respective stakeholders in both camps (that is, by the COO as well as the CIO). Some BPO providers, often pushed by end-clients and advisors, insufficiently supported by software vendors, and challenged by internal resource-allocation dynamics, have failed to realize this point in the past. Structurally, many BPO providers were either born very good "operators" and excel at operating a given setup, or very good "implementers" who are good at designing and implementing innovation – but rarely both at the same time.

The result in quite a few cases was a failure to leverage processes and technology solutions to fully harness the key drivers of BPO value: economies of scale, process optimization, and low-cost labour. This explains a number of economically unsustainable deals that left customers and providers dissatisfied.

Successful BPO providers make the most out of their technology investments by ensuring that these investments serve their service delivery needs. They integrate process and technology design with operational requirements, thereby creating replicable solutions that enable true scale leverage. The best service providers also seek the involvement and intimate support of the software vendor they choose for their process/technology platforms to assist them in their quest for ongoing evolution and improvement.

Catering for the providers' needs is not a job a software vendor is typically structured to do – and requires substantial investment on his part, too. Customers looking for a sustainable BPO platform are therefore best advised to systematically verify the solidity of the service provider-software vendor relationship backing it up, for each of the crucial parts of the service delivery they require.
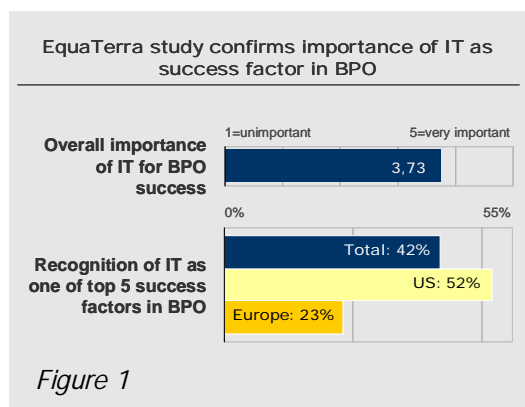
IT IN BPO – WHY BOTH BUSINESS AND IT DECISION-MAKERS SHOULD CARE

Customers' opinions around technology in BPO are often polarized, ranging from "I buy a service, technology should come with it and I should not overly need to care" to "this is a CIO discussion and therefore business decision makers should defer it to the IT department".

Both however miss some crucial points:

- **The appropriate deployment of technology as an enabler of outsourced and retained processes is critical to the delivery of the BPO services**, for example by appropriately leveraging automation, analytics, workflow, authorizations, process integration, etc. Also, technology deployment should not be engineered in a silo – it must be designed as an integral together with the process reengineering to achieve optimum "design to manufacturability", as the equivalent concept is called in manufacturing. This includes choice of the platform itself, its deployment, and configuration/customization.

- **Technology choices made by or influenced by the customer have repercussions on the ability of the service provider to deliver their services**, as the technology platform of the customer and the provider is very often a shared one, or at least a heavily integrated one - and as such the choices on one end impact the other end. Common problems include data integrity and ability to keep synchronized over time when the "two sides of the fence" move in slightly different direction, suboptimal self-service implementation, etc.

The early generation of BPO contracts, in particular in the mature HR outsourcing space but also to some extent in others, has suffered from that. As the results of a study by outsourcing advisors EquaTerra[1] show, the market has evolved since, and the IT solution used by BPO providers is considered important by end-customers. However, the study also indicates that customers' understanding of IT's role in BPO is still uneven, with the US (the most mature region when it comes to both BPO and IT) leading. Figure 1 summarizes these findings.

Figure 1

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[1] „Assessing the Role of Information Technology (IT) & Enterprise Software in BPO: 2007 Update", EquaTerra, 2007

To understand better how technology choices might influence the chances of success of BPO, just remember that customers try to improve the cost/risk/quality of their operations – and for a provider to be able to do all that better than the customer, the provider needs to be able to leverage two capabilities.

Firstly, the provider must be **structurally advantaged** (i.e. superior economies of scale, process optimization, and labor arbitrage). This requires that

- either the customer accepts some level of standardization around provider-driven best practices (so that the provider can run it at least partially on a replicable model used for others). This will also positively influence the provider's ability to innovate, the level of documentability and portability of the platform at the end of contract, and the extensibility of the platform to accommodate of scope changes – as it is very difficult to make a highly-customized platform evolve

- or the customer has enough scale so that a customer-specific standardization (i.e. homogenizing processes within the customer's organization) is sufficient, like for example Procter & Gamble or DuPont. It should be noted, however, that even large multinational companies will find the size of many parts of their organization (for example countries, specific processes) to be below critical mass.

Secondly, the provider must be able to **transition** the customer organization to the ideal state where the structural advantage is achieved. This requires that the provider is able to carry out (and the customer prepared to accommodate) some changes in the way operations were run in-house – which should be no surprise because the main intent of service centralization is to transform the way the function in question (e.g. HR, Procurement) operates, anyway - irrespective of the way (outsourced or via a shared service center) this is done.

Combine these two points with the comments made above (how technology helps harnessing economies of scale, process optimization and labor arbitrage), and it becomes clear that the provider must understand both how to design, implement and operate processes and the underlying technology platform very well.

Unfortunately, this is not always the case, especially for providers who claim to be "technology agnostic", which is to say they can deliver services with multiple platforms and rely on the customers to determine technological direction. This "tell me what you want" approach is often ineffective as it heavily relies on the customer providing indications about the blueprint of the processes – which by definition is not the way a BPO provider should typically operate. Rather, providers should be able to bring in the expertise and process optimization. Also, such

strategy requires that the provider's consulting team has a much broader skill set, as it needs to (1) be able to deploy good solution and process architects knowledgeable about each technology and (2) be willing to do so, which is tricky because BPO-related implementations generates revenue only in the longer term. The results of this situation have often been overly proprietary/customized software solutions which can become legacy, hindering innovation over the contact duration and a transfer back in house or to another provider.

Conversely for a service provider being just an "operator of platforms" is not sufficient either, since some level of IT transformation is usually needed (especially during initial transition phases and when innovating).

WHY TRADITIONAL RELATIONSHIPS BETWEEN IMPLEMENTATION PARTY AND SOFTWARE VENDOR ARE NOT APPROPRIATE FOR BPO

As discussed above, the way information technology is used as a foundation of BPO processes is crucial to the sustainability of the BPO endeavor. Being deeply knowledgeable about the required solutions and related configuration/implementation options and being able to replicate such technology and process blueprints at least in part for multiple customers are necessary to achieve economies of scale and process optimization.

Another point is equally critical: that the provider takes a holistic approach to the BPO engagement, linking together the process/technology transition and operations phases from the beginning, and ensures that he has adequate resources – and continuity of those – for both. Neither will a perfectly run implementation be useful, if is not tightly aligned with everyday process operations' requirements, nor will a provider with perfect operational skills (e.g. people- and IT-management)

Process and systems design should be fully integrated with operational requirements

Initial Design/ Blueprinting

Implemen- tation

Re- Design

Operations

Continuous Improvement

Figure 2

be successful, if process design is insufficiently enabled by the initial technology implementation. Figure 2 depicts the way in which providers should optimally approach a BPO engagement.

To make BPO commercially successful, a BPO provider must typically be a very good operator of processes and related systems. This to some requires different capabilities from those of a
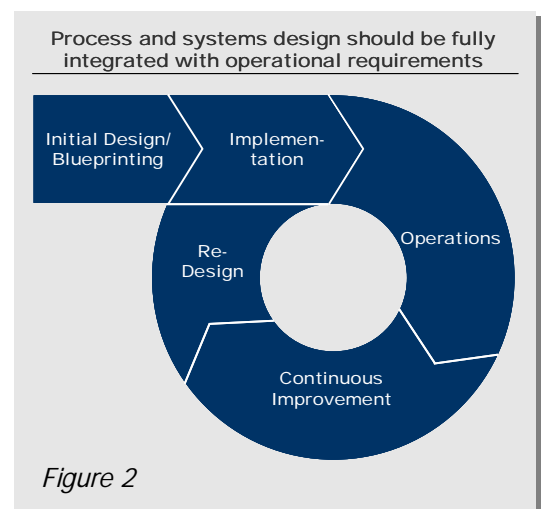
typical System Integration (SI) firm, because an "operator" does not necessarily rely on obtaining the customer requirements for all the processes, and derives most of its economic value <u>after</u> the implementation phase – which gives him an incentive to transform any key process to a cost-effective best practice, fast.
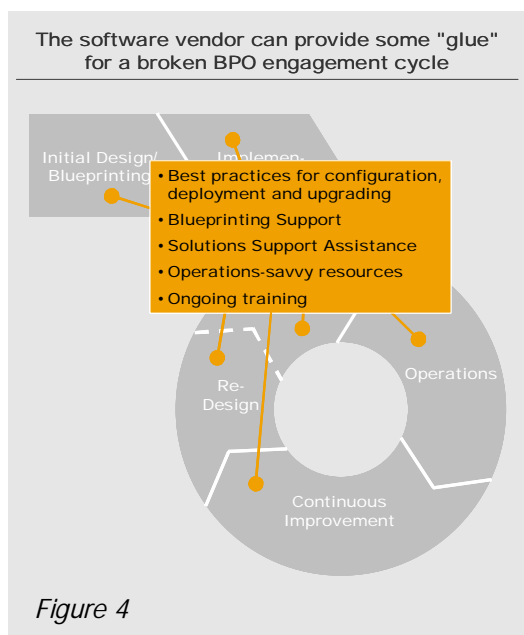
However, the transition phase (including process and technology reengineering) and related change management can be challenging and requires the same skills as the ones that good SIs have. Because of their organizational structure and the nature of their job, even those BPO providers who have a strong SI heritage or have dedicated SI divisions may fail to fully align the initial implementation with operational requirements though. Since a BPO implementation is typically driven (and, possibly more importantly, respective revenue recognized) by the "BPO side of the house", the implementation project is an internal one and usually the best SI experts will be incentivized to work on external, immediately billable projects. For the same reason, the SI team typically moves on as soon as possible, latest at the completion of the initial transition project, leaving the BPO operations department with the task of implementing any potential continuous improvement and re-design in isolation. In such a situation, the needed integration of transition and operations activities can easily be lost, as depicted in figure 3.

Figure 3
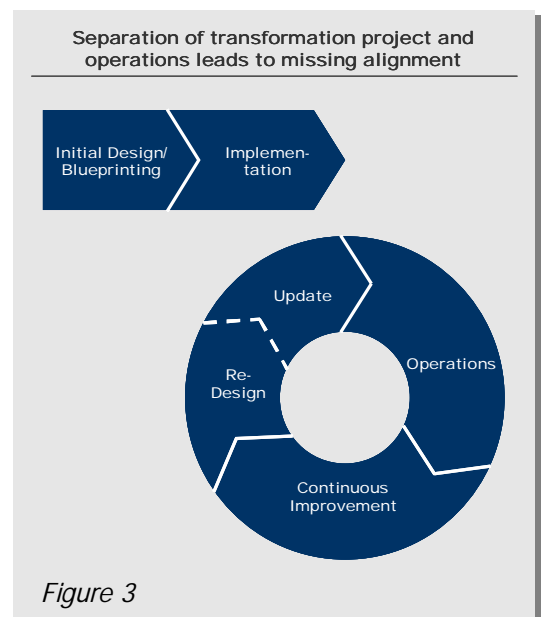
A final point to be considered from a customer perspective is the requirement for an end-to-end process-view, bridging the boundaries between BPO provider and customer. This requires a deep and seamless integration of processes and solutions, linking the provider with both functional and cross-functional units in the retained organization – which in turn means that providers need to leverage technology to the maximum possible degree.

Based on the points made above, it is easy to see why traditional alliances between providers and software vendors, mainly aimed at marketing or punctual system-integration support, are not sufficient for BPO. Rather, the BPO providers require special help in the effective deployment, maintenance and evolution of the chosen software solution. For this reason some providers have been trying to fill the gaps by acquiring smaller, vendor-specialized system integration firms.

Not living up to the challenges described above showed in the past through BPO contracts in which economics were handicapped by insufficient leverage of automation and information systems – which in turn limited the access to economies of scale, process optimization and labor arbitrage that BPO provider need to offer lower cost, better quality and a better risk profile than the customer would have been able to access by him/herself. Problems reported include uncertainties around specific items such as migration of historical data sets into the new ones, and in general – more dramatically – accommodating the co-existence of new processes and tools (e.g. self-service portals) with retained ones and the related technology. Similarly, the amount of technology-supported innovation throughout the deal lifetime was often perceived to be insufficient which diluted the customer's satisfaction.

The software vendor can provide some "glue" for a broken BPO engagement cycle

- Best practices for configuration, deployment and upgrading
- Blueprinting Support
- Solutions Support Assistance
- Operations-savvy resources
- Ongoing training

Initial Design/ Blueprinting

Implemen-

Operations

Re-Design

Continuous Improvement

Figure 4

While ultimately it is the provider's responsibility to ensure technology is appropriately deployed and leveraged, a close collaboration between the provider and his software vendor can help rectify some of the issues identified above by re-integrating the disjointed pieces of the engagement model shown. In essence, such collaboration provides the glue for keeping IT-related activities during the transition and operations phase aligned. Figure 4 illustrates this idea with some examples.

In summary, advisors and clients alike should pay attention to "kicking the technology tires of the service delivery" appropriately during the RFP phase and at the same time ensure that they
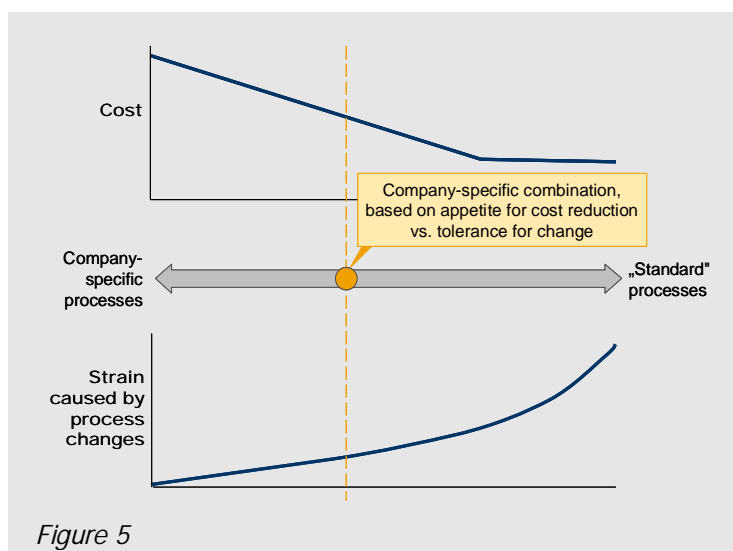
1. enable the provider to use standardized best practices whenever appropriate,
2. allow enough time and resources during due diligence,
3. include sufficient IT-related experts in all of the above - even if this requires accessing directly the software vendor's resources or asking the provider explicitly to do so,
4. provide enough know-how to effectively govern ongoing evolution of processes and technology by triggering and evaluating proposals for innovation, and
5. have a the chosen software vendor back the provider appropriately.

THE BENEFITS OF A TIGHTER COLLABORATION BETWEEN SERVICE PROVIDER AND SOFTWARE VENDOR

To fully apprehend the value of this approach, consider that to realize all effects of best-in-class approaches and economies of scale, processes would have to be standardized at least to some extent – often around the provider's blueprints. This also results in a much "cleaner" IT implementation. In practice, however, many organizations reject standardization with the argument that their operations are "too specific" for it. Often, it's not the specificity itself that's a problem, but the staff's fear of changes; this can be expressed by a "pain curve", which has to be balanced against the potential savings or other qualitative gains.

The graph in figure 5 illustrates the situation. The cost curve is a sum of the IT and – more importantly – process cost curves. The "pain" curve varies greatly by company, and it becomes steep at a point when the organizational discomfort with the amount of change is too large and no amount of savings can make up for it.

Figure 5

Every company will choose a specific combination of process specificity and IT customization, based on its individual preference to balance further cost reductions and the resulting strain on the organization.

Within this framework, a tight collaboration between BPO provider and technology vendor, focused on the joint design of processes and technology deployment, would ensure the following advantages.

Lower implementation cost

BPO providers can implement technology often at a lower cost, if given the capabilities and the opportunity to do so. They become „power users" with significant – and replicable - implementation experience and can leverage software to the fullest extent. Their use of standardized templates allows for faster implementation.

Limited organizational strain

Even more importantly, such BPO providers would optimize the outsourced processes, but limit the strain on the customer organization, as illustrated in Figure 6. Such optimization is easier for the BPO provider, as he is more used to the tension and also has a commercial incentive (and often an explicit mandate) to optimize. Additionally, advanced Self Services and Customer Interaction Centres – if appropriately deployed - allow for changes being made without changes to the user interface.

Better processes

As a combined result of the effects described above and illustrated in Figure 6, such BPO providers could achieve better business results at lower cost: automation is increased, best-in-class processes can be fully leveraged, and the need for custom code and process customization is minimized. This maximizes the structural advantage that the BPO provider can leverage to deliver economic value and related superior risk and quality to the end customer.

Figure 6
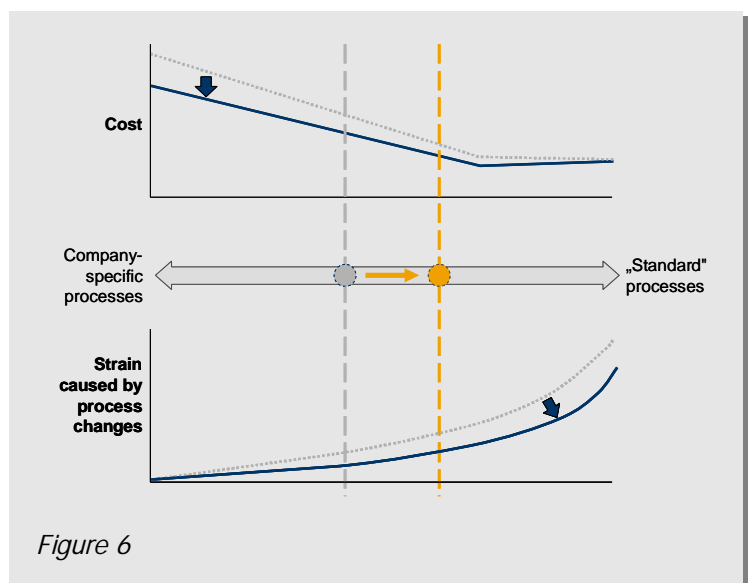
A CONCRETE EXAMPLE: HOW THE SAP BPO ORGANIZATION ADDRESSES THIS ISSUE

The "BPO Powered by SAP" program and related business unit were set up in 2004 to address the need for a specific engagement model to support customers' leverage of BPO. The first provider SAP worked with based on this scheme was ADP for its GlobalView® division, and the results since then have been extremely positive.

Technology per se is powerless – unless it is appropriately deployed, in a best-practice way, consistently and respecting the requirements of BPO service delivery. This approach ensures lower process (not just technology) cost – immediately and in the future – and lower transformation and operations risk. Dozens of BPO deals with SAP's partners have been successfully supported through this scheme.

The operating model that supports optimum technology deployment revolves around two main aspects.

First, **a "tiered" support** to the BPO provider: SAP BPO Solution Delivery Managers, special resources allocated to the support of SAP BPO partners, help appropriately leverage
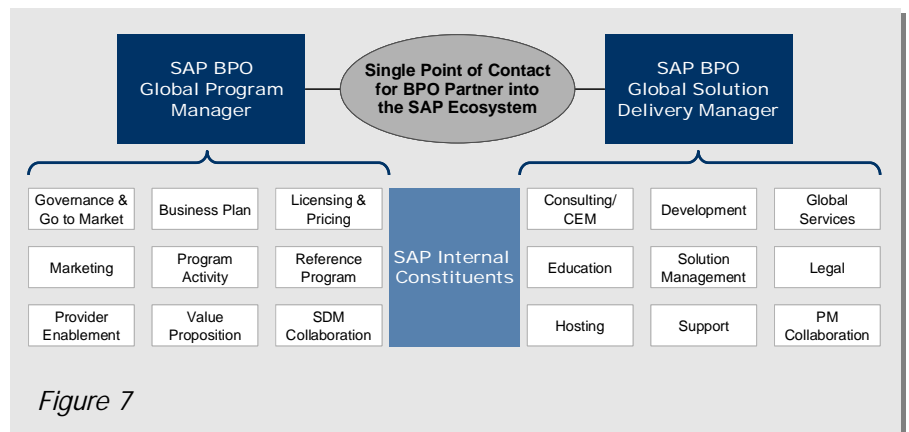
Figure 7

SAP solutions throughout the entire BPO life cycle. They act as a "tier 1", responding to provider's queries at all stage of the BPO deal, and even before – when the technology/ process blueprint is designed. They also connect to a pre-defined set of BPO-savvy SAP resources that span from solution architects to ERP support experts, and ensure that this tier-2 support is on time and on quality. SAP BPO Program Managers are the commercial counterpart to the Solution Delivery Managers, also working closely with partnering providers throughout the BPO lifecycle. Figure 7 illustrates this setup.

Second, **a lifecycle perspective** on the design and implementation of the solution: even before the deal is struck, SAP BPO partners are certified and knowledgeable about the possibilities offered by the SAP platform, the design and implementation methodologies available and

Figure 8
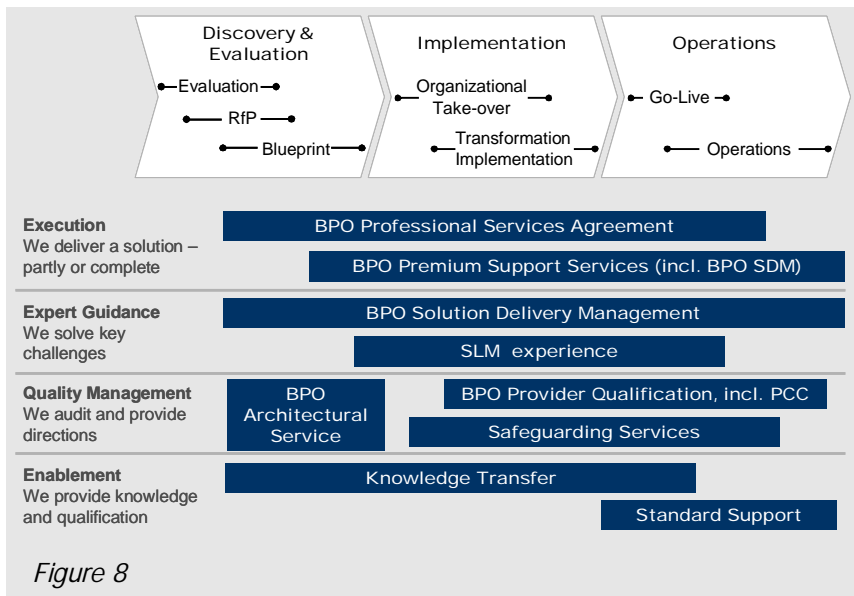
support requirements. In addition, the Program Manager ensures that all stages of the customer engagement have an adequate SAP support so that technology-related uncertainties are minimized. The Program Manager ensure that SAP "lives through" the operations of the customer through the provider, and can support them effectively and efficiently. Figure 8 summarizes the type of support that SAP partners get throughout the BPO lifecycle.

SOME BENEFITS IN DETAIL

A number of benefits in the form of cost reductions, quality improvements and risk minimization can be obtained with the collaboration approach described above. All examples are based on our experience which matured since 2004.

First, compared with traditional BPO agreements, a lower **cost** in all phases of the relationship:

- **Transition and Evolution Cost:** BPO Providers "Powered by SAP" have the ability to implement best-practice processes while largely respecting the key aspects of SAP's software architecture, thereby limiting ad-hoc code modifications and ensuring more scalable, standardized process/technology architecture.

- **Ongoing Total Process Cost**: The cost of process steps constitutes the bulk of the process cost. Today, manual intervention in both processing and hand-offs between systems and organizations can be drastically reduced thanks to SAP's new technologies. "Powered by SAP" BPO providers have the discipline and capabilities to eliminate unnecessary costs through SAP-based automation. Additionally, many of them focus on building replicable delivery platforms that generate synergies across end-client operations and implementations.

- **Cost of Keeping Long-Term Options Open**: BPO services based on a standardized ERP platform help reduce the cost of changing providers or re-insourcing after contract expiry, since they provide for an easier migration of both configuration settings and data. Also, customers can choose from a large community of competent yet unique SAP-based providers, and SAP's own BPO–savvy resources experienced with the partner community provide cost-effective transition support.

Additionally, the BPO engagement runs a lower **risk** profile:

- **Transformation Risk:** Substantial investment of SAP resources in the relationship with the provider, including resources from SAP BPO-specific business unit, is the key. In addition to the SAP BPO Solution Delivery Managers, SAP supports the provider in leveraging synergies through multi-client BPO platform architecture. New customers can be added faster by copying the SAP-based template. Experience shows that 40-70% of business process configuration is common across companies. SAP industry-leading multi-client technology enables adapting the business processes for an individual customer without impact on the processes of the other customers. This is achieved through adding customer-specific configuration enhancements on top of provider's template copy – which is possible only if the provider is knowledgeable about these aspects.

- **Legal Risk**. Regulatory compliance requirements change frequently. Non-compliance can impact the highest levels of the organization and sometimes affect a company's reputation. Hence, accurate and timely implementation of the required process and/or reporting changes and checks to both outsourced and retained process and their underlying technology is key. This is an issue for any service provider that does not fully uses the right technology, or does not keep its installed technology footprint up to date with the newest legal requirements on a broad scale. Using SAP as a process platform substantially helps reducing the compliance risk from changes in the regulatory compliance framework: firstly, SAP builds the legal changes for an extremely large customer base through a global software development network and an established network of contacts with the regulatory bodies and all legal change updates are delivered through regular support packages and avoid ad-hoc programming of changes to specific processes and countries; but also, the close relationship between provider and SAP ensure seamless knowledge transfer and ensures better planning and execution of such sensitive work.

Finally, a better **quality** level can be achieved by lowering the provider's cost base – which frees up resources for improvements – and making sure that the transition phase is smoother. This is possible thanks to the substantial upfront investment of SAP resources in the

relationship with the provider, and the related leverage of synergies through multi-client BPO platform architectures. Also, the provider is informed regularly and thoroughly of future developments so that it can plan ahead and ensure an optimum software strategy for the customer's landscape.

CONCLUSION

It is dangerous to unduly restrict the service provider's freedom in leveraging and fully harnessing the effectiveness of economies of scale and process optimization. However, it is absolutely critical that the customer (complemented by expert advisors) "kicks the technology tires" of the provider through the RFP process. In the end, the customer and its advisors should check if the technology deployment the provider proposes is indeed going to enable the economies of scale and process optimization required to generate sustainable results.

It is essential that the technology vendor heavily supports the BPO provider. Traditional joint go-to-market activities are neither enough nor what is needed. Conscious of these requirements, for example, SAP dedicates over 40% of the now sizeable SAP BPO group to support the providers in deploying technology and resolving related problems – be them understanding how to better automate processes, finding shortcuts for implementation, sketching what is possible with technology innovation, or simply identifying solutions to operate the technology platform more cheaply. Unfortunately, no other software vendor in the market has put a similar amount of resources on the table – which makes the BPO market more risky than it should be.

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