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Mastering high-performance BPO

Keys to the Kingdom

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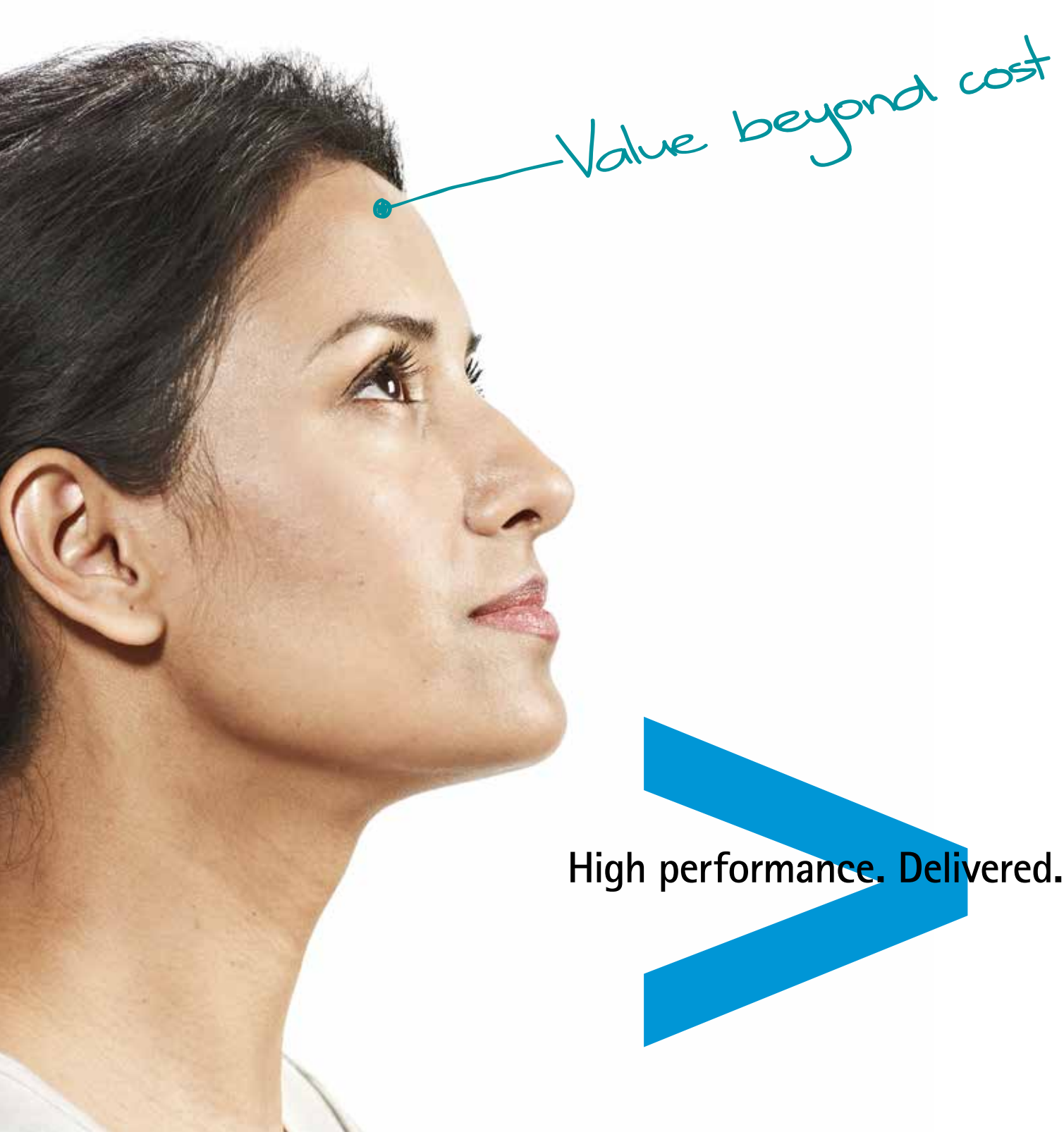


Introduction

As the BPO market matures, clients are expecting BPO outcomes beyond cost savings and meeting service level agreements[i]. Next generation BPO clients want their service partners to transform their back offices, to improve business performance, to support the client's shifting business directions, and to deliver business outcomes not initially expected.

The present 2012 study is finding high performers shifting their priorities toward innovation and business outcomes, with cost savings and superior service performance targeted as an automatic 'must-do' threshold requirement in most cases. We call relationships that are achieving these exceptional results high-performing BPO relationships.

What practices distinguish high-performing BPO relationships from "typical" BPO relationships? Our latest research from the London School of Economics and Accenture uncovered the "keys to the kingdom" practices that contribute to high performance. These practices emerged from analysis of four research streams: a comprehensive survey of 263 senior client BPO executives by The Everest Group[ii], in-depth interviews with client-provider executive pairs in 20 organizations[iii], our prior BPO case study research[iv] and a review of 1,356 BPO and ITO findings from 254 academic research studies identified as robust[v]. Across all these research streams, seeking value beyond cost reduction was one of the most important practices associated with high-performance BPO outcomes.

In high-performance BPO, both clients and providers acknowledge the importance of cost reduction, but do not see that as the prime objective. This mindset manifests itself in several ways, one of them being how the business case for the BPO program is constructed. Two-thirds of high-performance businesses focus on the potential value of business benefits beyond cost alone when creating the business case, compared with only 26 percent of typical performers. High-performance businesses are also more willing to consider greater functionality from the outsourced service, even if it costs more—in our survey, fifty-eight percent of high-performance businesses would consider service options with greater value, even at higher costs, compared with 31 percent of typical performers.

The insight here is that cost reduction is a worthwhile, but not sustainable or most valuable benefit on its own. As articulated by the shared services manager for a manufacturing company: "You need to know what you are trying to accomplish with outsourcing. You have to be thinking way beyond cost because that is only a one-time gain. Arbitrage is a one-time gain. You want to be thinking about what you will do in your own company and what you will not be doing; the strategy emerges from that."

High-performance businesses are more driven by how outsourcing can create an organization capable of greater things—and cost reductions are just table stakes. "Going back to the objectives that we set out at the start, I think we have used cost reduction as a stepping stone to being a more global organization. Today we have 80 percent of our outsourced capabilities operating from a global hub in the Philippines. That has helped us to become more global as an organization and helped us to drive more standard processes as an organization," said the director of financial shared services for a large consumer company.

Starting the mid-2000s, there has been a marked change in how BPO has been approached by an increasing number of organizations. Realizing the huge amount of value being left on the table in their back-office functions, the high-performance organizations have sought to get their own houses in order, leverage the rising capabilities offered by the market, and position their business platforms as an integrated set of processes aligned with core business dynamism and global presence. While most companies are still in their evolutionary stage, high-performance organizations are distinguished by being six to eight years ahead of the good and average BPO performers. In many cases, organizations are just starting off on that path, driven by the 2008 financial crisis or by subsequent recessionary times.

In practice, high-performance organizations focus on three imperatives (see Table 1):

- Seek benefits beyond cost
- Pursue a cost-plus innovation agenda
- Seek a global sourcing evolution

Table 1: Three imperatives for achieving value beyond cost

Focus	Typical actions	Impacts
Benefits beyond cost	• Include business benefits in the business case • Permit higher costs to achieve higher service quality • Capture business benefits after cost savings	• Process performance improvements • Higher service quality in aggregate and in targeted areas • 20 to 35 percent cost savings
Cost-plus innovation	• Hire provider for subject matter/ transformational expertise • Use savings to fund innovation	• Continuous system, technical, and business gains
Global sourcing evolution	• Stabilize • Standardize • Integrate • Optimize • Dynamically Source	• Strengthened and aligned business platform through strategic partnering

Benefits beyond cost

In previous studies we saw client organizations focusing primarily on cost reductions, making costs variable - or at least stable - and getting rid of the non-core back-office functions[vi]. The high performers in the present study consistently position their back-offices and costs in a much larger business frame.

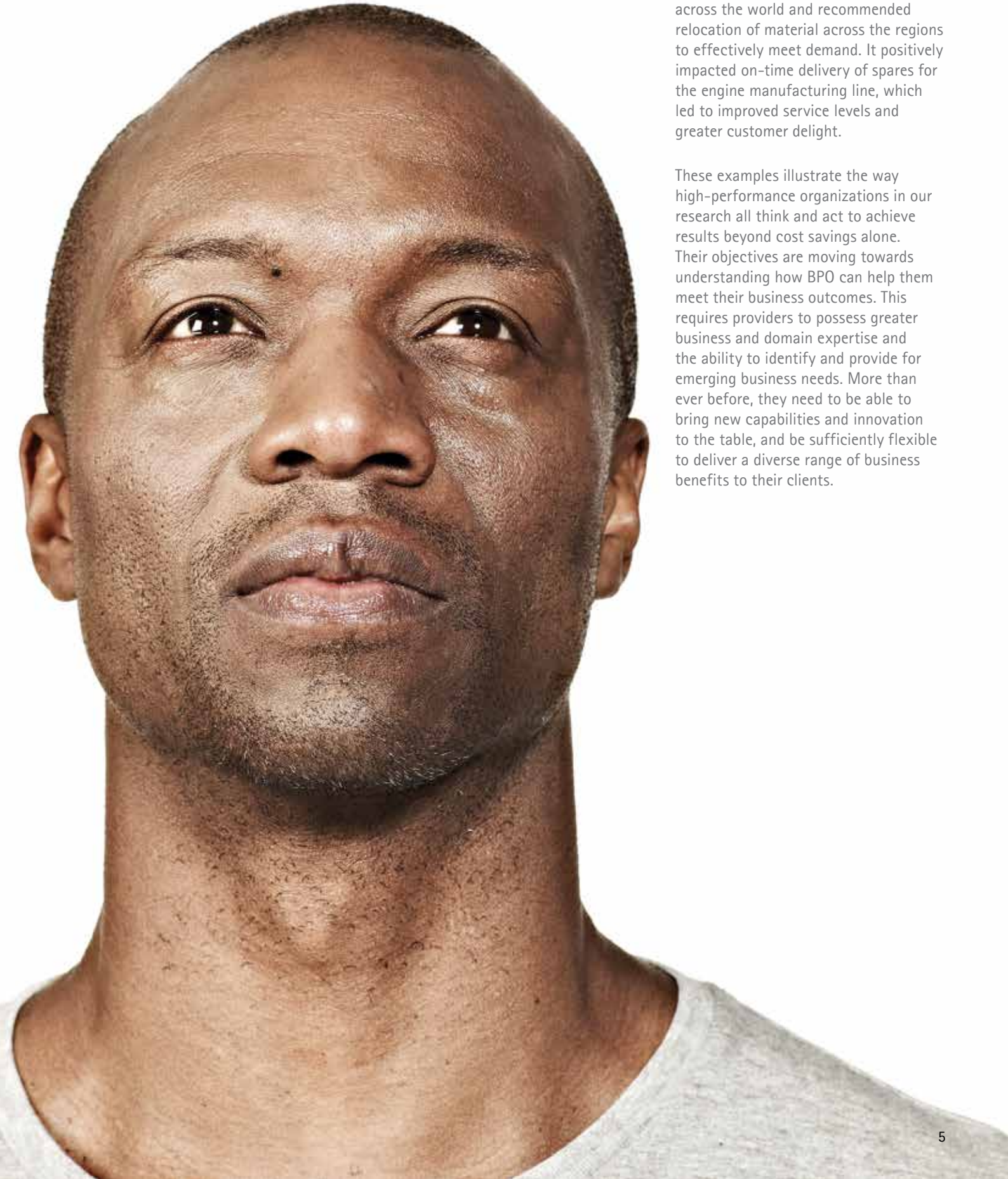
One electronics company outsourced its finance and accounting functions to facilitate moving headquarters while retaining knowledge and achieving business process improvements. Another global pharmaceutical company outsourced its finance and accounting functions to move away from a high-cost US location. This was primarily done to move from three regional operations to a more global delivery model and achieve variability in its cost base.

Similarly, one imaging products company told us."Our business objective was actually to improve processes, to move to world class.... We could either re-engineer them ourselves or we could hire somebody who really knew how to do it and did it for a living. We thought that the second option now would be cheaper and quicker, particularly on something that was not core to our business — cash posting and cash receipt and accounts payable for vendors and vendor master data management. That's where it started. On the way, we didn't want that to cost us money, but we weren't particularly looking for money savings.

A major retailer provides an example of this more integrated business thinking. While cost was an important consideration in provider selection, the ability to improve performance was the client's main criterion. The client's Vice President of Replenishment, explained: 'Outsourcing was more about service to our customers than about cost reduction. The outsourcing model is obviously woven potentially to save us money, but it wasn't our prime motivation.'

One executive from an imaging products company said that suppliers and retailers used to get frustrated at peak times as the accounting and finance systems struggled to deal with the escalation in business volumes. Thanks to process improvements in the outsourced finance and accounting processes, accounts payable and receivable and monthly closing have now become a military operation. "Labor arbitrage is temporary, but process improvement is permanent. Silent running was absolutely the main objective and it is not a problem for the organization any more. We achieved it more cheaply that we used to," he said.

The intimate relationship between provider performance and business outcomes is outlined by an executive of an engine manufacturer: "I am not going to talk to you about labor arbitrage. We are way beyond this. But I will talk to you about how a critical mass of people working on a varied scope, and linking business processes together—kind of connecting the dots—is generating incremental value'.



One specific example of this incremental value can found in the company's spare parts management process. The provider worked with its own proprietary tools to forecast demand in different regions across the world and recommended relocation of material across the regions to effectively meet demand. It positively impacted on-time delivery of spares for the engine manufacturing line, which led to improved service levels and greater customer delight.

These examples illustrate the way high-performance organizations in our research all think and act to achieve results beyond cost savings alone. Their objectives are moving towards understanding how BPO can help them meet their business outcomes. This requires providers to possess greater business and domain expertise and the ability to identify and provide for emerging business needs. More than ever before, they need to be able to bring new capabilities and innovation to the table, and be sufficiently flexible to deliver a diverse range of business benefits to their clients.

Cost-plus innovation

High-performance organizations are increasingly engaging BPO providers on a cost-plus innovation agenda where cost savings are expected automatically across the lifetime of the contract.

In some cases we found those cost savings being used directly to fund innovation. Providers are selected because they bring distinctive capabilities and innovation capacity to bear explicitly on the areas outsourced, and beyond. As collaborative behavior between the client and provider(s) becomes key[vii], providers must now remain highly attuned to business thinking and client imperatives.

A fundamental part of innovation is hiring a provider for their subject matter and transformation expertise. At a networking equipment company, there was certainly a focus on costs in a major finance and accounting outsourcing (FAO) deal signed in 2007; however, the primary criteria was a partnership for transformation, flexibility and growth. This limited the choice of providers to those who could partner for transformation, rather than just deliver service at lower cost.

In a procurement deal at a major bank, a senior executive pointed out that the provider was actually a larger company than the bank, running a far tighter procurement process. "We have actually taken a lot of learnings from them. They have a number of approaches that we would love to bring in," said a company executive, "such as a 'three strikes and you're out' procurement policy."

Meanwhile in a procurement deal at a world leader in electronic design automation, the client said: 'One of the biggest things that we were hoping to achieve in outsourcing this function (procurement)—and have achieved—is subject matter expertise. For instance, we recently took out our legal spend from a request for proposal (RFP) as we would not have been able to have an expert that has done every single commodity. Travel management—airline negotiations, hotel negotiations, rental car. etc—and hiring telephony are other areas that are extremely complex and dynamic. You've got experts at the supplier team that go from company to company to company and they know the latest trends. They saw voice-over IP coming, they now know how to negotiate it," he said.

In high-performance organizations, the innovation process is integral to the way the provider operates. High-performing clients tend to continuously shape the governance and contractual context in a manner that enables innovation at every level. For instance, the supply chain service provider for a global retailer launched a host of continuous improvement initiatives—53 in the first three years—targeted at improving the consistency of delivery. The provider team was responsible for a range of processes including forecasting based on seasonality and sales, setting purchase orders globally, overseeing shipping of products, allocating products to distribution centers, and shipping them to stores.

According to the vice president of Replenishment: "On the planning side, we work collectively and implemented a new tool that enables planning and allocation of products to stores. They've also extended that into allowing them to do category management and financial planning work as well, in terms of forecasting. They have also, in the last 18 months, placed a number of resources to spend time re-engineering and designing new or the right processes to drive the business functions all the way from initial category strategy to getting the product moving through the supply chain, which includes the vendor community, through our network, and eventually getting to those stores to support the sales plan."

In a learning contract at a large bank, a client executive observed that the relationship with the provider had brought new ways of delivering learning: "Innovation is a kind of a broad church. While there is innovation in terms of the subject matter, there is also a huge amount of innovation in the way we deliver training today. We have made huge strides in that particular area—while a vast majority of the training would be delivered through the classroom earlier, 40 percent of training is delivered through electronic training today. We are also pushing out through mobile learning using smartphones and other collaborative electronic tools."

At a networking equipment company, an FAO delivery excellence team made great improvements in areas like invoice-to-pay and record-to-report where the client could capture discounts and enforce standard terms on its providers, and integrate six regional teams into one consolidated global team. Also, a standard approach helped mergers and acquisitions by allowing seamless integration of the new, merged business entity.

A senior provider executive in this relationship commented: "Delivery excellence has two real sub-themes underneath it—quality and analytics—and these teams drove a lot of the improvements. They looked at the data on supplier and invoice performance and available discounts, and analytics played a key role in recommending the specific steps we could take towards meaningful change. For instance, we know that if we enforce particular invoice terms on a supplier, we'll get five million dollars. As you get good at it, you don't think of analytics as separate from transformation. You study the data for a great deal of time in order to understand precisely what has to happen and who has to make it happen and how you can convince them that this is the right thing to do. And then you make the change."

Global sourcing evolution

High performers view their outsourcing contracts organically – as living, manageable opportunities for improving the overall business, and not just the outsourced function. This is a far cry from the "throw it over the wall" mindset that marks many typical outsourcing relationships. or 'send it to India' mentality that marks so many 'poor','OK,' and occasionally even 'good 'relationships where the objective is to park the function with a service provider and work through them on a cost-service trade-off.

The trademark of high-performance organizations is different—they evolve their contracts to reconstruct their own business operations and optimize outsourcing services globally. A global imaging products manufacturer not only wanted to save money but also benefit from process standardization, process improvement and process centralization from its outsourcing initiatives. Said a provider executive: "They were doing things differently in each country and we helped to standardize and improve processes by making all processes consistent with best practices. Additionally, we brought more visibility on the processes by providing detailed metrics which allowed ourselves and the client to clearly see and understand the root cause of issues."

And as the client executive said: "They have provided us with a lot more reporting on what is going on in these areas than we ever had before. They can tell us things about our process that we never knew—how much time to post an invoice, the difference it makes whether it's covered by a purchase order or not, the average time banks are holding on to our money, the percentage of decline to direct debits per country. It all about the whole set of metrics that they bring along as standard. The other thing that they have done—again, with our agreement—is to move from a dedicated team per country to a front/back-office arrangement, without any impact on the business. That has proved to be quite efficient in getting the processing away from the language specialists."

The finance and accounting outsourcing exercise helped a major ASEAN bank move up the finance value chain. "We want to become a world-class finance team and as part of that, there is obviously an emphasis on driving less complexity and delivering efficient, accurate, timely and relevant information to the Enterprise. So we have set ourselves some very clear metrics in terms of cost base, risk, what world class finance looks like and this is where the offshoring dynamics fit in as well. Over time, the scope of work has radically changed—we have certainly evolved from what was a very transactional and task-focused initial set up to very much starting to push up the high-value end of finance. We have more reporting and analysis built out of India, and a developing analytics capability as well. So we have certainly moved up that value chain within Finance, which has been part of the maturing of the FAO model," said a senior executive in charge of finance operations.

This trademark practice of global sourcing and evolution is well exemplified in two detailed cases of BP marketing and refining and Microsoft—available as separate papers[viii]. At BP, the powerful change management vehicle was a robust stabilization, standardization, optimization and sourcing (SSOS) methodology introduced by the client. This provided a controlled, logical route for creating world-class shared services.

The twist in BP's transformation route is that the incumbent strategic provider was productively involved in the client-controlled change process. In this FAO relationship, the centralization and standardization were both facilitated by outsourcing.

At Microsoft, the OneFinance initiative was born with a global outlook. The initial seven-year agreement spanned 90 countries and 450 individual roles. Within 18 months, the partnership had designed and implemented a global set of standardized processes across 92 countries, improved internal controls and compliance, improved scalability, and reduced costs by 35 percent. Microsoft controllers were then able to focus on more strategic activities. Prior to the partnership, 75 percent of the controllers' time and resources were spent on transactional activities and compliance, which dropped to 23 percent after outsourcing.

In 2009, the partnership was extended to include more accounts payable and buy-center processes. The contract—now worth $330 million—was extended until 2018. The partnership then delivered an additional 20 percent in savings by streamlining, simplifying, and/or automating key procurement and accounts payable processes.

The partners implemented new tools that increased transparency by allowing Microsoft's business users to see every dollar spent and timely measures on performance. Five years into the BPO relationship, the partners continue to innovate on Microsoft's financial, accounting, and procurement processes—for instance in 2010-11, the partners moved 25 international subsidiaries from manual invoicing to electronic invoicing, generating millions of dollars in savings and greatly improving accuracy of transactions.

Breakthrough performance: Taking action

The key priority of high-performance organizations is to achieve benefits beyond cost. We see high performers achieving this in numerous ways. Invariably, they set off with this initial goal, but they also anticipate the outsourcing experience as a living evolution for achieving improved business performance. This evolution is supported by adopting a cost-plus innovation agenda.

High-performance businesses have global ambitions embedded in their evolutionary approach to outsourcing—not only to optimize outsourcing services on a global basis, but also to use outsourcing to reconstruct their own business operations to function globally. Our research confirms that adoption of these practices has immense positive impact on client business performance.

About Accenture

Accenture is a global management consulting, technology services and outsourcing company, with 257,000 people serving clients in more than 120 countries. Combining unparalleled experience, comprehensive capabilities across all industries and business functions, and extensive research on the world's most successful companies, Accenture collaborates with clients to help them become high-performance businesses and governments. The company generated net revenues of US$27.9 billion for the fiscal year ended Aug. 31, 2012. Its home page is www.accenture.com.

For further information about this research, please visit www.accenture.com/highperformancebpo

Reference

i. Our 1,600 plus database of outsourcing deals finds 25 reasons why organizations outsource. These cover value for money, improved financial results, improved operations, and strategic focus. We found the vast majority of organizations pursuing three to seven of these objectives, with cost savings, over the years, always in the top three. See Willcocks, L. and Lacity, M. (2010) The Practice of Outsourcing: From Information Systems to BPO and Offshoring (Palgrave, London) chapter 16. The present 2011-12 study, focusing on BPO, is finding the high performers shifting their priorities toward innovation and business outcomes, with cost savings and service performance considered minimum entry requirements for their providers.

ii. The survey was conducted by The Everest Group with support from Accenture in late 2011 and is reported in Accenture (2012) Achieving High Performance in BPO Accenture, London. The survey identified 20 percent of respondents as "best-in-class" scoring strongly on at least three must-have attributes, and in the top quartile on seven additional attributes. A further 20 percent were potential high performers meeting one or other of these two criteria; 60 percent were typical BPO performers meeting neither criteria. Note that typical here covers a wide spectrum of performance from normal to poor. The research found that levels of performance were independent of industry, geography, size of deal, tenure of BPO relationship and business function outsourced. High performance was twice as frequent when two functions were outsourced as a bundle (as opposed to one function or three or more functions). Three further sources of research, described below, are used in this series of papers to enrich and extend these survey findings.

iii. The interviews were carried out in the October 2011-September 2012 period. They were typically 45-60 minutes in length and used a predesigned questionnaire aimed at eliciting performance outcomes and effective and unsuccessful practices. The sample was drawn from across sectors and countries, with outsourcing deals ranging in size from small to very large. Nearly 50 percent could be identified as high-performance businesses on the criteria detailed above.

iv. We have been conducting BPO case studies since 2000. Some of our first BPO case studies are published in Willcocks, L., and Lacity, M. (2006), Global Sourcing of Business and IT Services, Palgrave, United Kingdom. Our most recent BPO work is found in: Lacity, M., and Willcocks, L. (2012), Advanced Outsourcing Practice: Rethinking ITO, BPO, and Cloud Services, Palgrave, London, (forthcoming). Papers which specifically address client retained capabilities include: Feeny, D. and Willcocks, L. (1998), "Core IS Capabilities for exploiting Information Technology, Sloan Management Review, Vol. 39, 3, pp. 9-21. And Willcocks, L., and Feeny, D. (2006), "The Core Capabilities Framework for Achieving High Performing Back Offices," in Global Sourcing of Business and IT Services, Palgrave, London, 67-96.

v. Lacity, M., Solomon, S., Yan, A., and Willcocks, L. (2011), "Business Process Outsourcing Studies: A Critical Review and Research Directions," Journal of Information Technology, Vol. 26, 4, pp. 221-258.

vi See Lacity, M. And Willcocks, L. (2012) Advanced Outsourcing: Rethinking ITO, BPO and Cloud Services (Palgrave, London). Also Willcocks and Lacity (2010) op.cit.

vii In a parallel study we define collaboration as a co-operative arrangement in which two or more parties work jointly in a common enterprise towards a shared goal. Collaboration signals close partnering behaviour developed over and for the long-term distinguished by high trust, flexibility, reciprocity, risk sharing and investment of time and resources essential for high performance. See Willcocks and Lacity (2012). The New IT Outsourcing Landscape: From Innovation to Cloud Services. Palgrave, London, chapter 3.

viii See Willcocks, L. and Lacity, M. (2012) Strategic F&A Partnering at BP. Accenture/LSE London. Also Lacity, M. And Willcocks, L. (2012) Transformational Leadership: Microsoft's One Finance Initiative. LSE/Accenture London.

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