



Business Process Outsourcing: Making Sense of the Options

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Five Simple Truths

- Outsourcing never fails – so people say
- Transformation is not just about the function
- It requires executive commitment and exceptional leadership
- It can save lots of money and make your organization more streamlined and fit
- Internal shared services can be a viable alternative

Business transformation continuum



The Essence of Outsourcing Delivery

Deliver services that people need and want at a cost, quality and timeliness competitive with alternatives.

What you want ...

- As an organization, we want the lowest cost, best quality services
- We want efficient, effective admin to support business objectives across all our businesses and geographies
- We want staff people to become valued business advisors

...and what you really mean

- Reduce headcount in the function 39% by end 2005
- Delayer organization
- Improve quality of service
- Reduce functional costs to less than 0.7% of sales by 2006

What actually happens ...

- Changes in power structure
- Disenfranchised business/country units
- Redundancy in function
- Low morale
- Best people leave
- Service declines

So you want to motivate me?

Back to Reality

Clients say

- We had more power/control with back-office services embedded in our unit - it was worth the cost
- People far away don't understand our business
- They're too expensive anyway
- Outsourcing means we will lose any expertise we may have had

In the function

- Old habits die hard - we'll give them what we think they need
- We've always done it this way
- Outsourcing can make a clear break with the past
- Few will rise to become 'business partners'

Main Reasons for BPO

What were your objectives for BPO?

Reduce costs through simplification and standardization	93%
Increase productivity and service excellence to customers	63%
Enhance focus on business unit operations vs back office processing	58%
Support new business process capabilities	37%
Reduce costs through wage and labour arbitrage	31%
Improve capability to integrate new business	26%
Other	5%

Source: SBPOA online survey, 77 respondents

Top 10 Internal Success Factors

1. Executive management and sponsorship
2. Appropriate choice of provider/expert advisor
3. Standardized processes
4. Clearly defined scope of services
5. Quality of provider personnel
6. Well defined business strategy and objectives
7. Communications and training
8. Solid technology platform
9. Change and journey management
10. Well defined vision, mission and governance

Reasons Why Internal Shared Services Fails

How do you rate the impact of the following?

Not enough support from executive management	72%
Not customer centric	66%
Simple centralisation exercise, not run as a business	64%
Poor quality services	56%
Poor charge back structure	55%
Uncompetitive with third party providers	34%

Source: SBPOA online survey, 310 respondents

Perceived Benefits of BPO

Here are some of the claimed benefits of BPO...how do you rate them?

Lower costs	75%
Improve service quality	64%
Greater business flexibility	54%
Lower capital investments	70%
Fewer people in function	45%
Predictable outcome	42%
Increased accountability	32%

Source: SBPOA online survey, 172 respondents

Perceived Downsides of BPO

Here are some of the possible downsides of BPO...how do you rate them?

Loss of internal know-how	53%
Activity disconnected from the business	46%
Lack of control	37%
Lack of clarity in costs	30%
Lower service quality	26%

Source: SBPOA online survey, 172 respondents

The Main Reasons Why BPO Fails

How do you rate the impact of the following?

Failure to manage the post implementation relationship	73%
Inexperience in selecting the appropriate supplier and/or business model	61%
Difficulty in assessing what stays in and what is outsourced	59%
Poorly constructed contracts	58%
Lack of competitive bidding	27%

Source: SBPOA online survey, 289 respondents

- Services
- Operations
- Finance and Accounting
- Human Resources
- Information Technology
- Management



Future Vision of the Business



- Business strategy
- Operating model
- Governance structure

Function

Outsource If:

- Function non-core and/or not a competitive niche
- Significant cost advantages from outsourcing
- Limited/no opportunity for learning transfer
- Skill competencies not available in organization
- Cost of monitoring/administering outsourcing partner is low
- Comparable or better service levels from outsourcing

Insource If:

- Critical to the business
- No cost advantages from outsourcing
- Potential competitive advantages through knowledge transfer
- Skill capabilities readily available in organization
- High cost of monitoring/administering outsourcing partner
- Service levels better within organization

Consider Offshoring If:

- Significant cost advantages from offshoring
- Function is low risk to business
- Function has successful record of being delivered offshore
- Politically acceptable

Source: Deloitte Consulting

8-point Survival Guide to Transformation

1. **Cultural change is a key issue in successful BPO**
2. **Transformation fails without executive commitment**
3. **Transformation is not about the cost of the function, it's about the effectiveness of the business and its ability to compete**
4. **Get expert help for contract and vendor selection**
5. **Governance process, especially post-implementation is essential**
6. **BPO drives business changes that would otherwise not be made**
7. **BPO enables leaders to focus on core processes**
8. **The rise of BPO calls for a rethink of support roles**

About the SBPOA

- The Shared Services and Business Process Outsourcing Association (SBPOA) is the leading global forum for sharing knowledge and experience in business transformation
- More than 275,000 professionals worldwide consult SBPOA expert resources each year, and 7,000+ members benefit from its online and networking initiatives
- Services
 - **SBPOA Media:** news and independent commentary, OutsourcingTV
 - **SBPOA Club:** members-only networking
 - **SBPOA Connects:** discreet referral-only services for members
 - **SBPOA Counsel:** executive support and guidance
 - **SBPOA Events:** premier content and networking environment
 - **SBPOA Research:** market research services
 - **SBPOA UniversitySM:** research, education and accreditation



For Further Information

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