Seven Steps to BPO Success

<table>
<thead>
<tr>
<th>Alignment with Business Strategy &amp; Executive Sponsorship</th>
<th>Process Screening, Selection, &amp; Prioritization</th>
<th>Buyer Readiness</th>
<th>Organizational Change Management</th>
<th>Selection of &quot;Best-Fit&quot; Provider</th>
<th>Collaborative Capacity &amp; Transition Planning</th>
<th>Detailed Agreement That Aligns Priorities &amp; Shares Risk</th>
</tr>
</thead>
<tbody>
<tr>
<td>pg. 3</td>
<td>pg. 4</td>
<td>pg. 5</td>
<td>pg. 6</td>
<td>pg. 6</td>
<td>pg. 7</td>
<td>pg. 8</td>
</tr>
</tbody>
</table>
INTRODUCTION

Business Process Outsourcing (BPO) is booming in many US industries. The justifications are strong: up to 50% cost savings on existing operations, access to specialized skills, a highly scalable and flexible supply of lower cost capacity and the potential for improved operations performance. Outsourcing is no longer on the “leading edge” and is a proven tool used by mainstream businesses to achieve their goals. However, misperceptions about outsourcing, its complexity and risks have kept many companies on the sideline.

To address a common misperception, outsourcing may not cause loss of jobs at the buyer company. If managed carefully, the timing and scope of an outsourcing engagement may include a mix of natural attrition, early retirement packaging, retraining and redeployment so that no involuntary job loss occurs at the buyer company. Another misperception about outsourcing is that buyer companies are guilty of “shipping jobs overseas”. While this may be a convenient sound bite used recently by politicians, the fact is there are many competent outsourcers in the US that can deliver the benefits listed above.

This white paper provides an industry veteran’s list of the most important factors influencing BPO success. A detailed discussion of each will allow the reader to refine an existing strategy or to build a playbook for the future. The goal of this white paper is to reduce risk, avoid headaches and save time, effort and money. In an economy on the verge of a rebound, a successful outsourcing strategy can result in improved profitability, a new means of rapid, inexpensive growth in capacity and added advantages against ever more agile competition.
ALIGNMENT WITH BUSINESS STRATEGY & EXECUTIVE SPONSORSHIP

The rationale for outsourcing is typically based on reduction of operating costs, access to highly scalable and flexible work capacity or specialized skills, improvement in work turnaround or quality, or a combination of the above for the buying organization. However, behind these somewhat obvious, tactical benefits, companies contemplating outsourcing would be well-advised to also think through how such a strategy will contribute to the long-term success of the business. What is the company’s market position? What business functions are core and differentiating? What is the company’s strategy for growth and diversification? Which functions should be strictly under the company’s own control and not be outsourced for this reason alone? For those functions likely to be outsourced, how will cost savings and/or potentially displaced personnel be redeployed? What competitive advantages can be derived as a result? Developing a consensus on answers to each of these questions will contribute to a program charter that clearly sets executive stakeholder expectations within the buyer organization on the strategy, methods and desired outcomes of an outsourcing initiative. It will serve as a foundation for the future.

Given alignment with the business strategy discussed above, an essential ingredient in outsourcing success is strong sponsorship from a top executive. Advocacy, accountability, and commitment (as judged by internal and external announcements and active participation in meetings) from this executive is crucial. There may be bumps in the road – who will be that informed risk-taker and change agent to lead the company or division around them? Does this executive have the political capital to influence and advocate not only the refreshed operational capabilities, but also the associated cultural shift? Such a strong and visible sponsor will “set the tone” and have a heavy influence on the success of an outsourcing initiative.
PROCESS SCREENING, SELECTION, & PRIORITIZING

BPO assessments should start with a high-level scan of potential business process candidates from a feasibility perspective. Depending on the industry, such an assessment might include a review for any legal, regulatory, licensing, or customer contractual barriers to outsourcing. The executive sponsor discussed earlier should also manage the evaluation of any resistance to change as voiced by customers, channels, and employees. When first exploring a BPO strategy, a certain degree of concern and “noise” is to be expected. It’s human nature to resist change, but the focus here should be to determine if feedback from any of these stakeholder groups is indicative of a major issue that can’t be substantially mitigated and would threaten the achievement of the strategy’s goals.

The scan should also include the degree of standardization, centralization, automation, IT enablement, and overall efficiency and stability that currently exists within each candidate process. We often hear about “broken” processes being outsourced in order to be “fixed.” The reality is that the classic “lift and shift” in this scenario carries a higher risk profile and likelihood of project failure. Think of it this way: fixing a broken and outsourced process may be doubly difficult. Therefore, at this stage, it’s likely that some process candidates are more appropriate for re-engineering than for outsourcing. Some mature outsourcers may propose to re-engineer a process after they assume BPO responsibility. However, this guidance is often biased by the outsourcer’s interest in more quickly generating new revenue. Buyers should use caution because not all compensation structures provide the appropriate incentives for the outsourcing provider to optimize process efficiency after its transition.

If the re-engineering route is chosen, a number of methods could be used, including: redefining roles (along the lines of specialist vs. generalist), process streamlining (using Lean Six Sigma methods), or implementing automation. Regardless of the method(s), buyers beginning the outsourcing journey are encouraged to select efficient and stable processes for outsourcing and to delay outsourcing of “broken” processes until after re-engineering. Once complete, buyers should also allow time to gather process performance data for the newly stabilized process. In the big picture, a small delay in realization of outsourcing benefits while “fixing” and stabilizing a process will greatly lower risk, improve work output quality and lower the cost of outsourcing that process in the future.

After analyzing the potential “show-stoppers” during process screening, next steps will focus on business viability. What is the complexity level of the process? How unique are the skills required to conduct its transactions? What is the scale, hours of operation, basic transition plan, risk profile, and financial justification for outsourcing each process candidate? All of these factors should weigh into selection, prioritization, and approval of business processes for outsourcing.

In the last stage of the screening and prioritization process, buyers will have all the necessary elements of a multi-year sourcing strategy or “roadmap.” This would consider sourcing of highly-feasible/well-justified processes first, enabling early realization of economic and qualitative benefits as well as publishing of success stories to further influence the buyer company’s cultural shift. Sequencing of targeted processes on the roadmap will also allow time for processes first requiring re-engineering, technology enablement, or those that have other external dependencies, before being outsourced. Buyer executives can then use such a roadmap as a helpful point of reference for strategic planning, operations forecasting, and the annual budgeting cycle going forward.
BUYER READINESS

Because buyers are not really “in the business” of outsourcing, it should not come as a surprise that this is often the most significant gap in BPO programs. Unfortunately, it is also one of the most important influences on outsourcing success. Buyer readiness mainly falls into three categories: availability of data, documentation, and time.

In regard to data, a basic and initial building block of planning for BPO is work volume. Ready buyers are able to provide historic work volume data that accurately reflects expected arrival patterns for the process to be outsourced in the future and can be used for transaction forecasting. Similarly, historic process performance data (metrics on average handle time per transaction, productivity, quality, turnaround time, etc.) should also be available. If the process has recently been re-engineered, historic data may not be an accurate reflection of how the process will perform in the future. The advantage of availability, clarity and accuracy of this data is that it will allow the provider to be more aggressive on pricing due to their certainty of underlying costs. If this data is not available or does not accurately reflect the future state, the given business process may still be outsourced, but the provider’s plan and proposal is likely to be more conservative. In this case, the buyer should ask for efficiency, pricing, and/or performance improvements from the provider in the future.

In regard to documentation, detailed workflows and written procedures will expedite the potential provider’s understanding of the scope of work. An unclear picture on the part of the provider may lead them to hire personnel with misaligned skills or to develop inappropriate training. A cascading negative effect on work quality, increased cost, or both ensues. Worse, processes that are not well-documented also carry a higher risk of not being conducted the same way by all buyer personnel. From time-to-time, we encounter two, deeply experienced buyer managers who disagree on the proper method of executing a certain type of transaction within a common business process. The root cause of this disagreement usually emerges from a lack of standardization driven by the same process being done in multiple locations, missing or insufficiently detailed procedural documentation or the associated training being delivered verbally while “on-the-job.” The unfortunate provider is then left to mediate between the opinions of the two managers in an effort to reach an agreed standardization and documenting it in detail before assuming responsibility.

In regard to time, buyers should bank on a certain investment in time, allocated by their personnel, to collaborate, plan, and manage each BPO project. Subject matter experts are needed to demonstrate all in-scope transactions; trainers are needed to contribute to, review, approve, and conduct some or all of the knowledge transfer; IT personnel are needed to establish connectivity infrastructure; and managers are needed to discuss operations, staffing, metrics, and reporting. Sourcing experts are needed to oversee RFP development, response review, vendor due diligence (including site visits), contract construction, and negotiation. Executives are needed for organizational change management, milestone/status review meetings, and overall project governance. Experienced providers should be able to identify all necessary roles and estimate time spent for each per BPO project. In all, buyers should recognize that time spent is an investment that will produce a very positive return, if made wisely.
ORGANIZATIONAL CHANGE MANAGEMENT

Human Resources should be deeply involved in the planning process because outsourcing inevitably brings not only job change, but also organizational and cultural change. HR professionals are most adept in revising job descriptions, designing employee redeployment plans, writing and executing internal communications plans, designing employee retention bonus plans, and much more, during each process transition. Of course, HR would also assist and enable the buyer executive sponsor in his role as advocate and change agent in employee communications. These activities are vital because the satisfaction, engagement, and retention of key buyer employees and subject matter experts have a heavy influence on the success of a BPO program. In addition, outsourcing necessarily also creates new types of work for the buyer. Quality assurance, IT networking, operations management, and provider governance functions may require new or revised job definitions, compensation or bonus structures, training, and professional development plans.

HR would also assess organizational impact and lead or facilitate any organization re-designs arising from outsourcing. For example, it’s not uncommon to see a cross-department/shared services function chartered with process re-design and staffed with Lean Six Sigma practitioners that is aligned with a major BPO initiative. In another example, buyers sometimes build permanent, ongoing outsourcing project management and governance departments to enable a string of process transitions and maximize leverage of practical experience and best practices.

SELECTION OF “BEST-FIT” PROVIDER

Key criteria may include domain knowledge, pricing, availability of complementary services, partnership approach, and willingness to share investment and risk (i.e., “skin in the game”), commitment to continuous improvement and financial value-add, cultural match, security/data protection, disaster recovery options, and financial stability. Provider flexibility and scalability (both up and down) are also very important for the long-term health of the relationship. Weighting per evaluation criteria will always be buyer and even business process-specific. A Request for Proposal (RFP) and competitive bidding is a proven method to ensure “best cost” and apples-to-apples comparisons prior to short list selection. Site visits to short list provider delivery centers are also a must in order to perform an audit and verification of all claims of capability and practices.

BPO providers that also propose to host and license the enabling applications on which the in-scope transactions are performed may be of great convenience and benefit, but require a much more comprehensive, two-phased evaluation. We strongly recommend an evaluation of the application “fit” first and then a separate evaluation of the competitiveness of the BPO capabilities. While application fit is outside of the scope of this article, our list can be used for assessment of the outsourcing capabilities of those providers. Because of the detailed, time-consuming, and specialized nature of provider evaluations, buyers should consider the advantages of speed, thoroughness, and objectivity provided by outsourcing advisory firms for best fit provider selection.
COLLABORATIVE CAPACITY AND TRANSITION PLANNING

Detailed capacity planning is typically performed by the potential outsourcing provider after receipt of historic and forecasted volume and performance data. However, active engagement and input from the buyer on the following questions will contribute to an optimized capacity plan and one that most thoughtfully balances cost with performance. What are the desired operating hours for each process? Are these different than today? Are all of the supporting applications available at this time? How many positions currently perform this work? What are the process performance expectations and metrics? What are the buyer’s business continuity and disaster recovery requirements?

Competent outsourcers have many operational “levers” at their disposal in order to most efficiently staff labor supply against inbound work demand. So, the more detailed this area of communication, the better the potential provider’s understanding of buyer priorities, the more creative the provider can be in its capacity plan, and the leaner its proposal can be while still ensuring compliance to required process performance.

In regard to broader transition planning, the same need for collaboration exists. Any one aspect of the transition plan can be delivered in a few different ways and each method has its own, unique combination of cost, quality, time, and risk. For example, effective knowledge transfer from the buying organization can be done using more than five different methods: train-the-trainer, provider associates trained at the buyer location, buyer trainer sent to the outsourcer’s location, remote/computer-based training, or a combination of two or more of the above.

A second example is the duration of time planned between “go live” (the first day of live outsourced transactions) and “steady state” (when the process is targeted to consistently be meeting all production goals). This is sometimes known as “ramp” time. At face value, one would think that ramp time should be as fast as possible. However, buyers should not rush strictly for the sake of getting to the lower operating costs associated with achievement of steady state. The buyer and provider should also plan for consistency in work quality by the targeted steady state date. In other words, it’s not just the average team work quality on the last day of the ramp that’s important. The migration plan should allow time for the provider to establish a pattern of acceptable work quality, including consistency across weeks and decreasing inter-associate variance. In our experience, inconsistent work quality can trigger increased transaction handle times (for proofing or double-checking of work) and may also result in a work backlog due to a lack of provider capacity. In turn, additions to provider capacity typically take much longer than the week or two needed in a migration plan to establish a pattern of consistent quality.
The experience of the transition manager from the outsourcing provider is another important factor in migration planning and the overall success of BPO. This person will monitor and facilitate the start, progress, and end of each activity and coordinate the dependence of each on its predecessor activities. These include the timing of announcements to impacted buyer employees, the start of due diligence and knowledge transfer at the buyer location, the readiness of network and infrastructure, the availability of newly hired provider staff for training, the “go-live” date, and the duration of ramp to full provider production. The transition manager will also act as guide in the trade-off discussions mentioned above and will be the focal point and source of transition best practices. Therefore, buyers should thoroughly vet proposed provider transition managers by requesting a list of similar engagements managed in the past.

Overall, buyer investment in time, active engagement, frank discussion, and careful thinking about each aspect of the capacity and transition plans, and their trade-offs, inevitably result in best results. Given the multi-year terms of outsourcing relationships and their responsibility to operate as an extension of the buyer organization, this collaboration is a must.

DETAILED AGREEMENT THAT ALIGNS PRIORITIES AND SHARES RISK

The old saying that “An ounce of prevention is worth a pound of cure,” definitely applies to the BPO contracting process. Solid outsourcing relationships are built on transparency, collaboration, mutual respect, and trust. So, the foundational concepts behind the actual agreement, such as work scope, scale, transition timing, pricing, data privacy, and other protections should have been agreed to long before the contract is finalized. However, yet another critical contributor to BPO success is the development of a clear, detailed, thoughtful, and comprehensive agreement. A word to the wise: Don’t rely on handshakes, verbal agreements or vague, summarized written descriptions. These plant the seeds for miscommunication, misunderstanding, and outsourcing relationship turmoil.

A well written agreement offers a blueprint for complete and effective BPO governance. Sections should include: service definitions (transaction descriptions), hours of operation, work volumes and forecasting process, pricing structure and pricing, assumptions driving pricing, lists of work or other costs that are included in the given pricing and those that are excluded and would be delivered for an additional fee, process performance metrics (such as production, quality, turnaround time, work in process, customer satisfaction, etc.), escalation procedures, process performance standards (specific goals for each of the above), consequences of “out-of-limit” performance (financial penalties/incentives tied to work outcomes, a.k.a. Service Level Agreements (SLAs)), data capture and reporting methods, frequency and formats, communications methods and frequencies. These are all in addition to the standard clauses on responsibility for liabilities, insurance coverage, non-disclosure, confidentiality, IP and customer data protection, legal and regulatory compliance, venue of jurisdiction, etc.
Pricing and compensation structure should align with buyer priorities and support a partnership approach. New relationships or processes without reliable historic performance data might first be billed on a per-work-hour basis. This is clean and simple, but does not provide an incentive for the provider to drive improved individual associate productivity and increased process efficiency. A number of methods exist to address this misalignment. One method is to write a change order to the agreement to institute a per-transaction compensation structure. Once the process has been stabilized at the outsourcer and a reliable performance history is recorded, such a structure may be better aligned with the buyer’s business model. In a per-transaction model, buyer-invoiced cost and value derived is more directly proportional to work delivered because the risk of productivity variance across provider associates is assumed by the provider. Many other structures, hybrids, and incentive plans can be used separately or in combination to achieve improved and desired alignment of interests.

Experienced providers will have an agreement template from which to start. However, these templates frequently require scrutiny and re-work, not so much on the clauses they contain, but more on what is missing. Buyers without significant experience in BPO agreements should seek the guidance of an external specialist who can offer ready access to outsourcing contract best practices and can act as a buyer advocate in negotiations. Even buyers that have outsourcing experience and are adapting an ITO or older BPO agreement will benefit from a review and update by a specialist who can include the most contemporary and appropriate concepts given the unique parameters of each process and relationship.

Last, healthy outsourcing relationships and the supporting agreement will anticipate a need for change from time to time. Flexibility to make changes should not be overly burdensome. A simple change order process and blank form provided as an appendix to the agreement will do the trick. This form would be filled out and submitted/proposed by the provider, then reviewed and modified if needed by the buyer, then approved by mutual agreement in signature. In summary, after the relationship has matured and delivered its promised benefits, buyer sponsor and key personnel will all be rewarded with promotions! So, having an up-to-date record of the common understanding between the parties will make life much easier on the next wave of relationship managers.

**IN SUMMARY**

In conclusion, BPO is a powerful business tool that can be used by companies to deliver large-scale financial and operational performance benefits and contribute to achievement of strategic goals. Because of the complexity and impact of outsourcing, careful attention to key aspects of the journey will help buyers mitigate risks, optimize results, and ensure success.
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