



The Future of Outsourcing - What to Expect in 2010 -

Sales Leader Series



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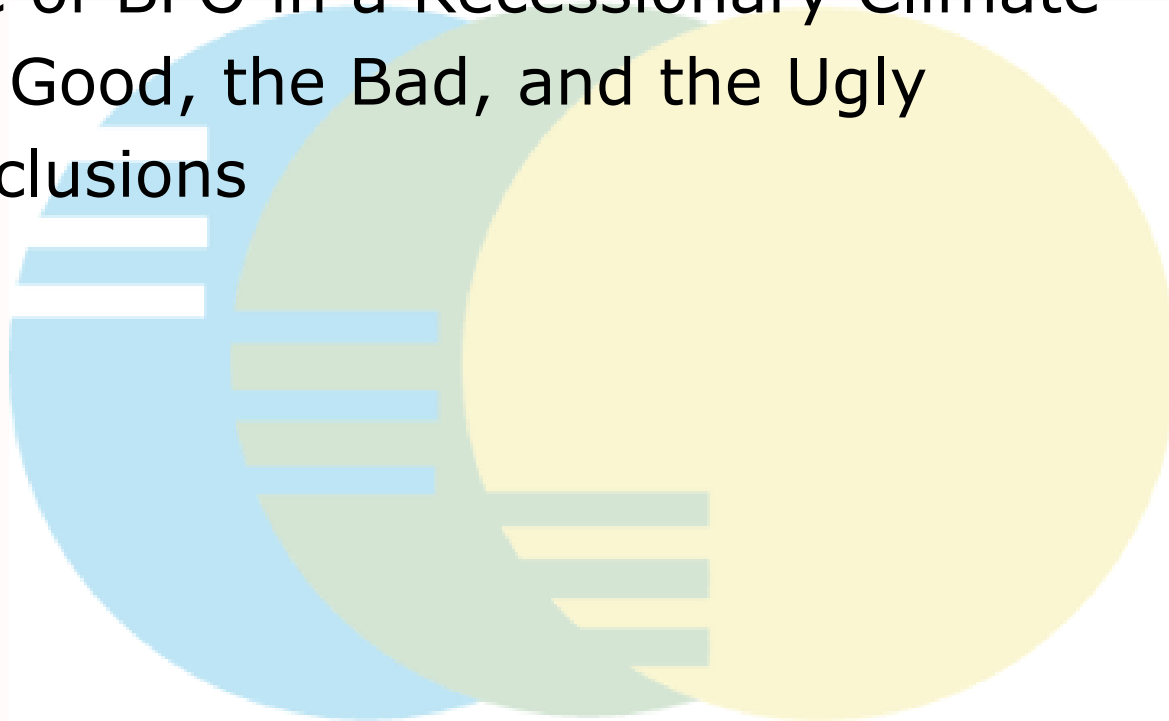


State of the Outsourcing Marketplace

John Willmott
NelsonHall

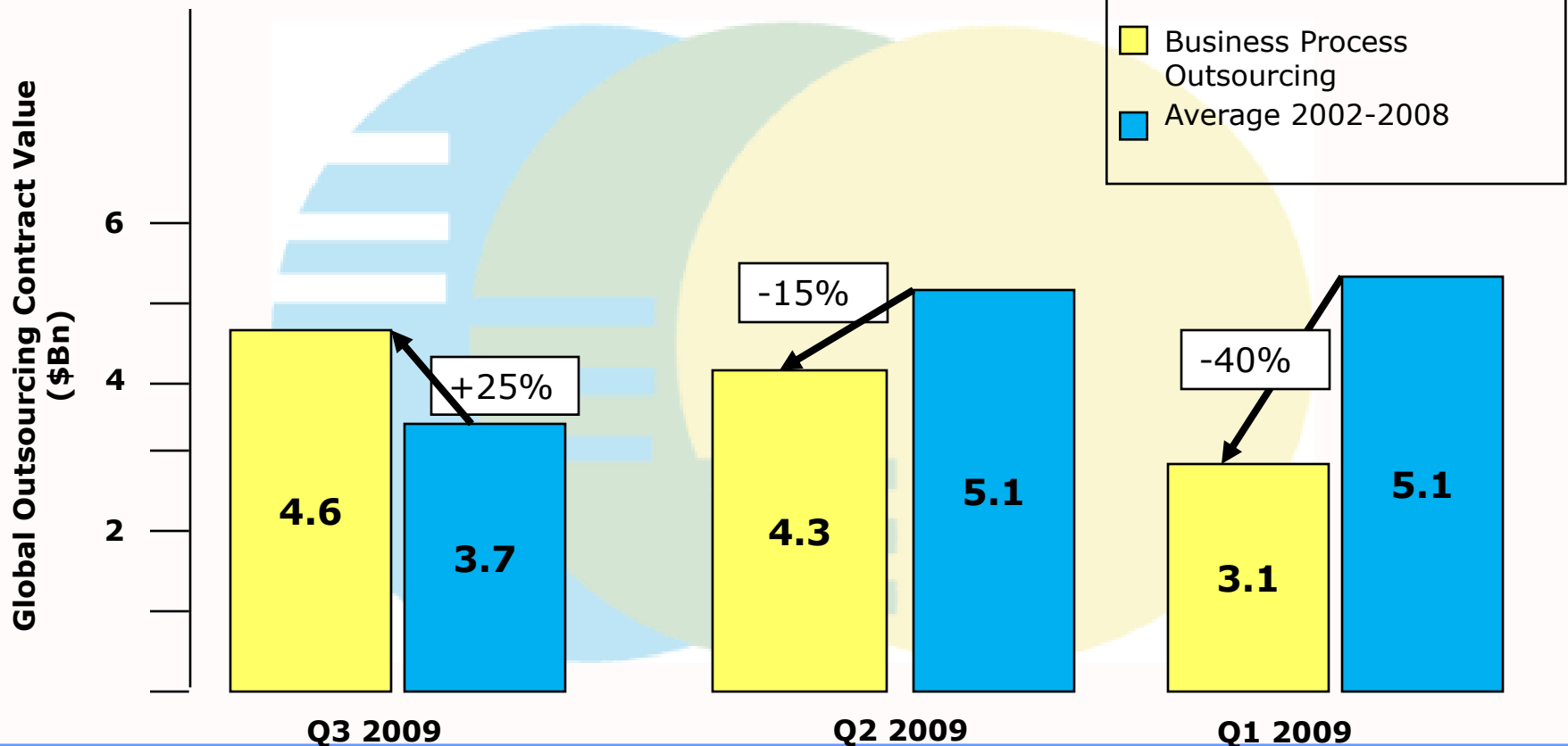
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- Role of BPO in a Recessionary Climate
- The Good, the Bad, and the Ugly
- Conclusions



Role of BPO in a Recessionary Climate

Seasonally Adjusted BPO TCV Up 25% in Q3, recovering from dramatic fall in Q1 – shows emergence of recession-driven contracts



Impact of Recession on Sourcing in 2009 and 2010

Action in response to recession	Taken in 12-months to Q3 2009 (%)	Planned for Q4 2009 and 2010 (%)
Significant review of business strategy	54	21
Revision of operational budgets	71	15
Organizational restructuring and lay-offs	44	21
Revision of sourcing strategy	34	16
Review and renegotiation of existing BPO contracts	43	20
Identification of new BPO opportunities	25	25
Preparation of RFPs for new BPO opportunities	15	48
Award of new BPO contracts	8	37

Organizational Priorities in a Recession

- First priority is to cut cost-to-serve in core operations
- Second priority is to retain and maximize value of existing clients
- Third priority is to enter emerging markets more quickly
- Compliance, risk management, and certainty of outcome are critical
- Investment is severely constrained

Required Outsourcing Contract Characteristics

- Greater certainty of business case
- Rapid pay-back achieving year-one cost savings
- Focus on removing cost from high-volume transaction-oriented processes
- Shift in risk in timing and certainty of cost reduction in favor of client
- Shift in pricing mechanisms to move volume risk to suppliers
- Potential increase in contract scope

The Good, the Bad, and the Ugly



Realizing Business Value

Risk Factors

- Cost reduction based on major IT platform change
- IT-centricity
- Extensive subcontracting
- Taking on scope beyond supplier cost levers
- Using the wrong location/channel
- Client abdicating responsibility
- Leaving service unchanged

What works

- Labor arbitrage
- Continuous improvement/six-sigma
- Improved agent management
- Interfacing with client systems
- Channel shift
- Technology fixes
- Limited scope platform BPO
- Operational focus
- Strong client management

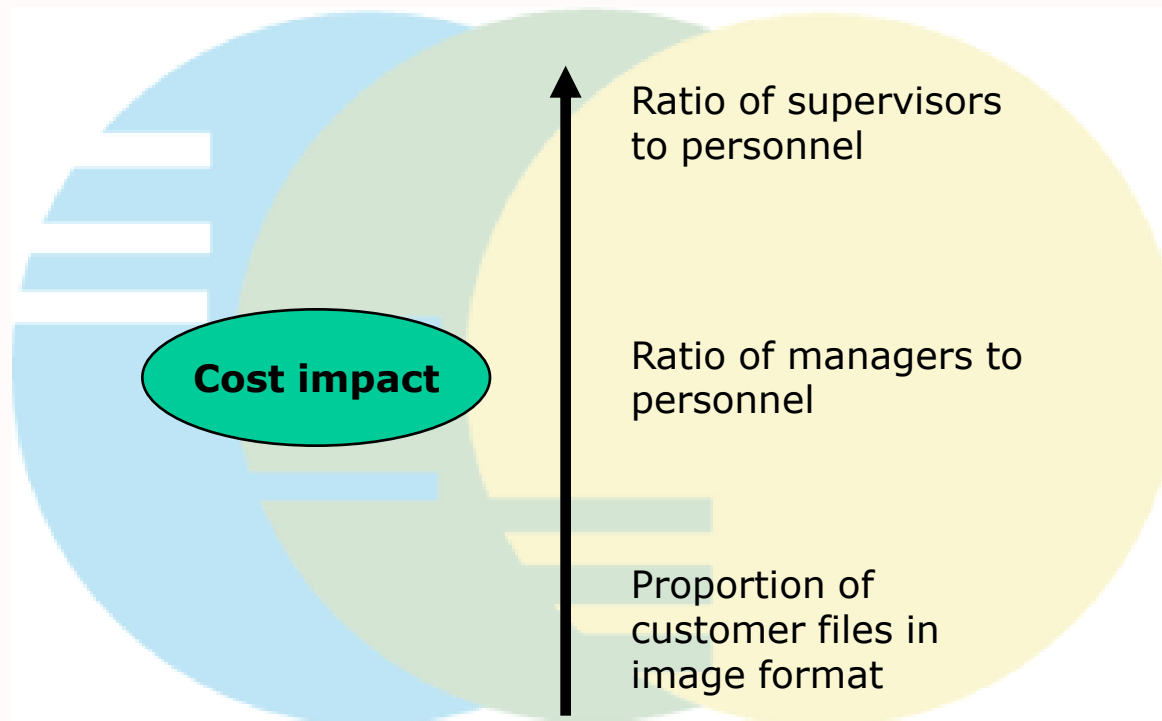
Philips Case Study

- Strategy
 - Salary arbitrage (1)
 - Process improvement savings (2)
- Issues
 - Need for increased automation
 - Improving organizational agility
 - Sustainability/what's the value proposition to staff?
- Actions
 - Development of transformation roadmap
 - Tool for measuring error rates and timecycles
 - Moving global hubs to India and China
 - Leverage technology: PTP platform, general ledger cockpit, OCR, electronic invoicing.....

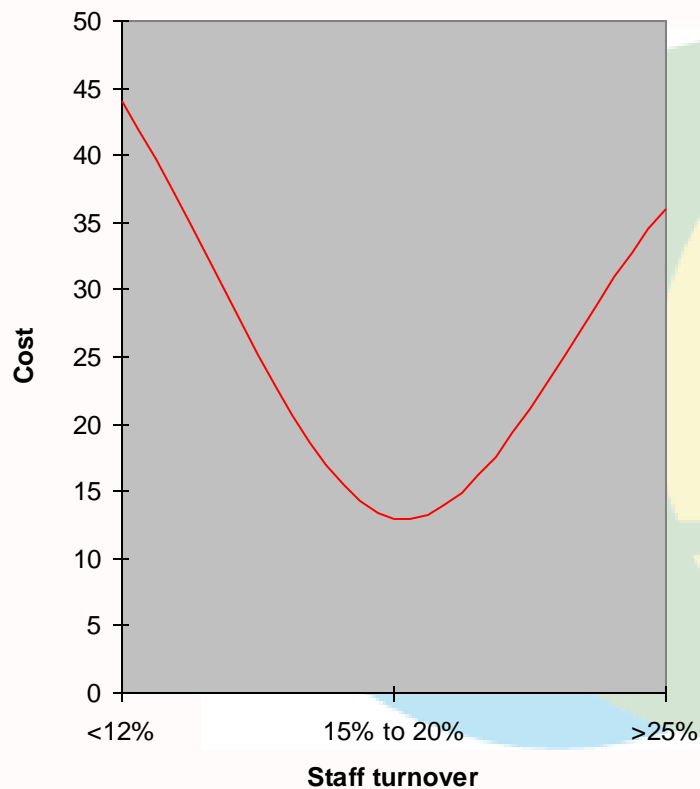
Key Lessons: BPO Service Management

- Day-to-day operational management is the key requirement
- Be process-led and aim to standardize but continuous improvement is arguably more important than major change
- Start with the possible not the impossible
- It takes time to stabilize operations & to change operations
- Offshore services take time to introduce within complex multi-service contracts

Drivers of Reduced Total Cost per Policy



Impact of Staff Turnover



- Low staff turnover often regarded as an end in itself
- But needs to be:
 - The right staff
 - Creative tension

Key Lessons: Use of Technology

- Be pragmatic. A single platform is not always necessary or appropriate
- Do not under-estimate the complexity embedded in legacy platforms and processes
- Systems integration projects are still late and over-budget, even within BPO contracts
- Channel change means changing customer behavior as well as technology
- Technology is only part of the answer. People management is ultimately more important

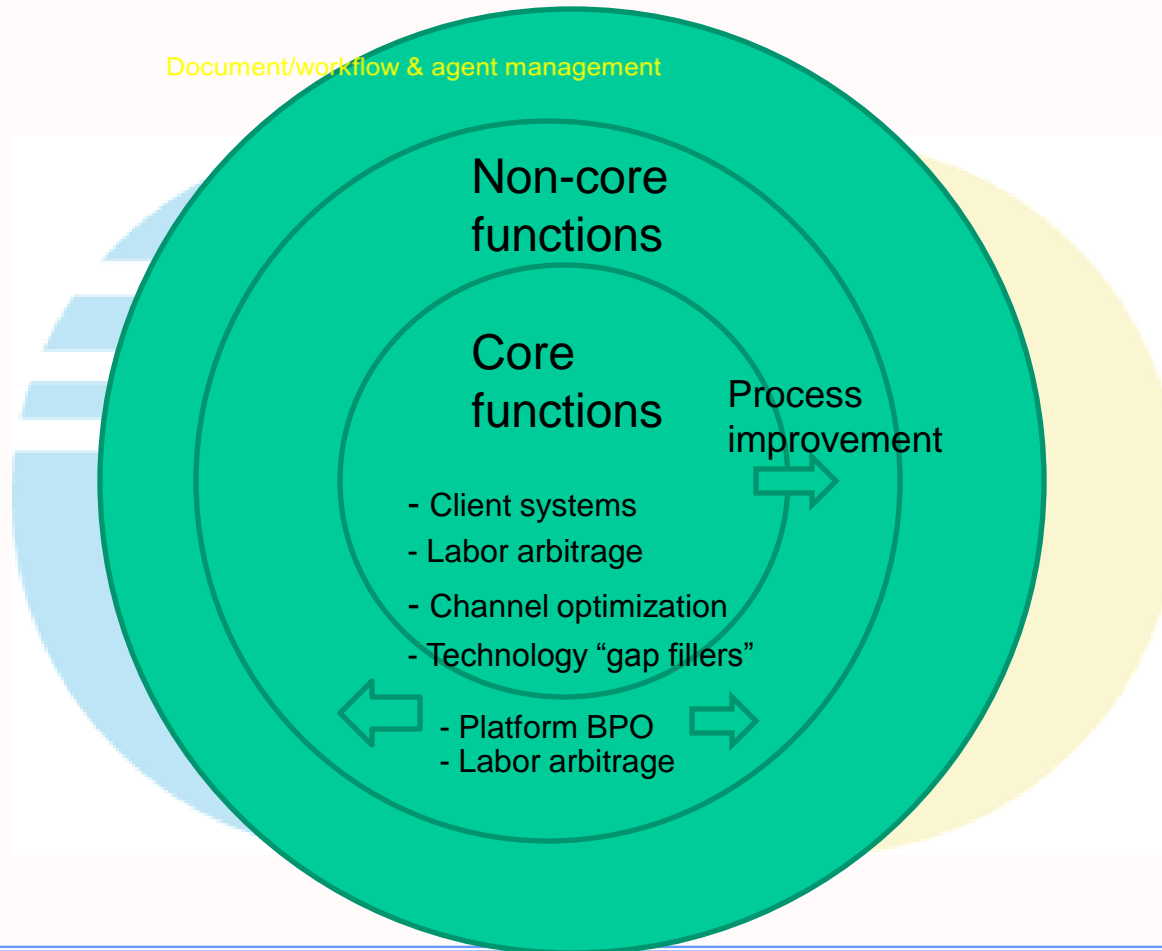
Use of Tools/Technology

- Digitization & Workflow
 - Scanning, automatic queuing, work distribution & agent management
- Specialist applications
 - Auto cash application
 - Invoice duplication avoidance tool
 - Online payments
 - Collections tools
 - Collaborative dispute resolution
- Self-service

Planned IT & BPO Initiatives

Initiative	High Extent (%)
Greater use of standard software packages without further customization	50
Simplification of business processes	47
Use of cloud computing/standard supplier managed IT infrastructure	40
Use of BPO services based on supplier hosted software	27
SaaS (hosted software using supplier best practice)	23

Future of BPO lies in Combination of Inward-Out and Surround-the-Core



Increasing Optimization of Channels and Delivery Locations

Channel	Role
IVR	Routing (customer and company controlled) and presenting options; simple transactions
Web Self-Service	Obtaining information; changing static info; simple purchases
Email and chat	Technical support and problem-solving
SMS	Outbound notification
Agents	
- India	Low cost; technical support; back-office; analytical
- Philippines	Low cost customer service with increased cultural acceptance
- Onshore	Ability to retain, cross-sell & up-sell
- Onshore WAHA	Graduate-level; domain-specific capability to retain, cross-sell & up-sell

Key Lessons: Partnership

- Work towards common goals, not hidden client or vendor goals
- Improve strategy alignment
- Challenge one another to achieve best solution e.g. imaging paper vs. moving to Internet
- Vendor should disclose cost & profitability forecasts as well as current costs & margins
- Introduce lean sigma to improve service quality and staff motivation
- New services will emphasize partnership aspects more than cost reduction
- Formalize innovation and consider use of “innovation budgets”

Impact of Outsourcing on Application of Business-Oriented Metrics

Role of Business-Oriented Metrics	High-effectiveness in-house (%)	High effectiveness outsourced (%)
Improving service delivery	47	84
Improving business value achievement	24	54

How does outsourcing help in business-oriented metric application?

- More reliable/consistent metrics
- Easier access to metrics/improved techniques for data gathering
- Increased standardization of processes
- Improved knowledge of how to use information to drive change
- Separation of management from implementation

Timing of Introduction of Business-Oriented Pricing

Stage	Proportion (%)
Initially	13
Once costs & service levels established	81
Never	6

Why establish initially?

- To establish good knowledge of operations at this stage
- To reduce the time involved in setting metrics and SLAs
- To increase speed of process transformation

Conclusions

- Business value realization has three components:
 - Cost reduction and SLA compliance
 - Ongoing contribution to process improvement
 - Support for wider business objectives
- Core functions remain dependent on labor arbitrage, process improvement, channel optimization and technology tools
- Non-core functions increasingly susceptible to platform BPO
- Client needs to participate proactively

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