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BUSINESS PROCESS OUTSOURCING

YOUR GUIDE TO BPO AND SHARED SERVICES

AN INDEPENDENT SUPPLEMENT FROM MEDIAPLANET ABOUT BPO AND SHARED SERVICES, DISTRIBUTED IN THE TIMES

Welcome to BPO and shared services

Business Process Outsourcing is the leveraging of technology or specialist process vendors to provide and manage an organisation's enterprise processes and applications. The most common examples of BPO are call centres, human resource administration, accounting and payroll outsourcing, although as this supplement will show there are a number of different types of BPO that businesses can explore.

BY: MARTYN HART, CHAIRMAN, NOA

So why would companies consider BPO? There are several key factors that would lead a company to choose BPO; the need for external expertise, the need to improve an in-house service, the need for speed to market, the lower costs and the superior flexibility and scalability. Every company considering BPO for the first time (and there are many companies that have not entered the market yet, although numbers are increasing) must carefully weigh up in-house processes before considering outsourcing.

BPO has been the subject of much debate. Stories of poor service from offshore vendors, for example, are hugely popular with the British press. If ever a data security breech occurs in an offshore vendor, this will make national headlines in the UK. So the pressure on vendors to provide a high quality, low cost service is immense. Recent BPO research commissioned by the National Outsourcing Association (NOA) and conducted by NelsonHall surveyed 100 sourcing managers from end user companies in the financial services and manufacturing sectors. The perceived failings of vendors were a major area of concern for many sourcing managers when rejecting BPO. Lack of vendor service maturity and lack of client company knowledge within the vendor were both seen as highly significant factors for rejecting BPO. In fact, 67 per cent of sourcing managers interviewed cited a lack of process operations knowledge within the vendor as a key factor when rejecting BPO.

POTENTIAL FACTORS FOR BPO REJECTION

Rejection Factor Proportion High Significance (%)

Perception of greater contract & legal risk	74
Lack of process operations knowledge within vendor	67
Unproven service delivery quality	51
Lack of client company knowledge within vendor	50
Compliance concerns	46
Lack of vendor service maturity	45
Lack of suitable offshore service delivery capability	43
Inappropriate service locations or location mix	41
Lack of demonstrable success stories	39
Unproven cost reduction capability	35

The survey also delved into the issues of geographical location. Quality of BPO was perceived to be highest in Asia. When sourcing managers rated countries' BPO delivery quality, the highest rating countries were Malaysia, India, China and the Philippines. Asia as a whole scored a 3.6 rating (out of 5) for quality of BPO delivery, whilst Eastern Europe scored 3.3, as did Latin America and South Africa.

Where offshore BPO was concerned respondents were less concerned about domain expertise and relevant experience and more concerned about legal issues and the technological infrastructure of the company. 89 per cent saw legal protection and 88 per cent saw the quality of power and telecoms infrastructure as issues which figured highly in their prioritised concerns.

And offshore need not be an element of BPO delivery. Just look at the UK government. 2005's Gershon Report and last year's follow up - The Varney Report - both outlined plans to overhaul services in the public sector. The improvement of business processes through shared service delivery has been earmarked as the principle strategy to achieve cost savings and transform services. The Government's vision is that by 2016, the majority of the transactional elements of Corporate Services in the public sector will be delivered through a handful of professional shared services organisations. They are initially focusing on HR, finance and accountancy – they are estimating a saving of £1.4 billion per year of the annual £7 billion spend on HR and finance.

Another aspect of BPO that has shot to prominence this year is legal process outsourcing. Late last year it was announced that Clifford Chance, the world's largest law firm, is creating a captive in India to carry out a great deal of administrative work. The proposal is expected to yield more than £9.5 million in annual savings. Previously legal firms had been hesitant to utilise offshored services. Subsequent to this announcement, other legal firms have started to take notice of offshoring. Firms have started to consider the benefits that can be gained by offshoring low value secretarial work such as audio and copy typing; the work can be competently carried out offshore, costs can be vastly reduced by employing offshore secretaries, onshore secretaries will be more satisfied as they will be employed to carry out more interesting work and the onshore secretaries will become fee-generating.

BPO comes in many different shapes and sizes and as our research has predicted the market will continue to boom. BPO has caught up with ITO in the past few years, and although it is still some way behind in terms of contract value, the difference is steadily diminishing. Whereas call centres are the area of BPO that have stolen the headlines, there are plenty of other business processes within organisations that are ripe for improvement, whether through pure outsourcing, or through a shared services delivery model. If companies approach BPO in a careful and considered way and ensure that they get the right advice and are protected by the right contracts, they have a lot to gain.

We hope that this supplement offers an insight into the BPO market. If you need any more information on the subject, please see our website (www.noa.co.uk) or come along to one of the NOA monthly seminars.

CONTENTS

MEDIA PLANET

BPO AND SHARED SERVICES
A TITLE FROM MEDIAPLANET

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Should I be a captive or a client?

All companies considering offshore outsourcing have to answer the same question – should they set their own division abroad or should they outsource?

It is a question which Peter Moller, Head of Deloitte & Touche's Outsourcing Advisory team, faces daily on behalf of clients and, as with many business questions, the answer depends on the company in question and what it is hoping to achieve.

"There isn't really a definitive rule of thumb," he suggests.

"It really depends on each company and their management philosophy and whether they would prefer not to lose control over a process or if they think it is better done by someone else who offers a particular process as their core competency."

The most basic question a company has to ask itself is whether they believe that outsourcing to an off-shore provider will bring savings of around 20 per cent or more because a third party is likely to be making a 15 per cent margin on whatever you are paying them and so, it stands to reason, if they are not offering you savings in excess of that ballpark figure, you may be better carrying out the work in-house.

Well trodden path

For those that decide they would rather keep control of their business processes and so would rather set up their base offshore in, say, India there is a long proven track record of success. Many of the large outsourcing companies in India actually have their roots in a global corporation deciding to offshore to the country but wanting to retain control of their processes. These then have a habit of attracting work from other clients and growing in to large offshore outsourcers which are then, typically, spun out of or sold by the global corporation which set them up.

This is what happened with World Networks Services, which was originally set up by BA, and Genpack, which was founded by General Electric.

"Those considering setting up their own bases offshore can gain a lot of confidence from the fact that they are not pioneers taking a huge risk and that other companies have already been successful," Moller points out.

"The key question for a lot of companies is do they have, or can they get enough critical mass on the ground to launch an offshore base for themselves. If someone has a head count approaching a couple of hundred then they may well decide they have the people in place to offshore administration tasks to their own team rather than go for a third party."

Big name game

Head count is another crucial issue, Moller warns, because a company's ability to attract and, crucially, retain staff it needs to have a respected brand. Although it may not seem an issue to an outsider, those within Indian outsourcing are only too familiar with local culture favouring the big names in business.

"If you aren't a big brand name in India you will have to pay people more to work for you and you will suffer more staff churn that the big brands," Moller reveals.

"Indians are incredibly proud to work for international brands. I was at a parents' day recently where workers were allowed to show their parents where they worked and I got chatting to one lady who explained she could never leave Infosys because her parents wouldn't allow it."

Indian market

Another obvious question a company has to consider is whether it see India as a market it wants to operate in. If it feels there would be a benefit to having an office in the country, then it makes sense to carry out business processing tasks from that office.

"India is going through a very exciting boom and so there is growing wealth and a lot of companies are realising that they want to be in India," says Moller.

"For such companies it is a huge advantage to have a decent-sized presence on the ground and so it obviously makes sense that if you are setting up there anyway you might as well considering outsourcing some business process tasks to that office."

Ultimately, the question of whether to launch an office or employ a third party is generally down to the business culture at a particular company and whether it is more motivated by keeping control of processes or whether they are attracted by the generic 'your mess for less' pitch offered by third parties.

Outsourcing the mail

You may have noticed that outsourcing is going in to many new areas but you may still be surprised to hear that Pitney Bowes Management Services is offering an outsourced, secure mail room service.

However, when you consider the threat of terrorist and political extremists sending suspicious packages to companies and government departments it makes sense to use a third party which can scan and then open post in a safe environment, Managing Director, Richard Thompson maintains.

"The ease with which a terrorist, a disgruntled customer, an activist group or a criminal can introduce threats to a company or government organisation in the guise of an envelope or package, means that the post room is a critical point of vulnerability," he maintains.

The company carried out a study of the sectors most at risk and found in top spot was the government, then came banking and finance and in third place was high tech manufacturing. Telecommunications companies were at the bottom of the 'at risk' list.

BPO booming in Latin America and East Europe

It is often said that India is ‘overheating’ and there are many locations around the world that will take on its mantle or, at least, happily take a share of its BPO success.

Whilst there are as many answers to which country or regions are best placed to be the proverbial ‘next India’ as there are BPO providers, a common theme emerging in the last couple of years has been South America.

For a BPO provider such as PV Kannan, CEO of 24/7 Customer, South America makes perfect sense because the continent, to varying degrees across it many countries, has a wealth of young talent with the language skills needed in the United States and Europe. In fact, he has set up a facility in Guatemala because graduates are native Spanish speakers but have to pass an English exam before they are given their degree.

“It’s estimated that something like one in five people in the USA speak Spanish as a first language,” he points out.

“So that means they share a language with most South Americans and many South Americans also speak English very well and so when someone from the United States gets them on the phone they just think they are speaking to someone in the United States with a Spanish accent.”

> “40,000 new BPO jobs were created in East Europe last year alone”

According to Kannan South America is set to prove a viable alternative for North American executives who want to outsource operations but do not want the hassle of flying to India. In a sense the region is to become America’s nearshoring centre, he maintains, with the added benefit of providing out of office hours voice and data services to Spain. Hence it will come as no surprise that Mexico is believed to hit 190,000 BPO jobs by the end of the year, up nearly four times in just five years.

Matthew Vallence Managing Director at Firstsource believes Buenos Aeries in Argentina is set to be an important hub, not just for Spanish services but also because it has a huge Italian population and a sizeable Japanese ex-pat community.

“It has sizeable communities from around the world to provide global services and also has the potential for taking Spanish evening calls,” says Vallence. “You generally find that call centres have evening spikes in calls when people get home from work or school and these could obviously be passed on to Argentina when a Spanish centre is shut or has calls waiting.”

East Europe

Whilst South America is attracting a lot of attention for its proximity to North America, the same is happening in Europe, with East European countries providing a huge, cost-effective talent pool for West European brands. It is certainly a region that Michael Barrett, a senior lecturer at the Judge Business School, University of Cambridge believes is going to prove hugely popular for nearshoring contracts.

“The latest figures from researchers at McKinsey show 40,000 new BPO jobs were created in East Europe last year alone,” he enthuses.

“The region produces so many top engineers and telecoms experts that we’re finding that whilst some companies start out with a little outsourcing in the area, they’re now starting to move in to co-development.

“A huge motivator is that a lot of clients are being put off the extensive travel and time commitments of outsourcing in India and prefer to have a location that may not be as cost-effective up front but is on a similar time zone and is far more accessible.”

Commonwealth strong

Nonetheless, despite there being constant questioning of whether India is ‘overheating’ Bill Payne, Vice President of Strategy and Development of IBM’s Managed Business Process Services division believes there is still much scope for expansion in India.

“Business processes are being outsourced all around the world and it’s very exciting but you only have to go to India to realise it has the capacity to expand further,” he says.

“Sure, there may be some overheating in some of the big cities but you only have to look to the huge number of second and third tier cities that this can spread out in to and you can see how wage inflation and rising costs in one city can be countered by a new up and coming city nearby.”

Payne reveals he often tells clients and interested parties at conferences he believes there is an argument that the UK is best off looking to do business in and through its former empire, rather than the EU, and is often given “some very strange looks”. However he maintains that the country’s former colonies obviously have very good English skills and highly educated populations which make them attractive to business. This is not just true of India and Canada, he suggests, but also the “million dollar question” of whether African countries can “do an India”.

“The work will go where the skills are,” he suggests. “So it’s a really intriguing question to look at various African countries and see where they’ll be in 20 years. If they can be stable and provide the necessary skilled work force then they could be significant players. South Africa is well poised now, it just needs to produce more top calibre people from its universities, it needs to scale up. If it can, it will definitely be one to watch in a few years time.”

UK marketplace relies on value

When BPO works at its best it should not just be about cost, although that is an obvious consideration. To Marco Busi, Centre Manager of the Centre for Business Process Outsourcing (CBPO) the key is for both parties to look beyond initial efficiencies and concentrate on creating value for the client.

Rather than find a business process which a client thinks could be done more efficiently by a specialist, Busi believes clients should be looking to their chosen vendor to enable them to offer higher value services and, for their part, vendors should look at the work they are doing and find out ways to move themselves up the value chain.

A good case in point, he believes, is UPS, which has moved from deliveries to making itself integral in the supply chain of many of its customers.

“It’s a great case of how a company can start out taking care of deliveries but being so good at it that they start to tell the client how they could make efficiencies throughout the supply chain and then get more and more responsibility,” Busi enthuses.

“It gets to the point where clients, such as at least one major supermarket, turn to UPS to get their advice on packaging so they can work out more efficient load patters for deliveries. It’s a great example of a vendor working closely with a client to drive value and the BPO industry could do learn an awful lot from it.”

> “What is the point of these roles coming back to the country if we do not add value?”

Learn from calls

To underline his point, Busi draws attention to the typical call centre scenario where a company has asked an outsourcer to look after its customer services operation, almost, as he terms it, “as a necessary evil” rather than as an opportunity.

“If you think about it, there is nobody better placed within the organisation to work on future higher value offerings than the call centre staff,” he reasons.

“There is nobody in a business that will be listening to customers on a continual basis than the customer contact centre, so who else is better placed to understand the client’s business and consider new products and services that they could help the client provide and so move themselves up the value chain?”

Jobs returning

Clients should also be listening to the lessons learned in their contact centre so they begin to realise that it is not just a way of getting someone else, held at arm’s length, to handle all their incoming customer calls but a point of contact with the public that could teach them valuable lessons.

Busi makes the point at a time when call centre jobs are coming back to the UK this point is incredibly important for the well-being of the domestic BPO marketplace.

“People in the call centre industry used to see India as a huge threat but it’s more of a threat with back office service now,” he says.

“At first the UK was huge for call centres, then everyone went to India, and it was seen as a huge threat but now companies are tending to bring the role back in to the UK. In fact, you actually find that brands are advertising the fact that they have UK call centres as a positive attribute so it is clear that jobs are coming back to the country.

“The point I would ask people to consider is what is the point of these roles coming back to the country if we do not add value? If we just have jobs coming back that could be automated in the future, then they will be. The one thing you can do to protect against this is to work hard at driving value for the client because an automated process can’t do that for them.”

USA looking to Europe

The latest Quarterly Index from sourcing advisers TPI shows a dramatic shift in the focus of the global outsourcing market away from its traditional US heartland and deeper into both Europe and Asia-Pacific. Whilst market activity in the US has declined, Europe is experiencing continuing growth. $5.2 billion (€4.2 billion) of outsourcing deals were struck in the Americas in the first three months of this year, a decrease of some 70% on the first quarter of 2006. Indeed, the 27 contracts awarded there during the first three months of this year represent the fewest quarterly contract awards since 2001. By way of contrast, the total value of contracts awarded in Europe, $9.7 billion (€7.7 billion) was up 67%, while Asia-Pacific experienced a 30% increase in the value of first quarter deals from $2.1 billion (€1.7 billion) in 2006 to $2.7 billion (€2.2 billion) in 2007.

Duncan Aitchison, Managing Director of TPI, commented:

“This shift in market activity from the Americas to Europe can principally be explained by the US’s far greater maturity as an outsourcing market. Europe and Asia-Pacific are newer to outsourcing and their markets therefore currently have more potential to grow. That said, the significance of these developments from the perspective of outsourcing providers should not be underestimated. Europe will become increasingly important to the service provider community.”

Your Global Network Partner to Drive Successful BPO

Business^n Rich | VSNL

BPO has impacted business in every industry sector across the globe. As outsourcing enters a new phase, telecom/IT capabilities are at the forefront of BPO gains. This article explores how leading, best practice networks and IT capabilities are critically enabling the latest wave of global business optimization.

The Global Model Era

With the rise of 'multi-shoring', companies today are looking to out-task specific processes and functions to various parts of the world. India is still at the heart of this outsourcing, however, newly emerging BPO markets include countries such as Hungary, the Philippines, Canada and South Africa. Overall, the trend toward a multi-site global BPO model is intensifying the need for truly global network services.

Why the Network is Mission-Critical

Telecom/IT infrastructure, managed applications, and network services drive the performance of the systems, software, and functions of BPO. These capabilities support more effective business processes to deliver agility, performance, and profitability. Efficiencies gained on the network propel higher productivity and the ability for in-house staff to focus on core competencies and business priorities.

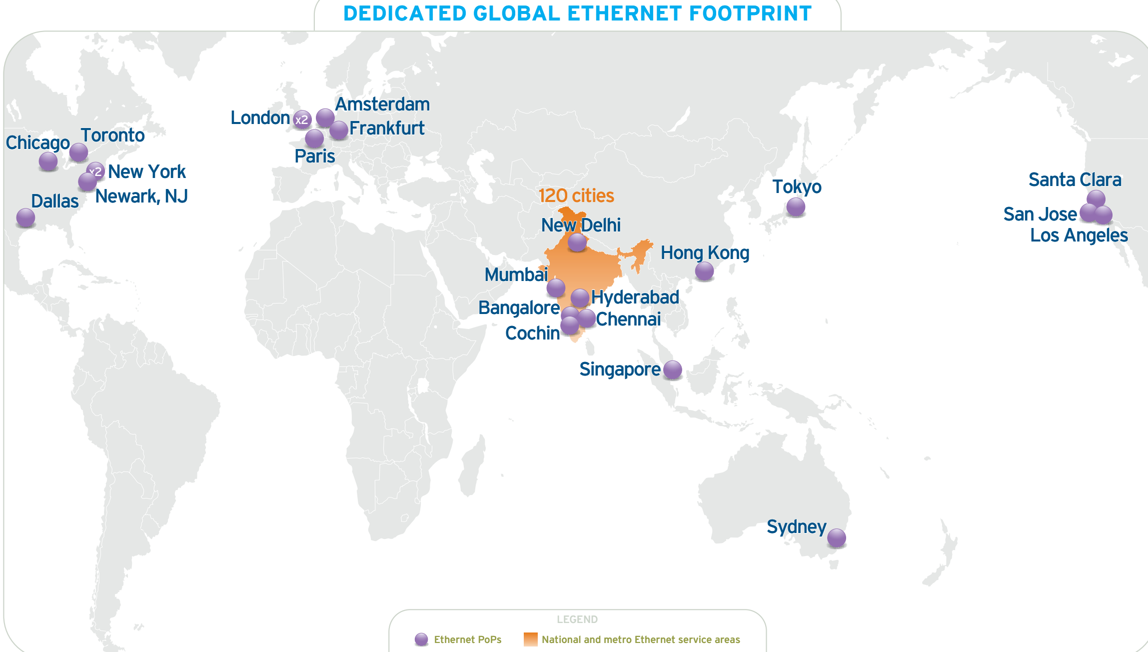
Additionally, telecom/IT services help meet the demands of security and governance requirements by protecting extremely sensitive corporate data. From HIPAA and Sarbanes-Oxley in the US to PIPEDA in Canada or the Data Directive in the EU, network security, archiving and storage facilities must meet corporate compliance standards. Globally, these initiatives create specific controls around what can and can't be done with data, including storage and processing. For the banking and financial industry, for example, high-security networking has become mission-critical to BPO.

Scale, Efficiency, and a True Globality

VSNL is one of the world's largest global communications providers. We provide a comprehensive portfolio of network solutions, managed hosting and storage, and managed network and application services on our wholly owned global network in order to support BPO initiatives. From outsourcing to leveraging next-generation technologies to enhancing profitability, VSNL's core focus is on enabling our customers to drive value creation. We partner with leading Systems Integrators (SIs) to develop outsourced solutions building on synergies between global IT and network capabilities. VSNL is a leading enabler of outsourced solutions driven by our:

- Truly global footprint
- Wholly owned infrastructure for the highest levels of security and control
- Best-in-class managed network, application, and infrastructure solutions
- High-performance standards maintained between the UK and across the world
- Core market strengths in emerging BPO countries

DEDICATED GLOBAL ETHERNET FOOTPRINT



Network Future-Proofing

To best optimise outsourcing investments, VSNL has invested in key next-generation network technologies.

Ethernet

VSNL has led the industry in deploying a comprehensive solution suite extending the efficiencies of Ethernet technology to global wide area networks (WANs). VSNL offered the first truly global Dedicated Ethernet network solution and the first to be recognised by the Metro Ethernet Forum-9 standard. Recently, our Dedicated Global Ethernet service received a second recognition with the MEF-14 classification. Together, these standards ensure that our Ethernet service is fully measurable, manageable, and robust, meeting criteria jointly defined by the world's leading Ethernet service providers and infrastructure suppliers. Groundbreaking application of this ubiquitous and easy-to-use technology is providing our UK enterprise customers with one of the most cost-effective services to improve their networks, scalability, and financial performance. VSNL's network investments to deliver new Ethernet technology are enabling next-generation BPO to thrive in a scalable, future-proof environment.

MPLS

Our Global VPN services offer an ideal solution for organisations that need a flexible, manageable and cost-effective Wide Area Network, but cannot compromise on performance, reliability or security. VSNL's network encompasses a highly redundant MPLS global core of 15 super PoPs and over 350 PoPs at the edge of this core; reaching into the business centers of five continents. VSNL's expert and experienced resources support the entire enterprise network lifecycle for MPLS VPN WAN solution.

Managed Hosting and Storage

VSNL's managed hosting and storage solution allows enterprises to remain focused on their core competencies rather than managing complex storage optimization, disaster recovery planning, and the ongoing maintenance and security challenges associated with hosting and storage management. VSNL leverages and passes on the operational advantages of its offshore Indian operations to help customers reduce costs, while improving service quality and mitigating risk through the use of the VSNL global network, data centers, specialised resources and sophisticated management tools. Our global customers can use VSNL's best-in-class Managed Hosting & Storage solution to safely out-task services and to reduce IT management complexity.

For more information on how VSNL can help support your BPO initiative, please contact Nicola Hathaway at + 44.20.7519.4621 or via email at Nicola.Hathaway@vsnlinternational.com.

Standardisation encouraging shared services uptake

Common tasks and similar computer platforms are combining to make shared services a popular way of gaining efficiencies, particularly for those companies that are keen on keeping their back office roles close at hand.

After decades of global firms allowing individual arms to have increasing autonomy the current thinking among those looking to drive shareholder value is to centralise operations in to a shared centre because it is pointless having, for example, multiple offices processing invoices when they could be done from one location.

According to Robert Chapman, Head of BPO at EDS, this has been made all the more sensible by global companies investing in large computer systems which allow staff dotted around the world the same access to business tools. ,"Typically a client will have, say, a SAP platform and its staff everywhere will have access to it and they'll generally also have the same tools in various offices," he says.

"So they realise that with their people using the same computer system and tools around the world, their processes are well aligned and there's nothing really stopping them from doing certain roles from the same centre. This is obviously far more efficient than if you have people doing the same tasks in different offices.

"It's also a very handy way of spreading the balance of work by having a large team that can adapt when their work loads change."

Whilst many companies will choose to set up their own shared services centre, many will go down the route of asking a shared services specialist to either set up a centre on their behalf or, as is often the case, set it up and then run it for them as well.

"In a way it can become a form of outsourcing," says Chapman.

"We have clients coming to us that want a shared service centre but these back office tasks aren't central to their business and they don't necessarily want to put in the investment to set up a new shared services office. So, they bring an operator, such as EDS, on board to share in the cost of setting up the centre in return for a contract to run it on their behalf."

Whilst there is an element of cost saving, there is also a strategic element in combining back office roles in one place, regardless of whether the shared service centre is run by the company or a third party. "If you've got everyone together, you can be really focussed and keep training constant and really motivate a team to improve customer service," says Chapman. "Companies realise that when they're spread thinly it can be harder to ensure customer service is kept at the level they require."

Shared services are proving particularly attractive for the public sector which has been under considerable pressure, since the publication of the Gershon report in 2004, to save costs by pooling resources and saving on, what the report estimated as, 84,000 duplicated civil servant jobs. This has ensured staffing efficiencies are very high on the agenda in all public service departments, according to Hilary Robertson, BPO Director at Xansa.

"Government, both central and local, has seen there are huge savings to be made through shared services," she says. "There's the obvious saving of sharing a building and the same IT system because you don't need people in neighbouring councils or department all doing the same role from multiple offices. We've set up the NHS SBS which we estimate a quarter of all NHS organisations are now a part of. We share any profits with the Department of Health and we reckon in a few years, if we got half of all NHS organisations, the profits equate to something like 12,000 nurses' salaries."

Robertson predicts the public sector will move increasingly towards shared services because there are not only savings to be made but it fits in with the current drive for the government to provide services that are 'joined up' and give the consumer a simplified, if not single, interface with various departments.

Briefs from Bangalore

Whilst global companies and the public sector have led BPO, professional services have started to catch up in recent years and now one of the latest fields to start switching to BPO are lawyers.

Although accountants, like many in the finance sector, have led the City's march towards BPO, their legal counterparts have been slower to pick up on the benefits of outsourcing back office tasks but this is changing, as signalled by legal giant Clifford Chance setting up a captive BPO in India last Autumn in a bid to save an estimated £9.5m on administration costs.

Boom times

Kesh Sharma, Director of Magellan, has helped several legal firms offshore their back office work and reveals, as ever, there is not a single driver, but many.

"A huge issue is that all the law firms we talk to say they are growing," he says.

"That's great for them, but it means there is a lot of competition for legal advisors and secretaries who, although they are not actually lawyers, are very well trained and knowledgeable.

"The law firms realise that they have a huge administration and secretarial burden that, if taken away from their clerks and support teams can help motivate these people to stay because it gives them more time to spend giving advice and help out clients on the parts of work that don't always need a layer."

Sharma is quick to point out that despite "media hype" this is actually another case of outsourcing actually enriching jobs in the UK through relieving well paid city secretaries of jobs they are, arguably, over qualified to do, such as copying documents and transcribing tapes. This leaves them time to focus on more fulfilling work that justifies their salaries which, due to the skilled nature of their role, are far higher than a conventional secretary.

"In all the work we've done, I think there's only been one secretary who was made redundant," he says.

"Everyone else has really enjoyed seeing all the paper work and admin being done somewhere else so they can get more involved in the client facing side of the business."

India leading

The offshore location could be anywhere but the first handful of firms are opting for India, Sharma points out, because security has now been tightened and staff are highly trained.

"The project leaders in our Indian centres are qualified lawyers and everyone handling documents is a graduate who we've trained in legal processes and jargon," he claims.

"Plus we don't allow any mobile phones or pens in the office so nobody can ever take a note of anything. Conversely we had a client in London who hired a temp who, on her first day, discovered she'd been asked to work on papers relating to case against one of her relatives. I point this out to customers to show how actually it's safer to use offshore staff because they're working in a secure environment and the chances of them being involved indirectly in a case by accident are far smaller than a temp you hire in London.

"I wouldn't advise that really sensitive work on a top secret merger should be outsourced but for every day work it's a very good way to save money and better motivate staff in the UK."

The other huge plus point India has going for it, according to Sharma, is the four and half hour time difference which means that by the time law firms open their offices in the morning, their Indian outsourcers have had a four or five hours head start on the working day. Hence, data sent at the end of the working day in the UK can be processed by the time the office opens again in the morning.

Always leave space for renegotiation

With the maturing of the BPO market two facets have become clear. Contracts are increasingly more short term than the previous five to ten years deals that were once common and, as often as not, these shorter term deals are renegotiated before they expire.

In fact, BPO lawyer David Isaac at Pinsent Masons estimates that around 70% of all outsourcing contracts are redrawn within two years but he maintains that, particularly in IT, this is not a bad thing but more a sign that clients and vendors realise that IT projects change in scope, reflecting clients' growth and strategic realignments.

"It is usually imagined that contracts should only be renegotiated if dire problems demand it. In practice however, most sophisticated IT contracts need regular reviews and some form of re-alignment," he suggests.

"Increasingly in both the public and private sectors, contract change is required to take account of developments in an organisation's business or movement in the IT market.

We're often involved in contract discussions which demand a move away from a single-source arrangement to multiple-source outsourcings or to a mix of in-house and outsourced arrangements. In each of these situations, we've witnessed variation to reflect changing business requirements, maturing relationships and new management styles."

Break clauses key

One way of avoiding potential renegotiation difficulties and costly discussions, Pinsent advises, is to include unilateral break clauses at predetermined dates when setting up a contract. These will usually be the anniversary of an agreement starting and maybe also a time half way or two thirds of the way through the contract.

This gives both vendor and client an opportunity to reflect on the contract, monitor the performance of a project, weigh up possible changes that are required and renegotiate.

This need for reflection means it is a good idea, Pinsent suggest, to allow a contract to continue without too much alteration through using phrases in the original contract that state after the break clause, if agreed, services should be provided at "pre-agreed rates" but only using "best-of-breed" solutions (which may have improved since the signing of the original document). This process of building in a period of reflection to allow for renegotiation is now very common, Pinsent reveals, and would suggest anybody considering offshoring work, particularly in the fast changing world of IT, should build in an automatic renegotiation period and should certainly never commit to more than two or three years of uninterrupted service from any provider.

10 Top Tips for success

Nick Billington, UK Head of Outsourcing at Accenture passes on his top tips for BPO best practice

Allow lots of time - An outsourcing program needs time and effort from the executives driving the change

Win over the bosses - The CFO has responsibility for running the arrangement with the provider

Build a consensus - Everyone needs to be involved – find business line 'champions' who embrace the idea

Do your homework - The key is the work done up front, including in depth analysis of existing costs and performance

Craft the contract carefully - Formulate a contract that incentivises the right behaviors for both parties...one sided arrangements never work in the longer term. The success of an outsourcing arrangement cannot depend entirely on a single document – so once it's complete and signed, the key aspects need to be broadly embedded in the service management process

Change Management / Communication – Leverage all channels and methods to ensure clear understanding of changes, issues and actions

Stick to specifics - Affected staff need to receive concrete information as soon as possible

Measure performance - Applying metrics both measures the success of an arrangement and provides data to protect the programme from backlash

Operational discipline – It is challenging to focus on operations stabilisation in the early stages of transition... but it is critical for both parties

Build a partnership - Be open about business objectives and goals. Set up a suitably sensitive and flexible governance structure...this is key for the good times and to navigate through challenges

Around the world, or in your own office?

Ask a managing director or CEOs if they, or anyone else in their senior management can programme their laptop and the resounding 'none' will give a good idea why so many companies choose to outsource IT projects.

In fact, it is IT outsourcing which John Tilley, managing director of Perot Systems, points out, can make different offshore locations very attractive at different times.

"We work on a truly global basis, so we have staff in many locations because our advice to any potential customer is that you if you want to work long term with someone, you need to spread staff in various locations," he says.

"The problem can be that if a lot of work comes to one country, it can push up inflation as there's competition for the people with the right skills. We're in Romania, for example, but if you asked me if that's going to be as attractive in five or six years as it is now, I couldn't guarantee it because they may run in to problems of not having the university places available to increase their supply of qualified people.

"Hence we build our IT strategy so we can switch resources if one location becomes less attractive. The challenge for us then becomes to standardise our processes so different parts of the world work together seamlessly."

Tilley believes that this global, standardised approach is vital in IT outsourcing because if an outsourcer puts too many of their proverbial eggs in one basket, the service levels and pricing structure they agreed a couple of years ago can be hard to maintain if the country they have chosen to locate their IT teams suddenly overheats and wages spiral and top quality staff become harder to locate and employ.

Cosourcing route

A rather different strategy of placing projects in between outsourcing and insourcing, so called 'cosourcing', is proving popular in IT, particularly with help desks, according to Jerry Cave, Plan-Net co-founder.

"A lot of companies are deciding to get a provider like us to go in and either get the staff to run their IT helpdesk or take over the function completely," he says.

"If they come to us to provide staff it takes the strain off them to spend time interviewing people but if they want to take it to the next stage and ask us to take on the contract to run their IT helpdesk or take over a part of it, and so cosource it, we find that we generally will employ, train and mange the IT support staff but the client may well have a manager keeping overall control of the function."

Cave believes the attraction to a client is that they know an IT helpdesk is vital but as their business grows it can be difficult for them to grow their helpdesk in line with increased demands.

Opportunities count

The main driver, though, for IT helpdesks to be cosourced is what Cave sums up as the 'opportunity cost' rather than a saving on the cost of running an IT helpdesk.

"Companies know that it takes a lot of management time to run a helpdesk," he says.

"So the question they are increasingly asking themselves is what is the cost of having managers running the function compared to allowing them to get on with something else a little more strategic? What is the cost, in terms of missed opportunity, to have those managers interviewing staff and managing those staff when they could be doing something more beneficial.

"It's the Holy Grail of IT outsourcing. If you can make people see that they only have an IT department because they can't be making money when the computers are down and they miss out on billing opportunities, so it goes that if they then have managers devoted to looking after that section of the business, they can't be doing something else more strategic that will help the company grow."

There is also the cost consideration whereby a company can pay an outsourcer or cosourcer to provide a service, such as an IT helpdesk but if they build it themselves and their needs change, they may have to invest in a whole new infrastructure – a cost that could either be avoided if they used a service provider, or at least shared.

Recruitment outsourcer top honour

Rosaleen Blair, the chief executive of Alexander Mann Solutions, has recently been named as the Veuve Clicquot Businesswoman of the Year.

Rosaleen started out running a nanny business in her native Dublin before moving to London to set up her recruitment outsourcer in the hope she could revamp how businesses hire staff. The company is now a £300 million global operation with 800 staff.

The award was set up in 1972 by the champagne brand to celebrate its bicentenary by promoting and recognising female business achievements.

Tutors on tap

One of the latest ideas in Indian outsourcing is young bright graduates not manning the phone in a call centre but rather using their studies to help British youngsters with their home work.

TutorVista gives UK students one-to-one, unlimited personal tutoring for a flat monthly fee of £49.99. The new service has been launched by K Ganesh who, in the past, set up one of India's best known IT outsourcers, IT&T before forming business analytics company Marketics which he recently sold to WNS Global Service for $65m.

IT Outsourcing to Eastern Europe

Sergei Levteev, President of IBA Group, a Prague-based IT service provider with clients in more than 30 countries explains the appeal of East Europe.

Sergei Levteev - IBA Group President

Eastern Europe is one of the fastest-growing regions in the world. Eastern European countries have become centres for IT outsourcing because of their geographical and cultural proximity to Western Europe, and skilled and low-cost labour force. Using software outsourcing to Eastern Europe, Western companies create high quality products in a cost-effective and timely manner.

IT departments have tight budgets, limited resources, and time constrains. Outsourcing to Eastern Europe can serve as a key strategy in addressing these challenges. Different outsourcing models are currently in place. At IBA Group, we use a combination of onshore, near-shore and offshore operations to provide premium quality solutions to our customers. We also lay special emphasis on long-term relations with our clients, which provides for a higher degree of trust and better understanding of client business needs.

The most commonly used offshore suppliers are Indian. However, Eastern Europe offers good opportunities for those who want to diversify their outcourcing portfolios. Eastern Europe has a highly educated workforce, primarily in the high-tech sector, it has the required IT and communication infrastructure and enjoys political and economic stability. IT providers in Eastern Europe have low employee turnover and are reliable partners. Prices there are very competitive, even compared with India and China.

Although this region is a new destination, some Eastern European companies have been in the outsourcing business for years. For instance, the first IBA Group's development centre was founded in 1993 in Belarus. In the past years, IBA Group has evolved into an international alliance with offices in the Czech Republic, Belarus, the United States, Germany, Russia, Cyprus, and Bulgaria. To date, IBA employs more than 2,000 professionals. IBA attributes its dramatic growth to the increase in demand for IT outsourcing services on the global market.

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The Executive's Guide to Shared Services

Corporate-support processes, often duplicated in separate parts of the same business, usually account for up to 40% of total costs. The shared services business model (SSBM) enables organisations to exploit the potential cost savings hidden in support services and to re-channel the released resources into higher-value activities.

Dr. Marco Busi, Centre Manager, Centre for Business Process Outsourcing, University of Strathclyde, Inverness & Glasgow, marco.busi@strath.ac.uk

Far from being a "throw-back to the old days of bureaucratic centralisation" (The Economist, 2003), emerging SSBMs consolidate and deliver repetitive common processes through a single delivery organisation, after having optimised them to each customer's set of specific requirements.

The move to shared services has gained momentum in both the public and private sector. In the UK, governmental initiatives have been focusing lately on transforming the public sector through reducing waste and duplication in the back-office for reinvestment in front-line services (Gershon Review, July 2004). Similarly, according to IBM, more than 30% of US Fortune 500 companies have now adopted the SSBM.

Nevertheless, executives are sceptical about the potential benefits of the SSBM. Whilst some companies that have adopted the model have been disappointed with the results, others have achieved benefits far beyond their expectations. An in-depth analysis of best and worst practice clearly indicates that most of these initiatives fail due to a lack of clear understanding of the SSBM and how to manage the change it involves.

The Executive's Guide presented here offers a conceptual framework to better understand the shared services concept, identify the challenges arising during the transition to the SSBM and be aware of the critical success factors.

This guide answers the fundamental questions one need to answer when planning to adopt the SSBM:

- What is the SSBM and what variations of the model exist today?
- Why should you consider adopting the SSBM?
- How should you plan and manage the change involved in the transition to SSBM?

What?

Public and private organisations have developed several different variations of the following three basic models for the delivery of services based on the shared services concept:

Shared Services Business Unit (SSBU): A business unit created internally within an organisation, dedicated to deliver to internal clients optimised services that were previously carried out repetitively across different business units.

Commercial Shared Services Business Unit (CSSBU): An evolution of the SSBU model, where the SSBU achieves sufficient economies of skills and scale to profit from delivering services to external clients also.

Commercial Shared Services Centre (SSC): A commercial company whose core business is to provide shared services to a range of different external clients.

Why?

Organisations throughout the world constantly face operational and strategic challenges to better serve customers at lower cost. Lean theories from manufacturing teach us that most improvement opportunities come from eliminating non-value-added activities. The SSBM enables organisations to gain economies of scale and skills. Dramatic cost cutting can be achieved from economies of scale, especially for transaction-intensive, volume-oriented tasks.

> *Recent research concluded that the SSBM generally leads to 20% direct cost savings; 20% indirect cost savings as a result of process improvement and optimisation; and another 15% as a result of systems improvement*

Economies of skills enable organisations to streamline and optimise the shared processes and to develop a strong customer service orientation, providing higher-quality services. The SSBM also allows for greater connectivity across businesses, enabling a more efficient information flow throughout the supply chain.

How?

A full transition to the SSBM takes anywhere between 18 to 24 months, although selected functions can be up and running much sooner. The table below is the core of the Executive's Guide we're presenting here as it identifies the most common shortfalls, the potential impact on the project, and the critical success factors (CSF) characteristic of best practice.

Category	Common shortfall	Impact on the Project	CSF based on best practice
Project and Change Management	Bad transition planning	Longer and more costly projects than expected	Develop the business case/strategy/plan
	Lack of management buy-in	Poor monitoring of achievements and loose adherence to plans	Gain executives sponsorship and leadership Set targets and goals
Business process re-engineering	Wrong selection of processes	Outsourcing of core competencies	Select processes starting from those with a low strategic impact and significant economies of scale
	Processes are standardised but not optimised	Poor performance and service quality	Reengineer the processes, don't just transfer inefficiencies
People Management	Lack of clear communication to staff	High resistance to change	Communicate throughout the project. Build attractive career plans.
Service Level Agreements (SLA)	Definition of Rigid SLAs	Early contract termination with significant delays and financial losses	Define SLAs to reflect the dynamic nature of these projects Use the knowledge generated at every step to inform the SLA
IT systems integration	Lack of proper system integration	Poor service delivery Plan the integration in advance	Deploy enabling technologies

The benefits promised by the adoption of SSBM can refill the competitive engine of most organisations, both public and private. The transition can be lengthy and complex. The Executive's Guide to Shared Services that we have briefly presented here summarises the know-how available to support decision makers to successfully plan and undertake such a transition.

Creating a unique BPO forum

If researchers, BPO practitioners and industry had a common forum through which they could share latest research findings and swap real life experiences of what has worked and what has not, Marco Busi is convinced the overall BPO marketplace would benefit.

Hence he is behind a project to launch Strategic Outsourcing, An International Journal to be published by Emerald Publishing from the end of the year or, at the latest, the start of next year. Busi believes that the BPO marketplace needs a journal because, without one, people only have access to information directly relating to their area of expertise and so miss out on the opportunity to learn from BPO projects relating to different parts of the marketplace from a wide variety of industries.

"We all have so much we can learn from one another," he suggests. "So the journal will allow practitioners and researchers to share experiences from a number of different industries where outsourcing is practised, so that the chances of success of these initiatives are optimised. We're working hard to make it interesting and industry relevant so that board members up to CEO will embrace it as well. So the journal will not be the traditional academic journal but will feature both traditional scientific research together with industry viewpoints, hence maximising its value to the different type of readers and leading the international debate on strategic outsourcing."

The editorial team behind the project is currently being built up to make sure articles are provide by, and peer reviewed, by the best in the business – already the likes of the Harvard Business School, MIT and London Business School, among many others, are on board.

Once it begins publication Busi is convinced the journal will help the BPO marketplace mature, replicating the positive experience of more mature industries such as manufacturing which, he feels, made great leaps forwards once companies looked to researchers and one another to test methodologies and share real life experiences.

The Centre For Business Process Outsourcing (CBPO) is the first research centre of its kind in the UK. Bringing world-leading research to the area of BPO, our mission is to support practitioners to use outsourcing to shape their future, innovate and improve their global competitive position. We offer executive education, knowledge transfer, consulting and contract research.

For more information, or to take part to our on-going survey of outsourcing practices and trends visit www.cbpo.org.uk

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PROMOTIONAL FEATURE

COLT go it alone to India

While headlines of companies outsourcing to Asia are now a daily occurrence, few people realise that many companies are going it alone. COLT Telecom has recently done just that by building a captive finance shared services centre (SSC) in India to support its European operations.

While the primary objective was to reduce costs, the SSC offshoring programme aimed to solve a number of other challenges faced by many organisations today: an overly complex and expensive to maintain technology configuration, non standard business processes and resistance to change in the European businesses which historically had been run on a largely autonomous basis.

In response to these challenges and recognising that internal resources to deliver an initiative of this scale were insufficient, COLT approached Deloitte to take overall responsibility for the definition and delivery of the transformation programme. The decision to build a captive SSC rather than outsource to a third party was taken to achieve additional savings (by not paying for an outsourcer's profit margin) and was made easier by the fact that COLT's majority shareholder, Fidelity Inc, already had a facility in Delhi that could be used.

Describing the challenges, Mike Dobby, a Finance Transformation Partner from Deloitte, commented: "To succeed, this project required a high level of senior management commitment and an increased focus on 'business as usual' during the transition. The successful implementation combined processes, people and technology into a totally new operating model for finance, fundamentally changing the way key services are sourced within the organisation."

Building capacity

COLT phased its approach by creating its shared service centre in India and initially shipping the existing processes. This allowed significant cost savings to be realised quickly through wage reduction whilst reducing risk by building knowledge within India. It then undertook an initiative to globally standardise routine transaction processing, such as matching and paying supplier invoices and receiving and allocating cash from customers. This was complemented by the implementation of a global Oracle financial system that considerably increased the visibility and consistency of financial information.

Tony Bates, Chief Administrative and Financial Officer at COLT said: "By conducting a successful pilot, we confirmed that the offshore model and Indian resources had the skills required to deliver on key accounting processes. We have also ensured low attrition in India by building strong career paths and hiring generally mature workers."

> "This project has become a benchmark"

Highlighting the success, Shirish Patel, a Telecommunications Partner from Deloitte, noted: "This project has become a benchmark for building a captive offshore SSC. To implement such a complex transformation programme across so many countries in 18 months is incredible. The total cost benefit associated with implementing worldwide standard business processes whilst moving to an SSC model in India has given COLT a significant competitive advantage."

New approaches to outsourcing as BPO comes of age

MIKE ETTLING, VP, GLOBAL BPO STRATEGY, UNISYS.

The world of Business Process Outsourcing is in a period of flux. Unisys has been a provider of BPO services for many years and we are now seeing a definite trend for companies rethinking how they approach BPO, what they are outsourcing and how that outsourcing is being managed to ensure a successful partnership.

Buyers are a lot more sophisticated and the best outsourcers are developing a closer, healthier interaction between them and their clients – the focus is on people, productivity and process requirements rather than just supplying technology.

As the industry evolves BPO firms must offer value for money alongside deliverability, supplying significant savings to business in processing their back-office functions. Unisys compares itself to Toyota's lean manufacturing model in this respect - maximum efficiency and minimum waste with a flexible approach which is highly responsive to customer requirements. Specialisation and economies of scale with technology offer significant savings to clients. BPO providers are becoming far more savvy about how to offer best-fit services. As an industry, BPO is where ITO was five or six years ago, yet it is far more fragmented. Market valuations of some players in BPO indicate how hot the market is right now.

Looking Forward

So how will the BPO industry develop? In the immediate future it is safe to say that by the end of 2008 BPO will look significantly different. We already see emphasis on vertical industries where BPO specialisation is being deployed in mission-critical applications, not just on robotic back office functions. The closer working relationships that have developed between BPO providers and their clients has led to a greater trust of the BP outsourcer and, consequently, more sophisticated functions being entrusted to them. For clients, BPO partners must increasingly demonstrate secure business operations to prove trustworthiness.

The type of industries seeking business process outsourcing will also change. Sectors such as healthcare and fund management, for example, are looking at BPO as an attractive proposition to help these industries operate changes. For fund management, through the growth of hedge funds and regulatory changes in financial services, we are witnessing a need for BPO as the financial world expands and requires ever larger volumes of back office services.

These fundamental economic developments are typical of what is driving BPO. As it gains trust as a viable, secure business option, we will definitely see BPO flourishing across most, if not all, areas of industry.

Can BPO boost UK jobs?

When offshoring first started to gather momentum throughout the latter half of the 1990s, one could not escape alarmist headlines lamenting UK jobs lost abroad.

Now, however, offshore and nearshore BPO providers are growing in confidence and believe they can say, with some assurance, that their work can actually benefit the UK economy.

Although the public may not be totally surprised that companies that have taken jobs, or at least roles, abroad would have a counter argument, Neil Robinson, Director of Client Management at Convergys claims that offshoring is good for British business, so it follows it must be good for the country as a whole. "A lot of the technology and project managing teams remain back in the UK," he claims.

"The work may be done in East Europe or India but it's being run from the company in the UK and it's allowing them to get projects delivered very efficiently. I think people have to realise that the business world has changed and it's far more dynamic, offering companies a vast choice of suppliers from all over the world. It may take time for people to adapt but the projects are nearly always run from the UK and they can actually create jobs in the UK once they're delivered."

New markets

Furthermore, there is the rather obvious point that if developing countries are helped to develop further, they become huge markets for UK goods and services. It is only too self-evident for someone such as Bill Payne, Vice President of Strategy and Development of Manager Business Process Services at IBM.

"You only have to go over to somewhere like India or China to realise there's now more than a billion or more than two billion people who don't want to live in poverty, they want what you and I have got," he says.

"So they clamour for BPO jobs so they can afford the goods and services we have in West Europe or the United States. Certainly in India it's already creating a huge middle class and so a lot of companies are now setting up there not just to run BPO offices but to have a launch pad to sell to India. You only have to drive around India to see all the big western brands are already there doing very well."

Transition ahead

Of course there is a major proviso to the UK gaining from offshoring. As Michael Barrett, Senior Lecturer at The Judge Business School, University of Cambridge point out, the country cannot simply expect the benefits of BPO to flood in without laying the ground work.

"It's probably too early to say for sure that offshoring BPO can be beneficial for the UK but it definitely has the potential to be," he says.

"The crucial thing here, though, is that in the case of offshoring administration work there is always the argument put forward that it allows UK staff to do more proactive, client facing roles. That's obviously true but businesses obviously have to put in the time and resources to train people for these roles, they can't just expect it to happen automatically. So, there's definitely the potential but it will need some investment in UK staff to make it happen."

Top 10 Tips for successful Shared Services

John Stevenson, UK COO, at Atos Origin passes on his top ten tips for making shared services work:

- Align Shared Services with the company strategy and organisational model, IT and processes
- Build a compelling case for change and communicate it to employees at all levels to assist buy-in
- Secure strong sponsorship that is cascaded down through the organisation
- Discuss a shared vision for the future state of Shared Services
- Involve stakeholders in building and realising the business case to deliver significant benefits
- Put in place strong programme and change management from the outset
- Simplify with no compromises and maximise automation
- Allocate adequate resource (both quantity and quality) – staff, money, etc.
- Select the right location for the service / business
- Create a high performance service culture in the Business Support Centre and select leadership based on competencies required


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