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Business Process Outsourcing: Possibly the Next Great Strategic Advantage

An interview with
 Michael Forhez and Hemav Mahanta



Journal of Trading Partner Practices: First off, can you clarify the difference between Offshoring and Outsourcing?

Michael Forhez: Often we hear “outsourcing” and “offshoring” used interchangeably, despite important technical differences. To clarify, outsourcing usually refers to when a company transfers some part of its business process to another company who can offer cost and/or other advantages through specialization in that area. Offshoring is distinct in that these same processes are transferred to a location in a different country.

In the consumer products industry, we have been outsourcing for many years. Some examples include advertising and promotion through agencies that specialize in this work, merchandising through brokers, with their trained in-field staff, and in recent years manufacturing and product assembly at various intermediary stages.

JTPP: What are some of the primary reasons why companies today may be looking to outsource positions or

departments – particularly in the area of sales and marketing?

Hemav Mahanta: The extension of consumer and sourcing markets to emerging markets has certainly opened the door to offshoring by virtue of proximity. There is also the tension of increasingly complex and sophisticated operations from supply chain management to channel blurring, where outsourcing/offshoring can offer flexibility and cost efficiencies, both of which are especially valued in the current economic climate.

MF: Over the years outsourcing has been used almost exclusively to achieve cost advantages by having things done less expensively somewhere else. Today, we’re finding that management is now outsourcing to eliminate time spent on non-core work, allowing the company to invest more resources in key business building initiatives.

JTPP: What are the forces over the next several years that will impact the outsourcing of marketing and sales functions? Are traditional business models becoming less effective?

HM: Solving business problems with real-time, actionable information and insight is certainly becoming one of, if not the principal area where suppliers are trying to make a difference with their retailer partners. But the paucity of time is always an issue. As Michael just suggested, if we can help our clients more clearly delineate core vs. non-core work, we can restore precious time to the enterprise.

MF: As far as traditional models are concerned, it has become obvious enough that globalization cuts both ways. In other words, it’s not just about exporting or importing finished goods. The trans-global movement of people, processes and technology has leveled the playing field, allowing for work to be done wherever it is done best. Add to this the advantages of a 24/7 work force and one can see how “business at the speed of thought” as Bill Gates suggested some years back, has really taken hold.

JTPP: The notion that the world is flat has helped to make outsourcing and offshoring better understood and hence more attractive. But, while traditions and

boundaries are being torn down, aren't there still significant issues that can impede success here?

MF: There are many misconceptions about outsourcing in the industry but we're noticing marked improvements in how companies engage us. Outsourcing is not about off-loading problems. That is, if you don't know what's wrong with your business, sending it abroad is not going to solve your issues. In fact, it is likely to compound them. For outsourcing to provide value—added value—the principal and its provider must establish a collaborative partnership that fosters continuous knowledge transfer and quality management.

HM: Exactly. The concept of a Flat World, which was popularized by Tom Friedman's book, "The World Is Flat" speaks to the historic shifts in perception and reality as countries, companies and even individuals seek advantage in a truly global market.

While outsourcing has and does raise concerns, in today's global economy regional and geographic divisions are becoming increasingly irrelevant, which is why offshoring of work has become a more acceptable, strategic business practice.

We see the biggest challenges to the effective use of outsourcing as stemming from such issues as vague initial objectives, the absence of a governance and risk mitigation plan, a poorly staffed retained firm, and—critical in today's business environment—the lack of innovation capability to go beyond the current state.

JTPP: What are some of the shifting operational priorities that are taking place due to a flattening world?

HM: From our interactions with different clients, we have found the answer to this question comes down to four thoughts, the first being the idea of managing cost as a fuel for growth, making efficiency and effectiveness more important than ever.

The second involves moving from loyalty through good service—which everyone should be providing in any case—to loyalty through faster innovation, where satisfying consumer expectations through enhanced

product performance can offer distinct advantages over the competition.

The third idea involves the transition from spending money on information to making money from information. This notion may seem obvious with all the databases being built and managed today, but is causing many CFO's to ask what they are getting for all this investment.

The last thought comes from what we call "winning in the turns"—meaning that companies need to be prepared to accelerate at precisely the moment where change is happening vs. after it has been identified.

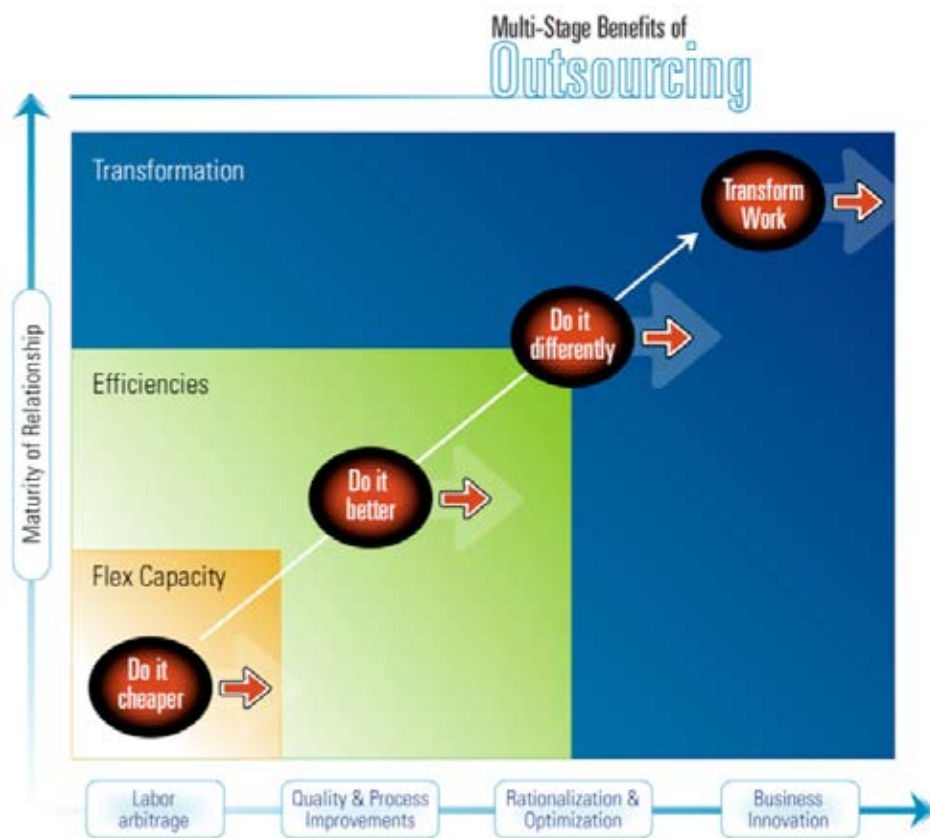
MF: And, while outsourcing may not address all of these areas simultaneously for every company, as a strategic option it does offer a level of flexibility difficult to achieve without turning an organization inside-out in the pursuit of these priorities.

JTPP: Will outsourcing turn out to be a significant development for trade promotion management? What about the role of technology? What advantages exist for companies to outsource the functions responsible for TPM?

MF: First, trade promotion management has evolved well beyond its early days when it was possible to build and manage trade spending plans almost entirely in spreadsheets. Also, in addition to manufactures pouring more money and time into this work than ever before, the retail trade has become far more sophisticated in understanding how to spend and ask for these funds.

Today's technology solutions are far more advanced, with software designed to break down budgets, forecast and plan for lift variability and reconcile spending in a single package. But, for all these advances we find ourselves struggling to gain that next level of efficiency and effectiveness.

Management is now looking at new ways to eliminate non-core work so that the enterprise can focus its scarce resources on serving both customer and consumer more effectively. Outsourcing, I believe, is going to be the next frontier for TPM, where we will separate out what must be done in a firm's front and back office, from what can be done somewhere else by someone else.



JTPP: What current and emerging challenges and opportunities exist that are altering the traditional retail-vendor business model, making outsourcing more popular?

HM: Major challenges in the industry include stepped-up competition, market complexity and accelerated polarization. On top of this, pronounced shifts in consumer demographics, attitudes and behaviors are making segmentation and targeting simultaneously more difficult and essential. Mass marketing has given way to one-to-one or one-to-some marketing, where database enhancement and management is increasingly playing a significant role.

Further complicating the picture, consumers are “trading down” to low-cost commodity providers and private label on one end, and “trading up” to high-value, premium brands on the other, with greater market complexity a natural outcome.

MF: So, those manufacturers who are able to develop unique, proprietary insights about these consumers can assist retailers in creating more tailored and relevant experiences for their shoppers. This will be a real edge. Outsourcing will not only free up time for this kind of work, but will very likely support the analysis and database management needed to see it through.

JTPP: It sounds like outsourcing can make sense on a number of levels, so what is it that stands in the way of greater adoption?

HM: There are several business issues that need to be addressed. These range from the preservation and security of confidential company data and knowledge-ware to the qualifications of outsourcers to perform their assigned tasks and the expected vs. actual productivity of outsourcing. Even language skills must be qualified, as when communication through a consumer hotline or IT help-desk is sent off-shore.

JTPP: Concerning knowledge transfer, what steps should be taken to make sure teams at the home office are privy to the knowledge of the outsourced staff and that the right work is getting done properly?

HM: Outsourcing can only work when both parties collaborate for success. As mentioned earlier, you can't outsource

problems. This will only delay the enviable need for resolution and may even compound issues.

We recommend joint development of strategies, plans, systems, capabilities and competencies as well as enabling transparency across all work to ensure timely and accurate results. It's also important to define rolls and responsibilities on internal and external job tasks to make sure that knowledge exchange is part of the process.

Furthermore, it is critical to appoint a relationship manager who is empowered to resolve conflicts and who will have regular face-to-face meetings to check on progress, ensure compliance and provide remediation when required

JTPP: Is the potential for outsourcing sales and marketing functions just beginning or is it a prevalent practice in consumer products?

MF: Outsourcing has been around in many forms in our industry for years. As mentioned earlier, sales and marketing agencies, otherwise known as “brokers” have been calling on headquarter accounts and performing merchandising activities on behalf of their principals. Advertising agencies and promotion houses have been the creative power behind most brands for longer than most brand managers.

Other departments including manufacturing, logistics, human resources, and in recent years IT, are now also outsourcing and offshoring many functions. We are much further along in the process than many may realize and the practice is only growing.

JTPP: Can you share some specific and measurable examples of how business process outsourcing has boosted operating margins? What are the key characteristics of a company that successfully outsources?

MF: We have seen that for consumer products companies, outsourcing across a broad range of SG&A functions can boost OM by 0.5 percent to 1.0 percent, which may seem like a small number, but when considered in the context of a company's revenues, can be fairly significant.

HM: From working with a number of global companies, we see four common and key characteristics for successful outsourcing; including appropriate partner selection, quantification of the total cost of ownership, clear guidelines for program governance, and a comprehensive plan for expected business outcomes.

JTPP: This has been an illuminating discussion. Any final thoughts before we sign off?

MF: As we presented at the TPMA's semi-annual conference recently, business process outsourcing is not a panacea for problem solving - not for trade promotion management or any other of an array of complex issues facing the consumer products industry. But, it does represent a real opportunity for creating a more flexible and adaptable business model, which is why managers in greater numbers, and across the world, are warming to it.

HM: Agreed, but as a viable model, outsourcing will only change your game for the better if short and long term business objectives are properly balanced, even as they are conceived to make you more competitive in the market place.

Michael Forbez is a senior principal with Infosys Consulting, Inc. Hemav Mabanta is a client partner with Infosys BPO, Limited. Messers Forbez and Mabanta recently presented “Outsourcing in a FLAT WORLD: What it means for marketing and sales, what it means to you!” at the TPMA's Marketing Conference in April. For further discussion, they can be reached at: michael_forbez@infosys.com and bemav_mabanta@infosys.com. ●