

# Win in the flat world

## BPO Providers as Trusted Transformation Partners

— Amitabh Chaudhry

### **Abstract**

*BPO clients are increasingly seeking value addition. But Service providers and clients need to work together to maximize customer centric Business Transformation. This paper defines Transformation, highlights the key levers and the critical success factors for driving it.*



## Introduction

Are BPOs simply low cost service providers? Or, are they extended arms of their customers? Should they focus only on delivering services efficiently and accurately or should they help change the way their clients conduct their business? If the latter, why should they focus on something that could potentially impact their revenues and margins? Who should lead the change - the provider or the client?

These are some of the questions BPO providers and their clients are grappling with. Every BPO claims to provide additional value to their clients through Process Improvements or Business Transformation. Clients, on the other hand, complain about lack of 'value addition' from their BPO providers. Everest, for example, reported that the most frequently cited disappointment in sourcing is "my suppliers fall short on delivering innovation".

Continuous, incremental process improvements are an essential ingredient of modern service or product delivery. The Toyotas of the world have achieved market leadership through relentless focus on continuous improvements as well as fundamental redesigning. In the current context, are BPO clients looking for just incremental improvements?

In a flattening world, reducing costs is a primary prerequisite for BPO clients. Providers have been delivering this, but much of the focus on their part seems to be only on the SG&A elements of client costs and continuous improvements. There is a need to move beyond this limited focus.

## What is Business Transformation?

Infosys proposes a client-centric view: Transformation is providing additional business value at a level that is an order-of-magnitude higher than meeting agreed SLAs and is acknowledged so by the client.

Thus projects taken up to improve on SLAs like accuracy or turn-around times, though very important may not be

seen by clients as real transformation or innovation.

Thus focus needs to be widened beyond SG&A elements to increasing revenues or reducing cost of revenues for clients.

Needless to say transformation is about helping clients change the way they run their business, but it is also about freeing up the client to focus on the core elements in their value chains - product development, marketing, sales, R&D, etc. The key transformational issue here is for the client to challenge what the core value-adding elements are and for the provider to come up with solutions that will integrate seamlessly into the client's value chain.

## Customer Business Transformation Framework

Infosys believes that some fundamental shifts are happening in the global economies that are flattening the world. To make clients transform their businesses, we would need to help them shift certain operational priorities.

The four shifts (Figure 1) that are required in Costs, Innovation, Information Usage and Nimbleness can form the fundamental bedrock of all client-centric transformation initiatives.

Transformation for a client is not a one-step process, but a series of initiatives over a period of time that needs to be successful to provide visible, order of magnitude benefits to clients. One resultant aspect of such initiatives is the ability of the provider to deliver services better or differently and in the best case, eliminate the process itself.

The spectrum of activities mentioned above can broadly be classified as those focused on a) Efficiency improvement b) Optimisation of processes and c) Improving effectiveness of processes so that business metrics are impacted positively as illustrated in Figure 2. Business value delivered to clients increases as one moves from efficiency

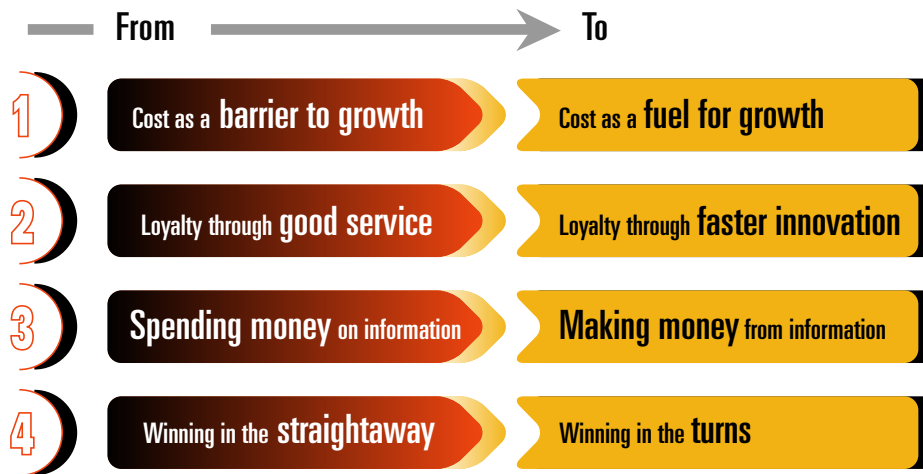


Figure 1 - Shifts to Win in the Flat World

improvement to effectiveness enhancement as can be seen in the Spread of Transformational Activities graphic on the previous page.

Various approaches can be adopted to provide transformational benefits. These are discussed briefly below.

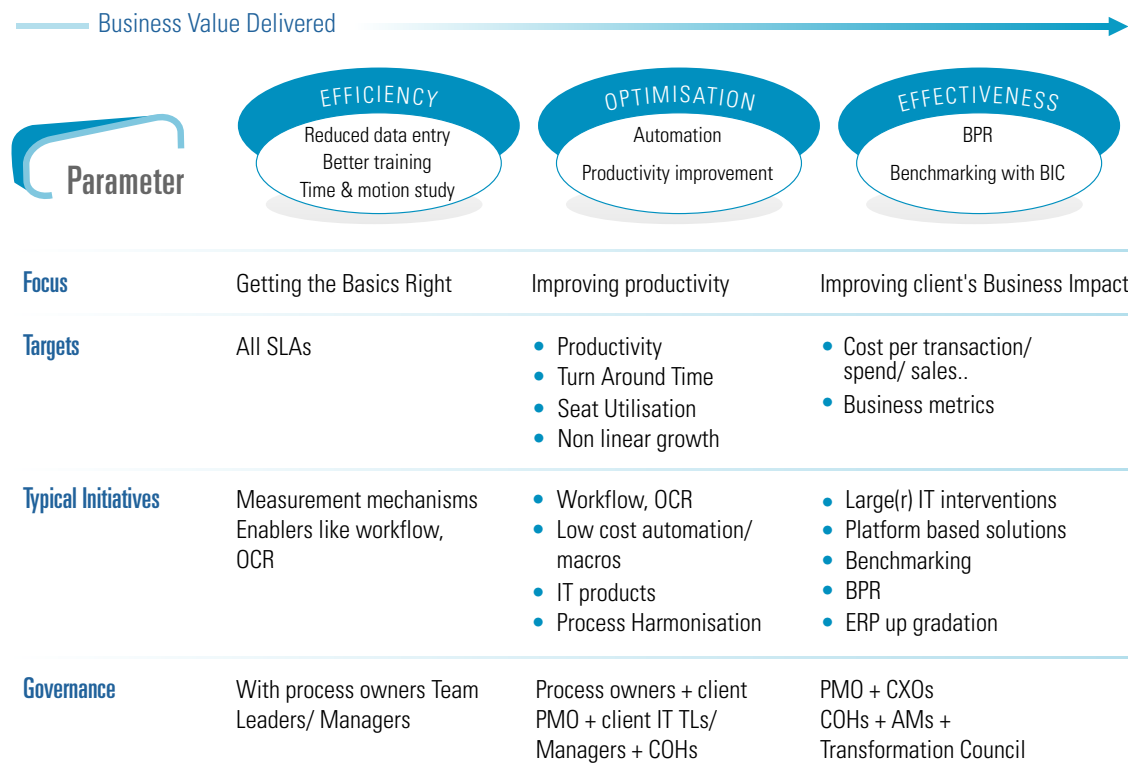


Figure 2 - Spread of Transformational Activities

## Key Levers for Delivering Customer Business Transformation

### Focus on clients' Business Metrics

As mentioned earlier, improvement of SLAs are not perceived as being either innovative or very material to clients. At best, they may improve satisfaction levels.

The starting point of client-centric transformation has to necessarily be the clients' business metrics as reflected in their organisational Key Performance Indicators (KPIs). Focusing on these metrics will help drill down to those operational parameters that need to be improved. For example, as indicated in Figure 3. Reducing the TAT for Accounts Receivables processes could impact the client's working capital requirements. Projects can then be taken up to bring out such improvements. Transformation involves moving up the metrics tree.

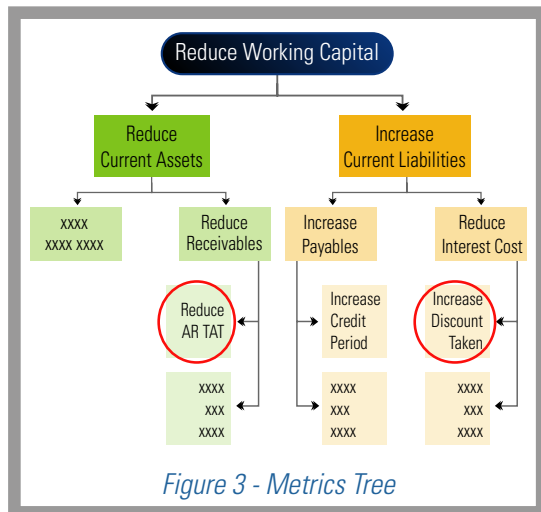


Figure 3 - Metrics Tree

### Process Harmonisation

Providers servicing large multinational organizations would have noticed that substantial differences may exist amongst similar client processes handled for various geographies. Significant benefits can accrue to both clients as well as BPOs through standardization of such processes. Typically, this would call for a very good understanding of the domain, technology, etc.

Infosys, for example, is working towards harmonising Finance & Accounting processes for a large client. 145 flowcharts and 3000 Work Instructions have already been standardised.

Process harmonisation (Figure 4) serves as the foundation for transformation as it enables industrialisation of processes and predictable, high SLA performance. This further enables increased levels of automation and the ability to consider alternative pricing models.

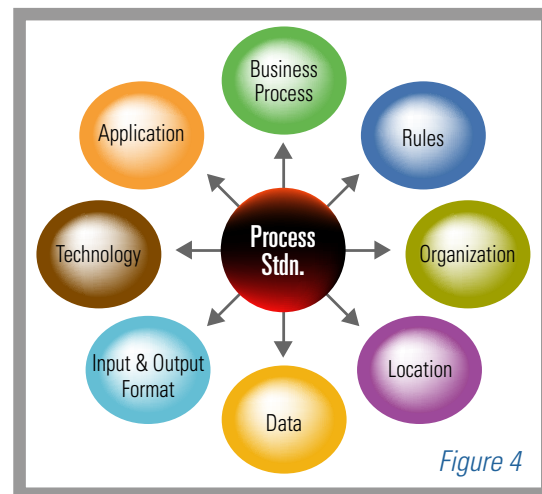


Figure 4

### Alternative Pricing Models

This involves moving away from the conventional FTE based pricing offered to clients. Newer models could entail output based pricing, transaction based pricing or a shared-services model.

Clients gain through variablising their cost structures, or paying for outcomes.

For example, some of our clients are charged based on savings/ cost reductions that are generated for them while some others pay a percentage of their costs or on a per transaction basis.

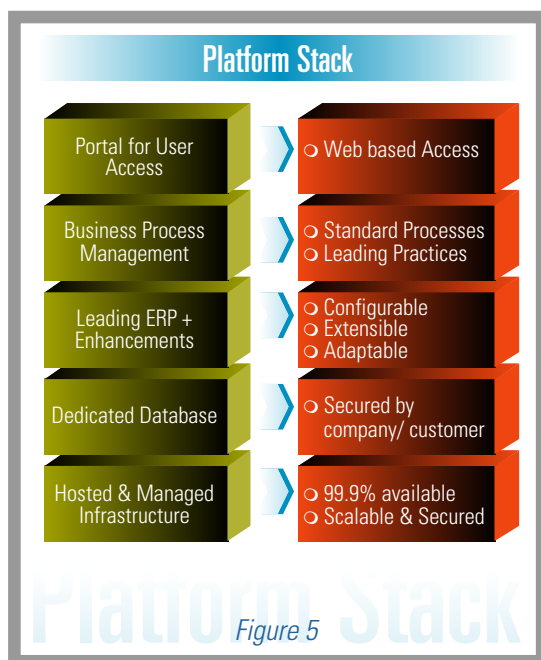
Transaction based pricing provides for in-built incentives to vendors to improve efficiencies and productivity. Clients could make such a model more attractive to providers by not attempting to pass on their business risks to them.

### **Innovative Service Delivery Models**

Newer delivery models are being developed to provide enhanced services to clients. This is in line with the shift from moving work offshore to integrated global centres. For example, the hub-and-spoke model provides for a highly industrialized central hub with other centers providing specialized services. A spoke could also be a near-shore centre to provide local language services or those involving local nuances and regulatory requirements or those that require hi-touch, extended interactions.

Another attractive model is the Platform based services (Figure 5). Such solutions providing integrated technology and process offerings reduce large upfront investments as well as maintenance and upgradation expenses for clients. More importantly, they may also be bundled with utilisation, transaction or outcome based pricing options.

Infosys BPO, for example, offers platform based solutions to manage Procure To Pay (tactical procurement for indirect material), Hire to Retire (core HR, employee data, benefits) and Quote to Cash (Enquiry to Order, Order to Cash) processes Infosys, for example, is working towards



harmonising Finance & Accounting processes for a large client. 145 flowcharts and 3000 Work Instructions have already been standardised.

### **Business Process Reengineering & Benchmarking**

This involves evaluation of client processes with a view to redesigning them. A key element in such exercises is to include even those processes/ activities not performed by the provider and adopt an end-to-end value stream approach rather than a functionally siloed one. This would lead to more effective solutions.

Another important element is access to benchmark practices and metrics. These provide a compelling target to focus the BPR activities. Trusted Transformation Partners like Infosys have access to such benchmarks or commission benchmarking studies themselves.

Through various BPR activities, we were successful in reducing working capital requirements of a large hi-tech distributor by about \$ 70 Million. This involves changes to be made to the processes at the client's end as well.

### **Low Cost Automation**

One of the key reasons why transaction processing is outsourced to providers is the high IT related investments organizations need to make to reduce the manual content of their processes.

Use of low cost automation approaches (macros, scripts, etc.) has benefited our clients through remarkable productivity improvements. For example, for just one client, we were able to reduce headcount required by about 80 FTEs in certain processes, a 90% reduction in headcount.

Clients have obtained far larger benefits beyond just productivity gains. Some of them are now able to obtain large-volume, low-margin businesses thus increasing their revenues. As automation improves accuracy drastically, it has also resulted in reduced revenue leakages, far

quicker turn-around times, reduced end-customer complaints, etc.

### ***Creating Value out of Information***

A lot of untapped, useful information lie hidden in clients' databases. Making sense of such data through analytics is of immense value to clients. A European telco integrator, for example, saved \$60 Million annually when we were able to clean up their databases and revealed overpayments and under-billing. They had initially come to us for 'provisioning services'!

## **Critical Success Factors for Effective Transformation**

Client Business Transformation cannot be delivered just by BPO providers. It is achieved essentially by both clients and providers working in close partnership with each other.

In Infosys BPO's experience, there are some vital ingredients to successful transformation.

### ***Governance for Transformation Initiatives***

It may be possible for small, incremental improvements to be managed through normal governance mechanisms that exist between clients and providers to manage Service Delivery, but a different one may be necessary for transformation initiatives - a Transformation Council, for example.

For one, the council should include client personnel able to bridge functional or process silos and with the influence necessary to drive transformation initiatives within their organizations. This is critical to overcome traditional focus on only operational stability of processes.

For another, the council should seek to be more collaborative, willing to share ideas including clients' focus areas and information even if they pertain to processes

that have not yet been outsourced to the provider. Providers should be seen as strategic partners rather than just low cost service providers.

The ability to be collaborative is particularly important in a multi-provider setup.

### ***Enhanced Transformational Capabilities by Providers***

Conventional provider capabilities like Six Sigma while being prerequisites, would in themselves not be adequate for delivering transformation.

While organizations like Infosys leverage their technology parentage and consulting arms, and focus continuously on competency building, providers would need to enhance their ability to provide transformation support of a higher order. This would require investments to beef up their strengths in the industry and functional domains, technology and consultative abilities. Infosys BPO has been proactively making such investments to further strengthen value delivery to its clients.

### ***Alignment with Clients' Strategic Initiatives***

Given the limited exposure that BPO providers have to a client's range of processes, their vision and ability to drive transformation initiatives is restricted. Very often, improvement opportunities identified by providers, even if useful, may not be of high interest to clients.

A key success factor would then be for transformation objectives to be aligned to the client's current strategic initiatives. It would hence be important for clients to share their objectives and strategies with their providers.

### ***Win-Win Gain Sharing Agreements***

Large transformational initiatives are less likely to succeed in the absence of fair gain-sharing agreements between the client and the provider. With conventional FTE based pricing, providers do not have attractive incentives to drive

transformation. On the other hand, particularly if such initiatives lead to reduction in head count, serious disincentives exist for the providers in the form of potential loss of revenue.

Hence, it is extremely important for clients to incentivise providers with attractive gain sharing mechanisms that also account for investments that may need to be made by both the parties.

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Outsourcing clients are dissatisfied with the ability of BPO providers to provide innovative and transformative benefits beyond contracted service delivery. Providers are now scaling up to do so and seek to differentiate themselves as transformational partners.

While proven levers of transformation exist, it is important for clients and providers to work with each other. This calls for a change in mindset and a more collaborative mode of working, with appropriate incentives, to achieve remarkable benefits to both the parties.

As in the automotive industry, clients are sure to achieve leadership positions by working closely with their BPO providers. Business processes are too important for clients to attempt to treat providers as just low-cost service providers.

For the providers, of course, it is important to recognise that it is in their long term interest and that of the BPO industry to be willing and able to offer transformational support to their clients. This will require much deeper knowledge of the client's value chain and industry dynamics and a new paradigm in relation building.

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## About the Author

**Amitabh Chaudhry** - Managing Director and Chief Executive Officer

Amitabh joined Infosys BPO in 2003 as head of transition, became chief operating officer in April 2005, and took over as CEO in March 2006. He has over 17 years of experience and was last with Credit Lyonnais Securities in Singapore as head of the investment banking franchise for South East Asia and structured finance practice for Asia. Previously, he was with Bank of America as Head of Technology Investment Banking for Asia, Regional Finance Head for Wholesale Banking and Global Markets, and Chief Finance Officer, India.

At Infosys BPO, Amitabh has focused on company wide processes to not just manage smooth transitions but also deliver transformational change for clients through productivity improvements and process reengineering. A great believer in processes and metrics, Amitabh encourages teams to focus on and deliver best-in-class results—and then improve them continuously. Amitabh holds a bachelor's degree in engineering from the Birla Institute of Technology & Science, Pilani, and an MBA from the Indian Institute of Management, Ahmedabad.

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