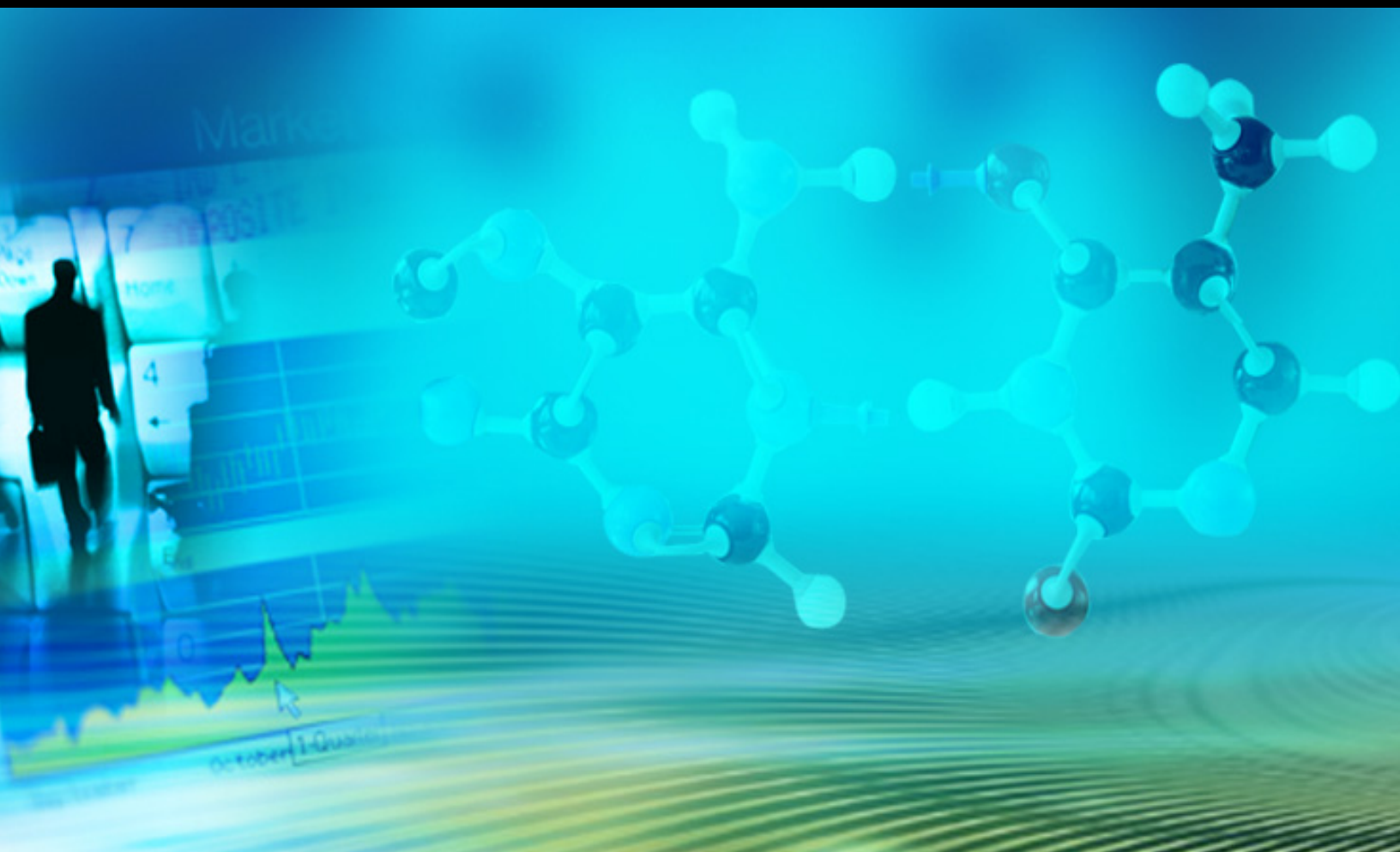


>>>>>>> Inside: 7 Thought Papers

Infosys[®]

BPO Future Forward >>>

Enhancing Business Value. Driving Transformation



I N D E X

1. BPO Providers as Trusted Transformation Partners	7 - 14
2. Defining the BPO Value Spectrum: what works for your enterprise?	15 - 20
3. BPO as an alternative to the audit & consulting industry	21 - 26
4. Breaking News: Newspapers, facing the risk of 'survival'. A cause for concern, or panic?	27 - 36
5. Operations Excellence: The Key to Sustained Business Performance	37 - 44
6. Moving the needle in Order Management outsourcing: From Process metrics to Business metrics	45 - 48
7. Why BPO will grow in Europe	49 - 50



F o r e w o r d



Dear Reader,

It gives me great pleasure to present the 2nd edition of the Infosys BPO journal to you. While the first issue was aptly titled "Future Forward", this issue will primarily focus on what it takes to effectively transform your businesses to enhance the business value of your organization, as well as your customer's.

Global markets are undergoing seismic shifts. The financial markets are in turmoil and the financial sector is impacting every part of the globe like never before. In this fluid environment, the key lies in the ability to fundamentally alter, the cost structure of every organization, while assisting the revenue enhancement initiatives of organizations. In that context, transforming your business has never been as relevant.

This edition has "Transformation" as its central theme, and brings to you our understanding of transformation, from the desk of Amitabh, our CEO.

This Transformation concept is further articulated through what we are witnessing in the media and entertainment vertical, where the entire business model of the industry is under severe stress. We also focus on the move toward "Business Metrics as opposed to Process Metrics" by clients leveraging one of our long standing relationships in the order to cash practice. Operations excellence is always the key to sustained business performance and table stakes for our business. We also focus on leveraging BPO in the finance and accounting practice, as an alternative to consulting, and wrap up with an article on the growing importance of BPO as a value lever in the European markets.

I would particularly like to thank Phil Fersht, a distinguished analyst from AMR for his contribution to this Journal.

I hope the issue continues to delight you with fresh ideas on how the outsourcing industry is driving transformation. How industries and businesses are partnering to innovate business models and change the business landscape continuously.

I welcome your feedback on this edition.

Best regards,

A handwritten signature in black ink that reads "R Idnani". The signature is stylized and includes a long horizontal line extending to the right.

Ritesh Idnani
Head of Worldwide Sales and Marketing



Win in the flat world

BPO Providers as Trusted Transformation Partners

– Amitabh Chaudhry

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.

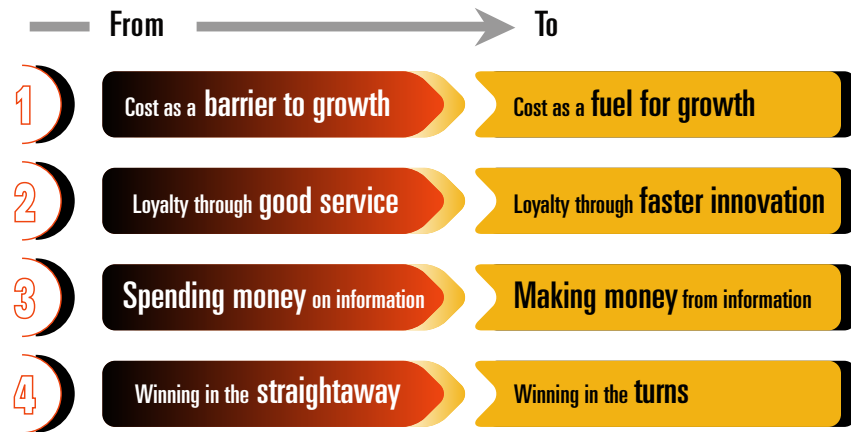


Figure 1 - Shifts to Win in the Flat World

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 improvement to effectiveness enhancement as can

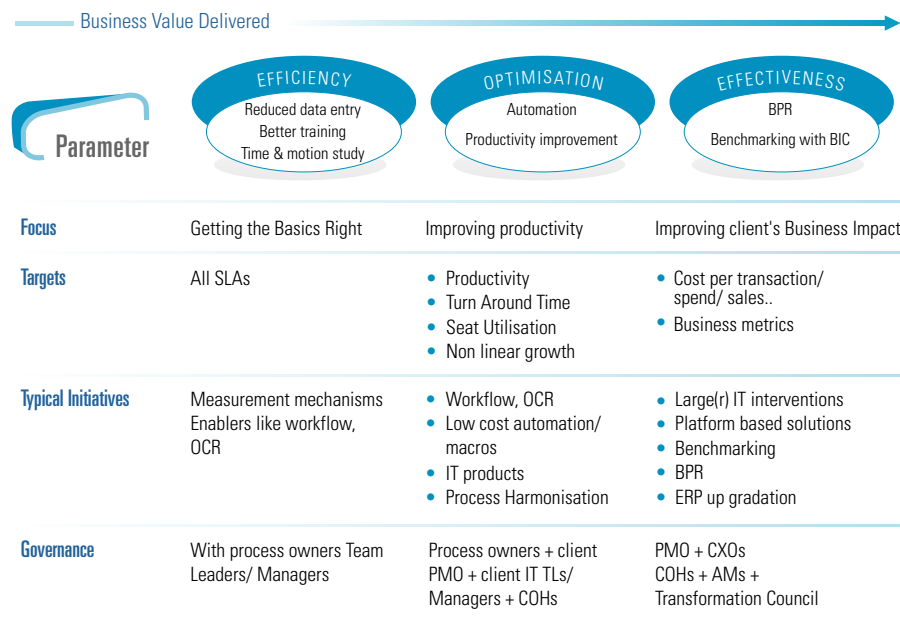


Figure 2 - Spread of Transformational Activities

be see 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.

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.

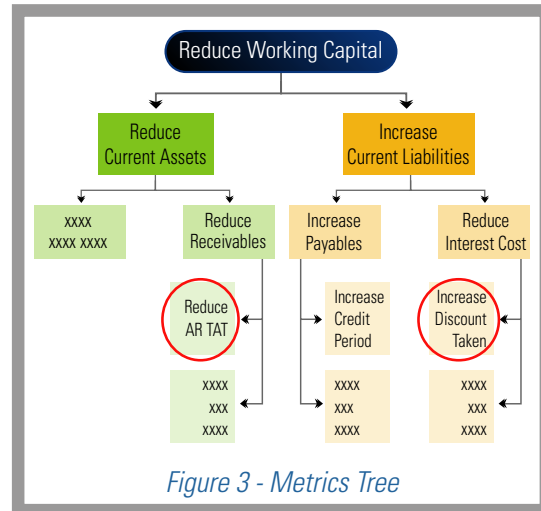


Figure 3 - Metrics Tree

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

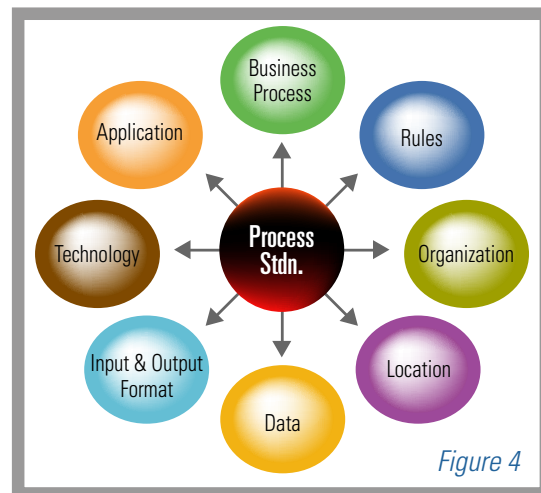


Figure 4

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.

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.

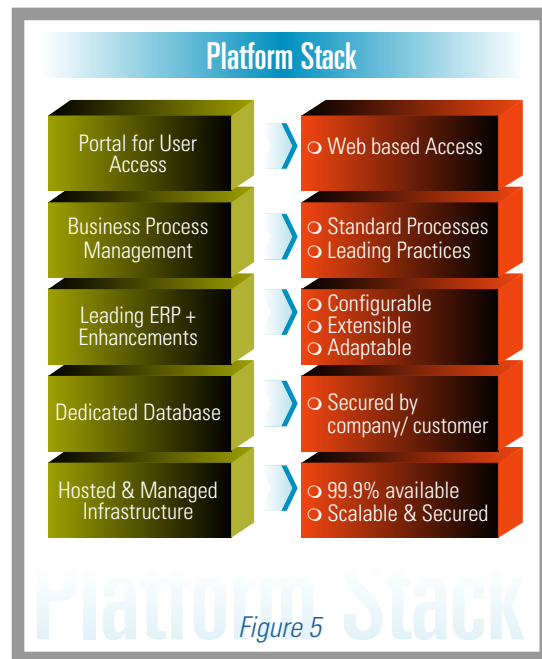
Innovative Service Delivery Models

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.

C O N C L U S I O N

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.



Win in the flat world

Defining the BPO Value Spectrum what works for your enterprise?

– Philip Fersht

The realm of business process outsourcing, termed BPO, has transformed significantly over the last five years as global service providers have developed scale and experience running outsourced engagements. The "lift and shift" model of taking an enterprise's existing operations and simply moving them over to a supplier, which will operate them at lower cost, is fading into the past. While some service providers, seeking to expand their BPO market share, are still willing to take on these types of engagements and invest in particular clients, these types of outsourcing engagements are becoming fewer in number as service providers look for new customers prepared to move onto the vendor's technology and service delivery centers.



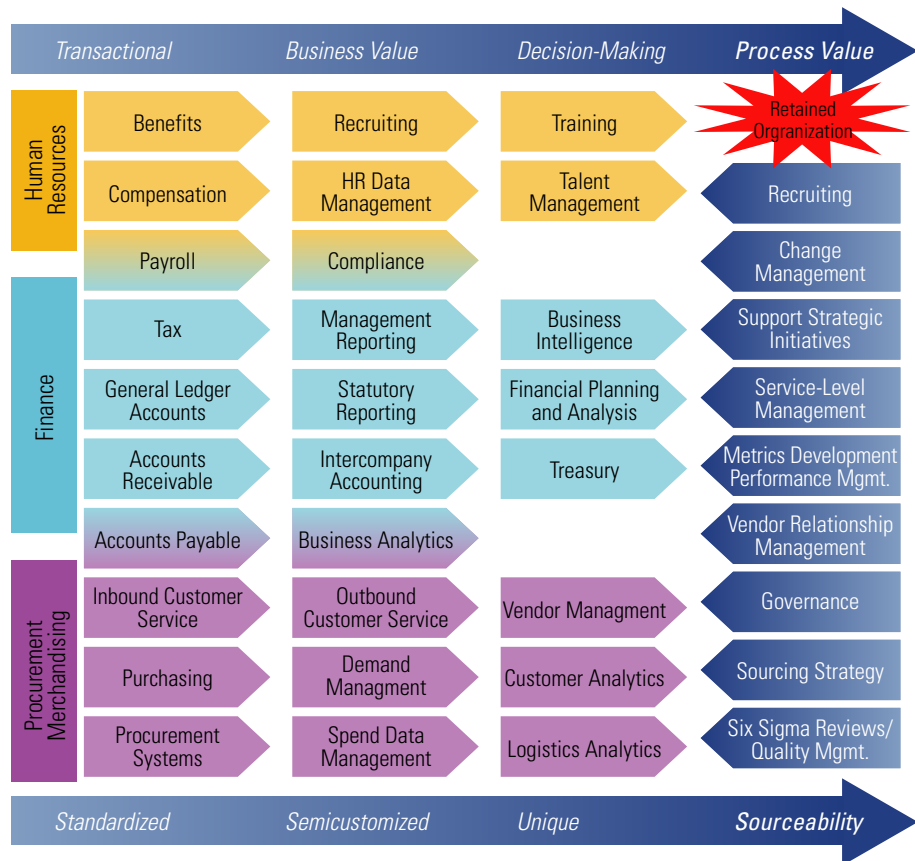
BPO service providers are seeking to standardize their solutions

The more BPO services can be standardized and underpinned by common software applications, the easier it is for providers to scale their businesses, develop utility across multiple clients, and ultimately deliver lower-cost and higher quality services. While we are some way off having "packaged BPO solutions", we can clearly define how BPO is taking shape, as an increasing number of enterprises are moving into these types of engagements.

Business processes that are typically outsourced

Over 700 enterprises have now moved into multi-process BPO engagements, where multiple business processes are bundled into multi-year contracts, and management responsibility for these processes has been transitioned over to the service provider. These are typically human resources, finance, procurement, merchandizing and inbound customer services. Figure 1 illustrates how these processes are generally bundled and their outsource-ability:

Figure 1: The BPO Value Spectrum



Source: AMR Research, 2008

Transaction business processes are most commonly outsourced today

The majority of business processes that are currently being outsourced are those on the left-hand-side of the illustration, which are those transactional, routine processes that are easy to document and train new personnel to administer, share common applications and are generally standardized. These processes are typically tied to core ERP functions, such as payroll, general ledger, accounts payable and purchasing, which outsourcing service providers are offering on repeatable, scalable delivery models. The more standard the processes and their corresponding applications, the easier to move over to an outsourcing provider at low-cost.

These processes are highly outsource-able today, and the general business rule is if you can find a provider to run these processes at 30% plus lower costs, then it makes sense to outsource. For highly-transactional processes that are widely available from offshore outsourcing providers, for example accounts payable or inbound customer services, we are seeing costs savings as high as 50% from original budget due to wage arbitrage.

Business-Value processes present an outsourcing challenge

As we move towards the higher business value processes, the degree of customization to the business increases, and so does the requirement for critical thinking, application of business logic and the skill-set requirements of the staff performing the work. The ability to document the processes and train new staff is generally more complex and the associated technology often requires a greater degree of modification. Hence, the cost, risk and complexity is greater. Typically, these types of business value processes include functions such as recruiting, compliance, business analytics, management reporting, demand management and logistics analytics.

In many cases today, enterprises are separating out the administrative sub-tasks from the business-value processes, for example gathering and consolidating demand data, managing and consolidating logistical analytics, populating templates, performing standard analytics and producing standard reports are conducted offshore, or with the outsourcing provider.

Enterprises need to focus on the role of their retained organization

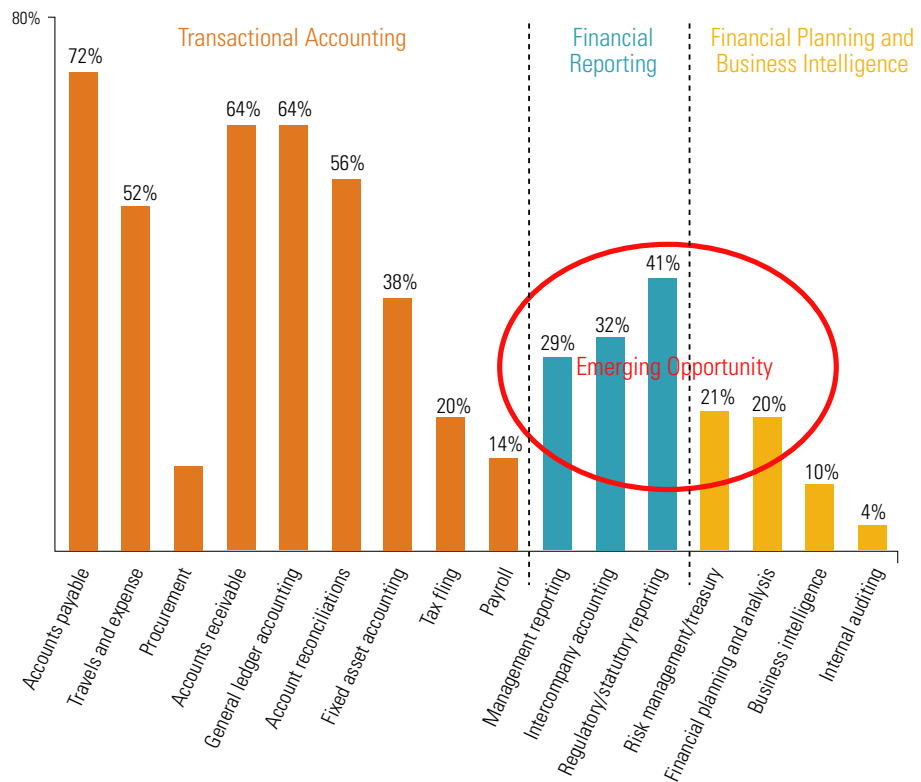
On the far right-hand side, are those activities which need to be conducted by the retained organization post outsourcing or offshoring. These are typical for both IT and business process outsourcing scenarios. In most cases, enterprises simply can't reach out into the marketplace and hire staff with experience managing outsourcing or offshored environments - they are few and far between and can command premium salaries. Most enterprises today may bring in an experienced executive to oversee the transition activities, but, on the whole, need to re-tool and

re-train its existing middle-managers to administer the outsourced and offshored activities and resources. Many executives today working in commercial enterprises need to be aware how their job is going to change in an outsourced environment. As opposed to managing a great deal of tactical processes, they are having to get far more involved in core business activities such as organizational design, vendor management, service-level metrics development, conducting Six Sigma reviews and the overall governance of their firm's global sourcing strategy.

The rapid rise of Finance and Accounting BPO has been a major catalyst for the BPO industry

The highest BPO growth area is currently in the finance and accounting BPO realm, where we saw a 40% increase in expenditure last year as \$4bn in new contracts were signed. The majority of these accounting processes being outsourced are those which are routine and transactional in nature that service providers can deploy in a multi-client model.

Figure 2: F&A processes outsourced in multiscope engagements



Sample size: 423 current F&A BPO contracts

Source: AMR Research, 2008

Figure 2 outlines three categories of F&A processes which are included in F&A BPO engagements and shows what proportions of each sub-process are included across all current F&A BPO engagements today:

1. Transaction accounting

This includes routine, transaction tasks that can be transferred over to third-party resources at relative low-risk, and makes up the vast majority of today's F&A BPO engagements. This typically involves accounts payable, accounts receivable and general ledger processes.

2. Financial reporting

Most enterprises tend to start off an F&A BPO engagement by moving portfolios of transaction processes over to an outsourcing provider, and gradually transition higher-value (and higher risk) processes across, once they are comfortable with their vendor relationship and have the confidence to entrust it with these processes. As Figure 2 details, 40% of current F&A BPO engagements now include management reporting processes, and we are also seeing close to a third of these engagements include both statutory reporting and inter-company accounting processes. In most instances, these processes have varying degrees of customization to the enterprise, and the outsourcing vendor needs to devote skilled resources to effect successful knowledge transfer and ongoing deployment.

3. Financial planning and business intelligence

These are largely unique processes that sit within the retained organization, once the enterprise has outsourced elements of its transaction and reporting work. These would typically include treasury, financial planning and analysis (FP&A), business intelligence (BI) and audit work. However, we are seeing 20% of adopters now include treasury and FP&A work within their multi-scope engagement and a handful of enterprises (10%) even including BI services.

Typically, service providers will take on administrative elements of these processes, such as data-gathering, template population, pre-population of management presentations, with strategic activities, such as development and interpretation of metrics, tax planning, budget planning and reviews, sitting with the retained organization. However, with the onset of more customized, business-value knowledge services, sometimes termed as Knowledge Process Outsourcing or "KPO", being offered from the leading BPO service providers, we expect to see a sharp increase in some of these more unique "knowledge" processes being adopted.

What next for the development of the BPO market?

The outsourcing of IT applications and infrastructure is now a relatively mature market that is over 20 years' old, and enterprises today tend to be more concerned with pricing and contract

terms, as the differentiation between supplier offerings narrows. On the BPO side, this industry only really kicked into gear after the 2001 economic downturn, and most of the early adopters are only now moving into their second-generation contracts. Hence, moving out too many processes at once could prove to be an over-risky proposition for your enterprise, and it may make more sense to experiment with lower-risk options to begin with, in the transactional process area.

However, every company is unique, and fiscal decisions often dictate how quickly companies move into an outsourcing end-state, especially if immediate and attractive cost-savings are on the table. Just be careful - if you mess-up BPO, your savings will be quickly offset by change-orders!

Our advice is to learn from the experience of other firms, which have moved business processes over to service providers, or into their offshore captives. AMR Research, for example, has several peer forums where enterprises can get together to share issues and discuss best practices.



Win in the flat world

BPO as an alternative to the audit & consulting industry

– Sylwia Depczynska, Malgorzata Glinska

Companies could move to a more effective and cost-efficient model for auditing and compliance by moving away from the traditional approach

Today, when a company's management considers outsourcing in Finance & Accounting, the most common processes to be outsourced are payables, receivables, general ledger and procurement processes. However, when it comes to knowledge and judgment-based, high-end services like internal audit, compliance and SOX audit - the first thought is usually focused on audit and consulting companies to supplement corporate / internal audit functions. But is this really the one and only solution? And is it the best business decision from a cost efficiency and effectiveness perspective? In this paper, we have put forth an alternative model to this traditional approach which proposes an innovative and break-through way of thinking.

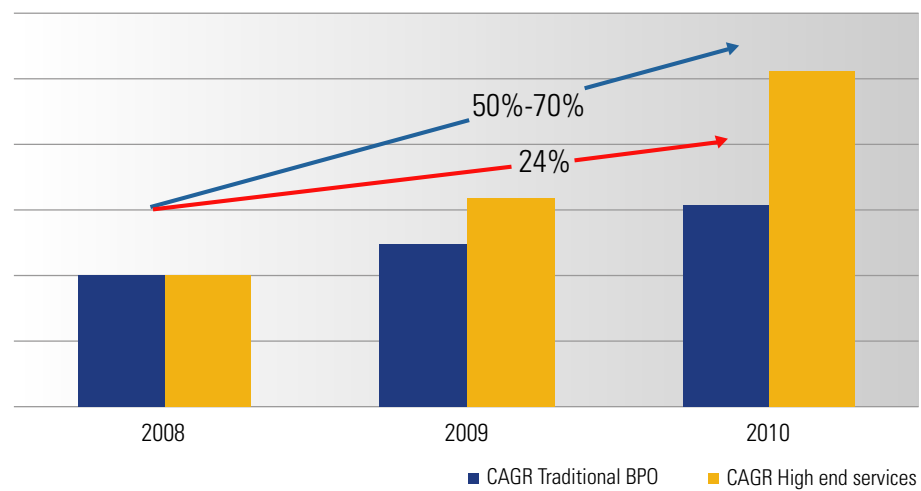


Over the years Business Process Outsourcing (BPO) providers have scaled their capabilities to provide successfully delivered knowledge-based services (such as audit, compliance and implementation of accounting standards).

Clients are increasingly outsourcing knowledge-based, judgment-based and high-end services. The growth of this service segment has already surpassed the growth of normal BPO services. According to a recently issued report by Technology Business Research (TBR) 1, the BPO market segmentation will continue to occur, with more and more high-end services potentially ready to be delivered in an outsourced model. As the market for business process outsourcing continues to mature, TBR expects vendors to penetrate further into knowledge-based services. These emerging trends in finance service outsourcing have already been noted in the past few months. According to "Outsourcing Trends in the Financial Services Industry" perspective paper published by EquaTerra2, high-end services continue to gather momentum and encompass a broad scope of processes such as market research, financial analysis, M&A (Management & Analysis) due diligence and related M&A legal work.

Emerging trends in the outsourcing high-end services market creates more opportunities as compared to the traditional BPO sector. As per Technology Partners Research report3, many experts believe that the growth in high-end services sector will match or even exceed the growth rate of the BPO industry. This report, which focuses on the offshoring of skills-intensive work processes through either outsourcing or captive operations, reveals that the growth rate is likely to yield annual levels of spend of \$12-17 billion globally by 2010 (including 10 billion - \$12 billion in India only). This represents a very aggressively projected compounded annual growth rate (CAGR) in the range of 50-70% for the next 2 to 3 years. In contrast to this percentage, traditional outsourcing services are expected to grow at CAGR of 24% during the same period. The following figure demonstrates the expected growth for both service segments over the coming years.

Figure 1. Expected Growth in Traditional BPO and High-End Services (2008-2010)



Source: Own analysis on the basis of TPR report

High growth rate of outsourcing high-end services to BPO is propelled by the benefits it creates for both customers and BPO providers

Outsourcing of high-end services is a 'win-win' situation for BPO providers as well as for clients in every respect: market competitiveness, quality & efficiency, control, profitability, business relationship, etc. The most significant advantages of this business solution are summarized in table 2.

Table 1. Added values of high-end services for BPO Provider and Client

	Benefits for Service Provider	Benefits for Clients
Market Potential	<ul style="list-style-type: none"> • Broader range of services in the BPO Company portfolio • Promising opportunity to embed deeper within the market 	<ul style="list-style-type: none"> • Ability of outsourcing end-to-end process (routine and non-routine job) to one Service Provider • Customized and value-added outsourcing solutions for high-end processes • Ability to tap into the global skills supply chain to overcome resource availability issues
Quality	<ul style="list-style-type: none"> • Develop better service offering based on detailed understanding of the industry and its drivers 	<ul style="list-style-type: none"> • Access to most up-to-date knowledge and expertise • Additional value by providing business insights in addition to process expertise • Access to tools developed by vendors for automation and controls assurance
Control & Stability	<ul style="list-style-type: none"> • Low employee attrition rate, well-paid employees attracted by prestigious and non-routine job • Access to larger talent pool and sustainable source of skills • Retaining knowledge in the company 	<ul style="list-style-type: none"> • High stability and continuity of operations • High control assurance • Low risk of service breakdown • The knowledge capacity on the provider's side
Profit	<ul style="list-style-type: none"> • Higher revenue and margin on high-end services • Greater competitiveness within the market 	<ul style="list-style-type: none"> • Competitive prices as compared to alternatives like audit and consulting companies
Relationship	<ul style="list-style-type: none"> • Developing insights into the customer's business helps the provider to develop into a true partner rather than just a transaction processor 	<ul style="list-style-type: none"> • Partner-like relations with provider helps in jointly taking more strategic initiatives

Potential Areas of Opportunity

As per a study by The Hackett Group in 2005, the finance cost of typical companies increased by 18% over a period of the previous 24 months due to increased cost of controls and compliance (post-implementation of SOX). These costs are typically associated with the use of high-cost consulting and audit firms for controls assurance.

As such, this area represents a big opportunity for generating cost efficiencies. Some of the potential areas of opportunity which clients could explore using the BPO providers include - Internal Audits, Controls Assurance and Evidencing, SOX Audits, Revenue Accounting (complex Vendor Specific Objective Evidence), IFRS - US GAAP convergence and implementation of controls and Accounting Standards.

Case Study

A large diversified multinational manufacturer is generating significant savings on the compliance and controls assurance cost by using Infosys BPO

A major multinational manufacturer ("the Client") having revenues in excess of \$35 billion had huge compliance costs across its operations which spans multiple business lines in multiple countries. To achieve its objective of reducing the cost of compliance while not compromising on quality, the Client decided to move a substantial part of its SOX audit functions offshore. On the basis of access to highly-skilled human resources, a team of experts responsible for SOX documentation and audit services was formed.

Initially, the process was performed in cooperation with internal corporate functions of the Client (co-sourcing); and once business specific expertise was built up in the offshore team, all related services were gradually transferred offshore. The following table represents the services currently delivered by this team to the Client.

Table 2. SOX services currently provided by Infosys BPO

SOX sub-process	SOX service description
SOX implementation and documentation	<ul style="list-style-type: none"> • Performing risk assessment to identify significant risks & processes • Documenting processes, designing controls, identifying control deficiencies & gaps • Support in remediation
SOX testing	<ul style="list-style-type: none"> • Defining testing scope, planning and coordinating execution of controls testing (both operating and design effectiveness) • Reporting testing outcome including proposal of remediation
SOX rationalization	<ul style="list-style-type: none"> • Implementing continuous rationalization model; limiting SOX testing and maintenance expenses by applying a risk-based approach • Harmonizing and standardizing controls to allow further rationalization
Process management & monitoring	<ul style="list-style-type: none"> • Monitoring of testing, remediation and reporting results
Internal control advisory and consulting	<ul style="list-style-type: none"> • SOX methodology consulting: developing approaches, guidelines and best practice solutions • Supporting in remediation of control deficiencies • Providing training for SOX, Internal Control Standards and US GAAP/ IFRS

Among various benefits arising from SOX process outsourcing, the most significant include:

- **Cost-effective sustainable SOX model**
 - Lower costs of control execution, testing and maintenance
 - Limited testing procedures of external auditors, who rely on testing done by independent, qualified testers
 - Reduced number of controls and significant locations without compromising risk profile due to continuous rationalization
- **Higher quality and control assurance**
 - Credible third party delivering expertise, wider and cost-effective solution
 - Service provided by highly experienced and objective professionals
 - 'Early warning procedure' - issues identified by independent testing team can be solved before external audit
 - High quality of SOX testing documentation
 - Proven alignment of SOX testing findings with external auditor's results
- **Enhanced business excellence and effective governance**
 - Internal resources engaged in SOX activities released to focus on core business
 - Centralized and integrated process management
 - Global monitoring of issues and remediation actions; ongoing identification, assessment & risk management
 - Improved change management due to central and harmonized way of working.

According to an estimate by the Client, offshoring of these services has resulted in a saving of approximately 10 million Euros in testing and annual savings of 1 million Euros through SOX rationalization. Verification of the testing results has successfully proven that services provided by Infosys have been in alignment with the results of external auditors. Based upon the demonstrated success of SOX service offering, the Client has now also engaged this team of Infosys to support the IFRS and US GAAP convergence.

C O N C L U S I O N

Controls and Compliance-related issues are increasingly becoming one of the top concerns for a prudent finance manager. The current high costs of managing these functions provide BPO providers with an excellent opportunity to move into higher value-added services. For the clients, outsourcing of high-end audit and compliance processes to BPO providers represents an opportunity to efficiently manage effective compliance - an opportunity that one cannot afford to reject without at least considering.

References

1. Technology Business Research: BPO Delivery from Eastern Europe, June 16, 2008
2. EquaTerra: Outsourcing Trends in the Financial Services Industry, June 7, 2007
3. Technology Business Partners: KPO: A Balanced View of an Emerging Market, July 2007
4. The Hackett Book of Numbers 2005



Win in the flat world

Breaking News

Newspapers, facing the risk of 'survival'. A cause for concern, or panic?

– Subrat Mohanty, Atul Shahi

Friday August 9th 1974 - President Richard Nixon announced that he will resign as the 37th president of the United States at noon. It was the big breaking news of its time that was largely driven by two reporters from the Washington Post. They wrote a series of articles that brought down President Nixon, and with that, the status of print journalism rose. At their best, newspapers hold governments and corporations to account. They usually set the news agenda for the rest of the media. But, in the rich world today, newspapers are an endangered species. The model of selling news to readers and selling readers to advertisers, which has sustained their role in the social order, is disintegrating.



Of all the so called "old" media, newspapers have, till date, been affected the most by the internet. Print circulation has been falling in America, Western Europe, Latin America, Australia and New Zealand for decades (elsewhere, sales are rising).

As a result, the newspaper industry, which till date earns in excess of three fourths of its revenue from print publishing, has seen a decline across both its major revenue streams:



The section below factually validates the same:

A. Paid circulation:

Philip Meyer, in his book "The Vanishing Newspaper", predicts that by the first quarter of 2043, newspapers would die in America, as the last worn out reader throws aside the last crumpled edition. This sort of extrapolation would have invited critical comments from the leading newspaper publishers around, but even the most cynical news moguls cannot dismiss the fact that today's young generation is increasingly getting its news online.

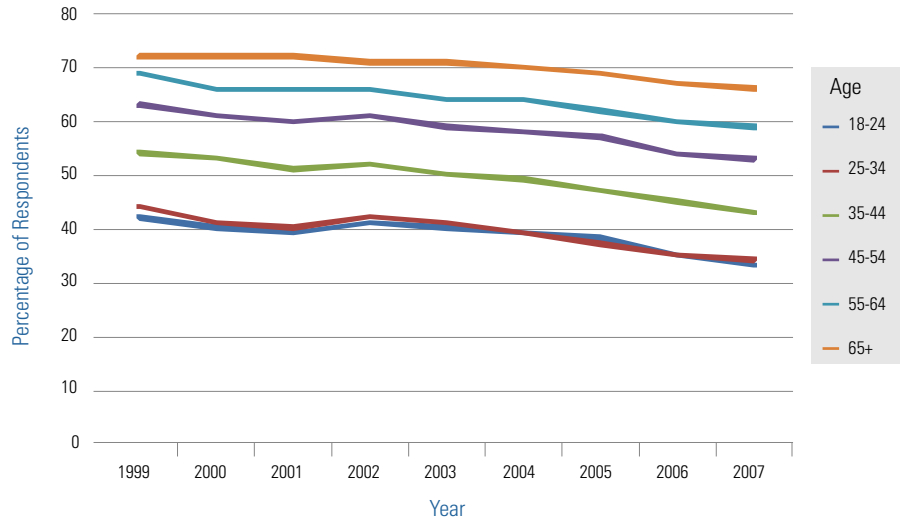
Some of the statistics below point to that conclusion:

1. Paid circulation is undergoing a steep decline among all top newspapers in USA. Find below a figure, which presents the paid circulation numbers for last year (as per September 30th 2007).

Newspapers	Average Mon - Fri paid circulation		% Change
	1 million	2 million	
USA Today	2006	2007	+1%
Wall Street Journal	2006	2007	-1.5%
New York Times	2006	2007	-4.5%
Los Angeles Times	2006	2007	+0.5%
New York Daily Times	2006	2007	-1.7%
New York Post	2006	2007	-5.2%
Washington Post	2006	2007	-3.2%
Chicago Tribune	2006	2007	-2.9%
Houston Chronicle	2006	2007	-0.1%

Source - Audit Bureau of Circulations

2. One of the major drivers of the circulation dip, over the years, has been the rather steep decline in the dependency on the print medium for news updates, across all age groups. A study by Scarborough Research shows an approximate 10% dip over the past 8 years in the newspaper readership among the 18 - 34 year old age group.

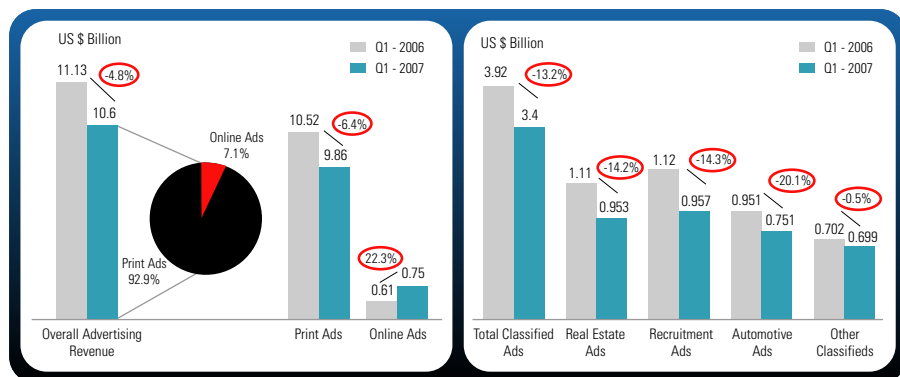


Source: Scarborough Research survey data

B. Advertising revenue:

Internet has proved to be an attractive medium that effectively matches content with the target market and proves to advertisers that their money is well spent. Result - In an almost unseemly rush, advertising is following readers to the online medium. Classified ads, in particular, are quickly shifting online. Rupert Murdoch, once described classified ads as the industry's rivers of gold-but, as he said last year, "sometimes rivers dry up."

A study done by the Newspaper Association of America shows that the total advertising expenditure at newspapers and their web sites totaled USD 10.6 Billion for the 1st quarter of 2007, which is a 4.8% decrease from the same period a year earlier.



The decline in all the major revenue streams is reflected in the significant pessimism built into their current stock price levels, which has resulted in a 40% decline of their market capitalization over CY 2007.

Company	12/29/2006	12/31/2007	% Change	2-Year Peak	Decline from Peak
Gannett	61	39	-36%	65 (1/06)	-40%
New York Times	24	17.5	-27%	29 (2/06)	-40%
E.W. Scripps	50	45	-10%	53 (1/07)	-15%
The McClatchy Co.	43	12.5	-71%	59 (1/06)	-79%
The Washington Post	746	791	6%	858 (11/07)	-8%
Lee Enterprises	31	15	-52%	37 (1/08)	-59%
Journal Communications	13	9	-31%	14 (5/07)	-36%
Journal Register	7	2	-71%	15 (1/06)	-87%
Media General	37	21	-43%	51 (3/06)	-59%
Belo Corp.	18	17	-6%	23 (1/06)	-26%
Gate House Media	19	9	-52%	22 (4/07)	-59%

Source - Newspaper Association of America (NAA)

Making the leap

For some time now, the newspaper industry has been subject to the same discouraging news item: Internet is driving the readership and the advertising revenue away from print. The question looming large, inside and outside the newspaper publishing industry, is: What is the future of newspapers and newspaper companies?

It is correct to say that most newspapers, to compensate for the decline in circulation, have invested in building an online presence or have started exploring expansion into the online space. Does this solve the problem? Does it compensate for the lost print revenues? The answer to this question surfaces, when you try and run the numbers:

- The major cost item for a newspaper are not the cost of physical raw materials like paper and ink, or the cost of printing plants and other physical distribution expenses; rather it's the cost of content creation. (Source - Based on The New York Times Company FY2007 earnings)
- Senior columnist, reporters and editors believe they are underpaid, which they probably are, when compared to the remuneration of other talented professionals at the peak of their career. However, when compared to the online revenue they generate, they cost a fortune!
- When compared to their online counterparts, newspapers generate far more revenue offline in the print version. In the physical world, the news can be packaged with classified and display ads and generate revenue. However on the web, it is being literally given away, as the newspaper sites are only one of the dozen sites where people get news. Hence, the opportunity for monetizing it is currently small too. How small? Let's take an example based on a study done by Compete.com. In 2007, the average monthly readership of NYTimes.com was about 7.5 million people, while offline circulation was about 1.1 million. However, the Times Company generated 90% of its revenues from print, while the 7.5 million online readers translated to only 10% of the overall revenues.

Now, armed with these facts, what should be the way forward for the newspapers? The answer lies in a vision of what a newspaper company can and must become. With the print business eroding and intense competition from other contenders, leaders today need to come up with newer models of capitalizing and monetizing the audience base. This, from an operational standpoint, means a combination of two key imperatives for the companies:

A. Explore and monetize new channels of growth

- Make more imaginative use of the internet and other emerging platforms
- Strengthen efforts to attract young readers
- Develop more local stories.

B. Realign functions to leverage global sourcing

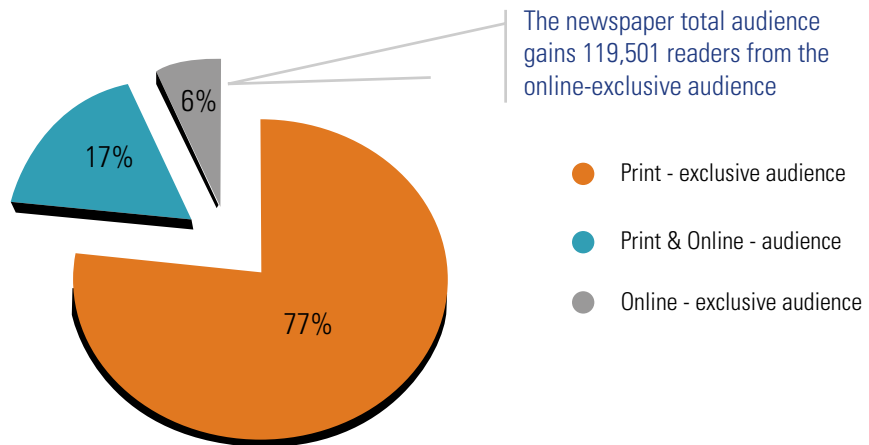
- Outsource non-direct revenue impacting functions
- Outsource 'Cost of Revenues' impacting functions
- Create global capacity in areas that can be standardized
- Reduce cost and move to a variable cost structure

A. Explore and monetize new channels of growth

There is a sense of optimism that pervades the industry today. While newspaper readership is declining, information consumption is increasing. Almost every newspaper company has explored the web medium, with their sites attracting new audiences and new advertisers. The analysis of 'Integrated Newspaper Audience', a measurement that combines the audience of traditional printed newspaper with the audience of their websites, found that newspapers are successfully extending their reach beyond the core printed products, resulting in net increase in audience.

For example, based on a Scarborough Survey, in an average week, The Arizona Republic reaches 56% of the adults in the Phoenix market. However, when the newspaper's websites - azcentral.com and ArizonaRepublic.com - is included, the average weekly net reach - of the printed newspaper and websites combined - increased to 59 percent.

Below is the breakout of the Integrated Newspaper Audience result for the The Arizona Republic:



Source - Scarborough Research, Phoenix Local Market Study '06

Additionally, the Scarborough analysis also reveals that newspaper website audiences are young and upscale, dispelling a common misperception that young people are not being successfully engaged by newspaper content. The analysis indicated that newspapers across the board are successfully attracting 18 - 34 year olds to their websites. For instance, 37% of the adults who visited the The Atlanta Journal-Constitution's sites - ajc.com and accessatlanta.com - each week are aged 18 - 34. In comparison, 28% of the adults who read the printed newspaper in an average week are within this age group.

However, the net increase in audience does not automatically translate to a net increase in profitable revenue. Hence, the solution lies in thinking outside the newsprint box and exploring the strategic imperatives for driving revenue and audience development. This will allow newspaper companies to successfully and profitably compete on current and emerging digital platforms.

One such imperative lies in investing into innovative online ad strategies. Newspapers today are considering this keenly, with many companies exploring selling 'ad packages', by persuading the current captive print advertisers to consider the advertising on the online version as well. For example, The Greenville (S.C.) News has widened advertising options for auto dealers and private-party auto sellers by linking together its daily newspaper, an online car-selling site and a weekly publication all together. The advertisers can opt out of one or more if they request it, but it's such a good price that most don't do that.

In another innovative online initiative, Gannett has launched the 'mother of all web strategies' to target local audiences. They have launched 60 sites in its various markets, aimed at moms and their interests - e.g., IndyMoms.com - targeting moms in Indianapolis. Net result - Advertisers see this as a focused medium to chase the moms, who they can now identify by geography and demography. Though the sites aren't blockbuster moneymakers yet, but clearly there's an appeal to local and national advertisers that want to reach the motherhood market.

However, appreciating the fact that the revenue impact of online ads is still very limited, a focused investment will be required to put in place a knowledgeable, well-trained online sales force who are dedicated to developing, managing and selling new online products at their properties.

To summarize, the newspapers are successfully extending their reach beyond the core printed products, resulting in a net increase in audience. But, there is an imminent need to monetize this web audience in a much larger way. This will require considerable investment from the companies in building innovative online revenue models.

B. Realign functions to leverage global sourcing

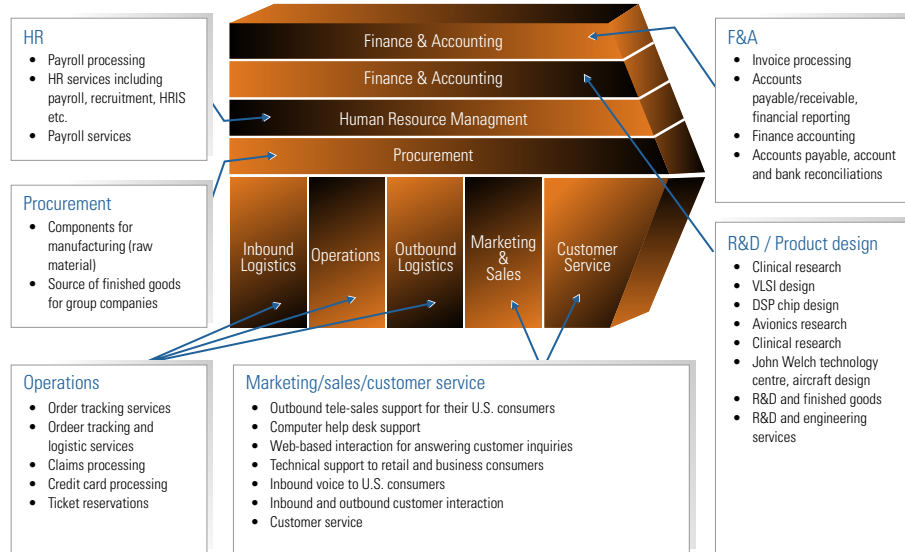
To allow for the investments identified in the section above, there is a need to analyze the cost base of the companies and identify all possible factors that can lead to 'constructive' savings.

The need deepens when we take into account the result of a recent study, which says that, for the publishing industry, an incremental USD 1 of savings has the equivalent pre-tax net income impact as approximately USD 11 of new revenue.

So what are some of these significant measures a company can take to achieve 'constructive' savings?

One such measure, which is being widely adopted by leading organizations across industries, is

'Global Sourcing'. Global Sourcing has received heightened interest in the past several years because of its potential economic and strategic impact, with 4 out of every 10 Fortune 100 companies adopting it as a key competitive lever. The figure below depicts the range of processes that leading global organizations across industries have been outsourcing:



Infosys Approach

Infosys, a leading player in the global sourcing space, believes that cost savings is just one of the early by-products of realigning support functions to leverage global sourcing. The true benefit of global sourcing is realized by breaking the value curve and constantly forcing the organization to do things cheaper, better and faster. The figure below depicts Infosys's philosophy of moving from "doing cheaper" to "doing better", leading to finally 'Eliminating work':

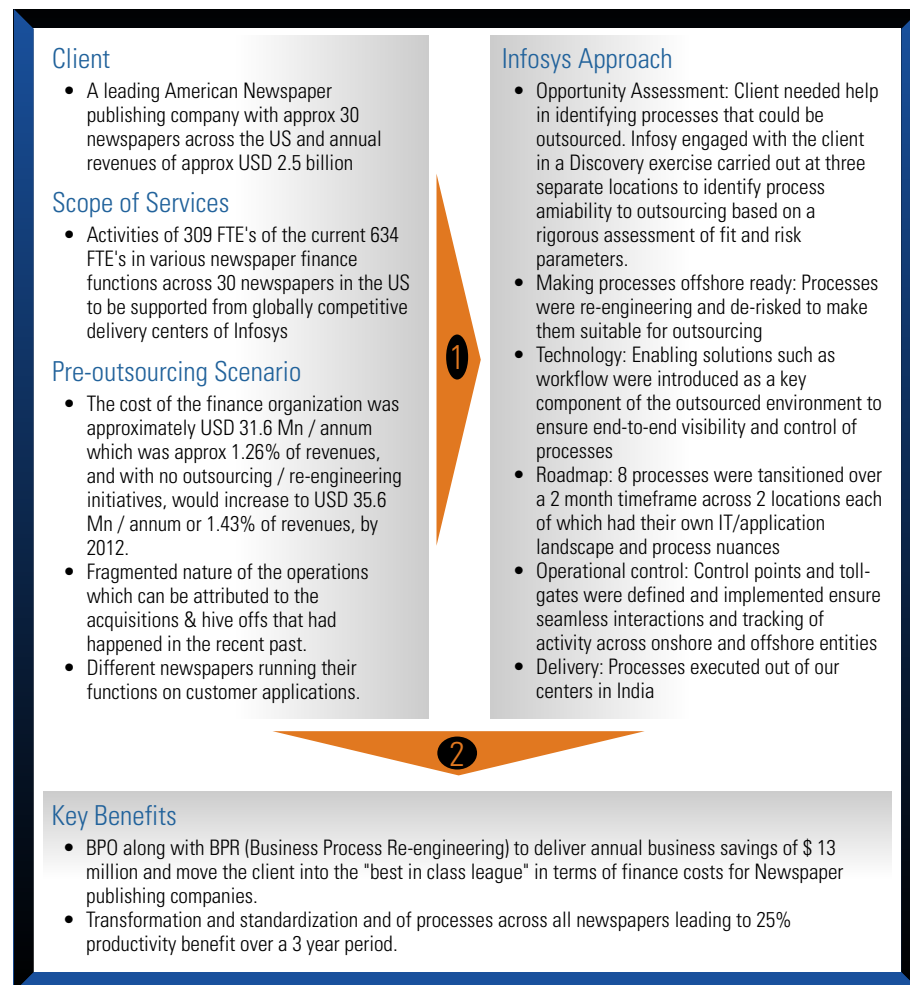


What functions can be realigned in a newspaper publishing company to benefit from global sourcing?

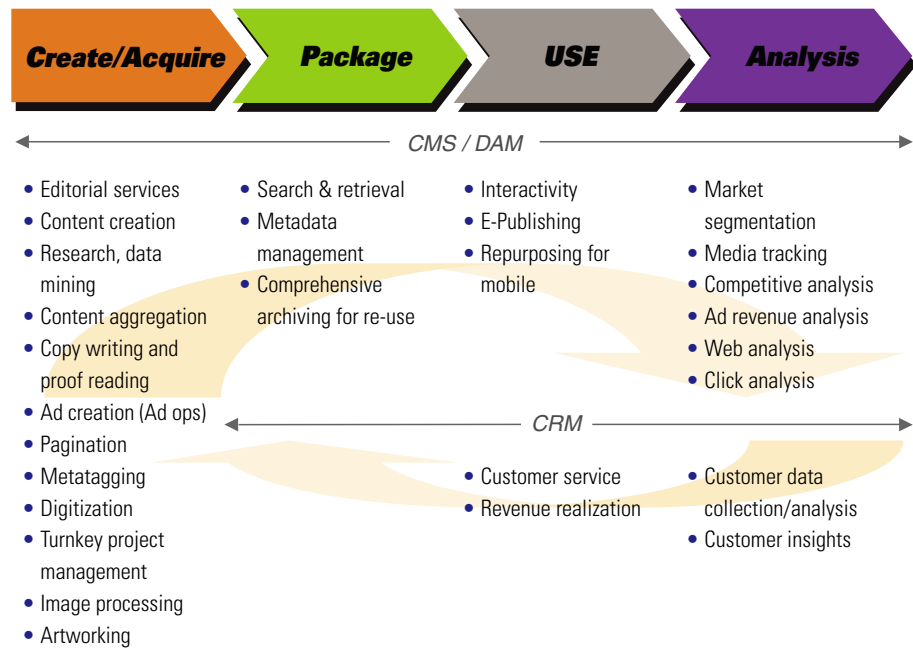
A trend we are seeing in all major industries is that, what was 'core' 3 years ago is today 'non-core' and 'outsourcable'. Global sourcing partners, and not clients, have driven this change. More fundamentally, clients today are convinced that activities that are core can be outsourced, as long as they do not constitute competitive advantage. Working with clients in continually pushing the bar on this definition would be critical to providers' competitive advantage in the marketplace.

This trend is also true for the newspaper publishing industry; where we, based on our significant experience of having worked with leading newspaper publishing companies worldwide, have seen the opportunities for functional realignment emerge both horizontally and vertically, i.e. Processes which contribute to the 'cost of revenues' as well as functions which are categorized under G&A in the Profit & Loss statements.

Below is an illustrative example of a newspaper, leveraging global sourcing as a key competitive lever by outsourcing its G&A functions:



However, after analyzing the production cost and specifically the cost of content creation for the newspaper industry, Infosys believes the true potential for savings and transformation lies in the 'Cost of Revenues' section of the cost base. To address this, Infosys has developed global sourcing solutions across the publishing value chain. The same is depicted in the figure below, which presents our solution across each node of the chain, i.e., from 'Creating/ Acquiring content' to the 'Use' of the content:



C O N C L U S I O N

'Confronting the Future'

Revisiting the title once again - What lies ahead for newspaper enterprises? Will they survive and evolve from this as leaner and agile news enterprises? Do they really need to panic?

Infosys believes time is still on the side of the newspaper companies, and the core value proposition of print still remains intact. Newspapers are a trusted resource for local news, information, and advertising, providing engaged, affluent and influential readers. However - considering the advent and penetration of the internet in today's society, coupled by the intense competition from other contenders - leaders in this industry need to adopt a 2 pronged strategy to eliminate any risk to their survival:

- Explore and monetize new channels of growth
- Realign functions to leverage global sourcing - Explore the support functions and the core functions that are a part of the 'Cost of Revenues', for opportunities to leverage global sourcing as a key competitive lever.

We strongly believe that a combination of the 2 elements, will allow companies to emerge as flexible and profitable 'news enterprises', with the newspaper remaining an integral part of the media mix.



Win in the flat world

Operations Excellence The Key to Sustained Business Performance

– RamaMohan KV, Raja V.

Processes drive businesses. Large organizations are successful because of their people, but also because they have built robust processes that can deliver independently. It is, hence, imperative that organizations focus on the excellence of their processes and systems.

Organizations seek repeatable, reliable & scalable processes at the lowest possible costs, delivered with minimal inconveniences to their customers. Operationally excellent companies deliver a combination of quality, price, delivery, service, ease of purchase, and expertise that no one else in the market can match. Moreover, customers get a consistent experience of the same. 'Mistakes', that may occur, are corrected so swiftly that customers may get more impressed than they would have been had the mistakes never occurred.

With the marked increase in organizations setting up Shared Services Centers or taking recourse to the outsourcing of business processes, understanding operations excellence and its drivers and measures will help them to get the best out of their SSCs or BPO providers.



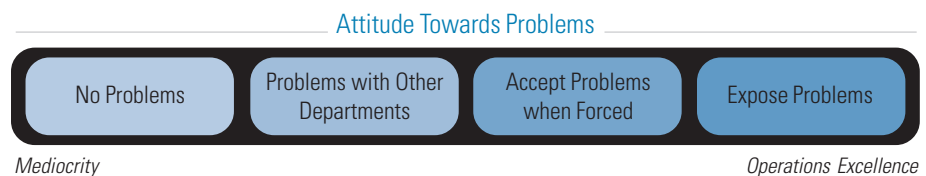
Operations Excellence

Michael Porter recommends that organizations concentrate on at least one of the three possible generic business strategies - Cost Leadership, Differentiation and Market (Niche) Focus - while maintaining the minimum required levels in the other two. Operational Excellence is a prerequisite for the Cost Leadership and Differentiation options. Businesses that pursue Operational Excellence, as a strategy, have their operating model built on the following key features:

- Processes are optimized and streamlined to operate at the lowest possible costs, minimal hassles and enhanced user experience. Processes are not seen as silos, but span cross multiple functions.
- Operations are standardized, simplified (low complexity), tightly controlled and centrally planned, leaving as few decisions as possible to discretion.
- Management systems focus on integrated, reliable, high speed of transactions and compliance to norms / standards.
- A comprehensive data driven approach to decision making; intuition always validated by data that drives action.
- A culture that abhors waste and rewards efficiency.

Attitude toward Problems

Organizations pursuing Excellence show a high degree of maturity in handling 'problems'. While a mediocre company may seek to 'bury' problems, an operationally excellent company encourages pro-activity in surfacing problems and is agile. These are the organizations that last long.



Such organizations demonstrate five key abilities:

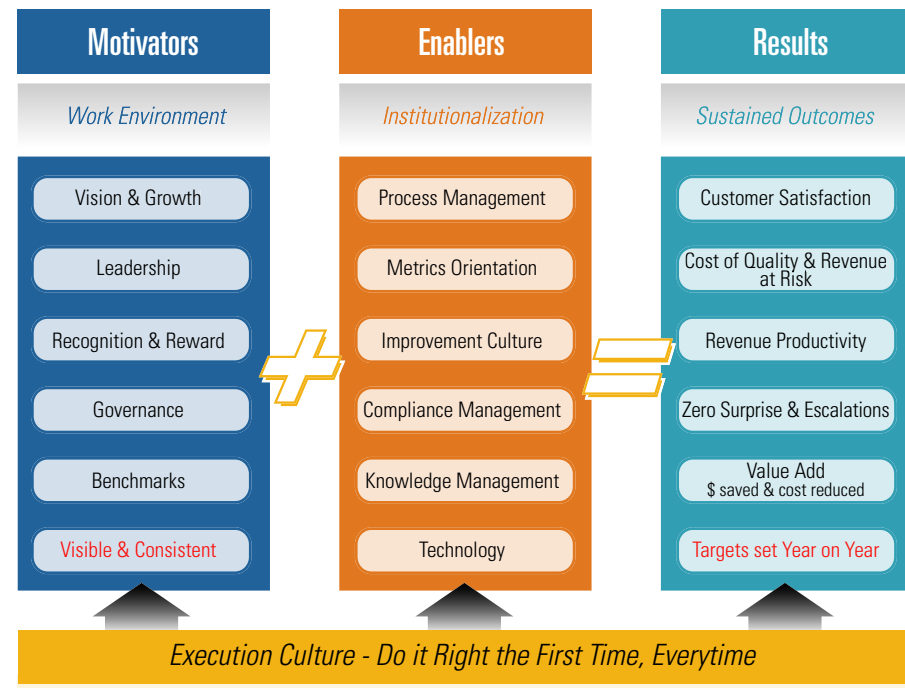
1. See the big picture
2. Gather, analyze and interpret data
3. Break assumptions
4. Work collaboratively
5. Thrive on change

Operations Excellence Defined

But what is Operations Excellence? Infosys BPO defines it as the roadmap to a differentiated customer experience. For service industries, it means consistently exceeding service delivery

metrics, and measurably transforming or changing their customers' experience or businesses. Operational Excellence is based on the philosophy that "Execution Excellence" is one key factor that would differentiate an organization from its competitors.

Figure 1: Infosys BPO's Operations Excellence Framework



Operational Excellence is measured through a set of sustained outcomes. It is a consequence of a work environment that motivates and encourages excellence, and a set of institutionalized practices that enable excellence, as indicated in Figure 1.

The Client - The Only Rationale behind Operations Excellence

Customers' requirements form the basis on which an organization needs to develop its Operations Excellence Framework. Organizations have a set of expectations from their SSCs and BPO providers:

- Once the decision to centralize or outsource is taken, processes need to be transitioned as quickly as possible and without hitches. Hence, [Discovery and Transition Methodologies](#) are required
- A big concern lies around heightened risks and a perceived loss of control.
 - These need to be minimized through (Multi-locational) [Business Continuity Planning](#)
 - Design and enforcement of strictest [data security standards](#)
 - Periodic assessment of the enforcement of these standards
 - External certifications - like [SAS 70](#), [TR 19](#) and [ISO 27001](#) - to ensure that risk reduction processes are robust

- A high level of visibility to operational parameters post outsourcing
 - [Operations Excellence Management System \(OEMS\)](#) applications, used to manage and report on the workflow associated with every transaction as well as the workforce, enable real time dashboards that can prompt abnormalities and serve as the basis for metrics driven management and improvements
 - Regular [Governance Mechanisms](#)
 - Providers' internal processes should be robust to ensure continuity of operations
 - External certifications - like those of ISO - provide a sense of assurance of such processes
 - An all encompassing [Assessment](#) framework (focusing on multiple parameters in the areas of Operations, People Management and Enabling activities) to verify compliance to client and internal requirements and measure engagement effectiveness
3. Customers should experience at least the same level of service as they had before the processes were outsourced/ centralized - expectations of reliable, predictable processes
- Work, performed earlier by employees with 15-20 years of experience, now needs to be performed by young agents
 - Hence, a robust, well defined and strong [Operations Methodology](#) would be required.
 - Access to technical tools that can be used for capturing process steps right the first time and using them for providing training to associates ensure fidelity to activities of experienced subject matter experts.
 - Strong emphasis on [training, domain certifications](#), etc.
 - [Right skilling](#) to ensure delivery predictability and minimize attrition.
4. Processes need to function at levels superior to those achieved earlier, through continuous process improvements
- Complexity reduction - [process & skill complexity](#) measurement models have been developed.
 - [Standardization](#) of processes & steps
 - [Six Sigma](#)
 - [Process reengineering](#)
 - [Benchmarking](#) across multiple clients
 - [Technological](#) interventions

The various interventions mentioned above, and a few others, are represented in Figure 2.

Operations Excellence Metrics

The two facets of Operational Excellence framework are Predictability & Differentiation.

Being predictable implies consistency of performance and 'no-surprises'. Predictable processes are premised on an environment where all activities that are 1) mandated by either the client or the organization and 2) necessary to ensure consistency are performed diligently.

Figure 2: Levers for Operations Excellence



In Infosys BPO, for example, this environment is sought to be created through [Self/ Independent Assessment](#) of all engagements.

Creating such an environment will not automatically ensure predictable performance of client processes. Such an environment can only bring to surface or reduce the number of variables that affect process performance. Meticulous work needs to be done to reduce or control the variables that affect performance.

No measurable improvement can be brought about if process parameters (primarily output metrics like accuracy, TAT and productivity, and sometimes input and in-process metrics) are not measured. Once measured, actions need to be identified and taken to improve each of the process metrics. The success of such actions is indicated by the [Sigma Level Scorecard](#).

[Six Sigma/ Lean](#) methodologies can be used to improve process metrics. Going beyond such improvements, and focusing on enabling large transformational benefits provides opportunities for Being Different.

The very nature of a BPO provider's business implies that it will take on some of the business risks from its clients. Awareness of these risks and actions to mitigate/ minimize them are essential. [Risk Assessment](#) seeks to surface the risks faced by various client processes so that senior management can focus on them.

If all of the above are done well, it should lead to better customer satisfaction. The [C-Sat Scores](#) from periodic Customer Satisfaction Surveys are good indicators of the client's perceptions about performance, and also serve as early warning indicators in case things go wrong.

Enablers of Operations Excellence

As indicated in the main article, Infosys BPO's Operations Excellence program is enabled through multiple parameters:

1 Process Management

- Discovery, Transition, Operations, Methodologies
- Certifications - ISO 9001, 27001, TR 19, eSCM SP v2.0, etc.
- Statistical Process Control
- Domain & Skill Certification Programs at all levels

2 Metrics Orientation

- Adoption of COPC-Gold framework metrics
- Daily Metric Dashboards
- Metric definitions calibrated with clients

3 Improvement Culture

- Six Sigma, STAR (Lean) methodologies
- Technological interventions

4 Knowledge Management

- Capability baselines to agree SLAs early in the engagement
- Reusability

5 Technology

- Operations Excellence Management System to capture process and operational metrics

6 Compliance Management

- Independent Assessment
- Risk Assessment and Governance
- Daily Report Management

7 Risk Assessment

- Risk assessment, on multiple parameters, acts as an early warning signal for the engagements to take actions to prevent potential failures and for senior leadership to focus on strengthening support and reviews.

Motivators

In our experience, there are a few factors that act as strong motivators for achieving Operations Excellence.

Vision & Growth

The Operational Excellence Program needs to be aligned to strategic organizational objectives to ensure that the focus is maintained

Leadership

The leadership team needs to demonstrate visible commitment through

- Alignment with Scorecards
- Extensive Communication
- Sponsorship of the Operations Excellence Program
- Providing necessary infrastructure and budgets

- Encouraging participation of people
- Creating a fear free work environment

Recognition and Reward

Recognition and Rewards through:

- "Pat on the back" for improvements done
- Forums to celebrate success
- Publicizing improvements - making people achieving this more visible
- Various Awards
- Linkage with Progression & Promotion criteria

Governance

Governance is led by the Operational Excellence Council that is empowered to drive change management.

- Role of the Council
 - a. Socializing and Promoting Excellence
 - b. Policy recommendations and sign-offs
 - c. Recognition and Reward
 - d. Steer a few key initiatives
 - e. Act as an escalation point to resolve any issues or remove roadblocks for excellence
 - f. Provide adequate resources
- Council constitutes senior members from Operations and Business Enabling Functions.
- The Council reports to the CEO
- The Council is supported by a dedicated Operations Excellence Group within the Quality Department.

Benchmarks

Using benchmarks to drive excellence is the key to sustaining interest in such programs:

- A common framework to compare internally (a dashboard)
- Best Practice Sharing forums
- Participation in external benchmarking exercises
- Benchmarks for comparison with best-in-class (both practices & metrics) for enhanced performance

C O N C L U S I O N

BPO Service Providers that are successful in their Operations Excellence programs share some common traits:

- Ability to foresee an outcome, and its impact on the clients and the corporation
- Prevent unfavorable situations wherever possible, or provide early warning for better preparation
- Monitoring and controlling at a process/ transaction level
- Ability to build confidence in clients on delivery and spring zero surprises
- Provide service beyond SLAs, a move from operational performance to excellence
- Significant positive impact on client's business metrics

Operationally Excellent companies are run like the armed forces. The team is what counts, not the individuals. Everyone knows the battle plan and the rule book, and when the buzzer sounds, everyone knows exactly what he or she has to do. The heroes in this kind of organization are the people who fit in; dedication is paramount, and a promise is meant to be kept. All possible wastes are avoided. A well deployed Operational Excellence program will lead to a highly empowered and accountable organization that is devoid of tensions, stress, and buck passing. Healthy culture of celebrating success, peer recognition and sense of pride prevails throughout the organization.



Win in the flat world

Moving the needle in Order Management outsourcing From Process metrics to Business metrics

– Prashant Radhakrishnan, Vijay Kumar B.

Executive Summary

The crying call for any General Manager and P&L leader in today's turbulent economic landscape is twofold:

- *Optimize SG&A cost structures as quickly and significantly as possible*
- *Open up opportunities to drive Incremental Revenues by enabling transformational business practices and partnerships*

The traditional practice of executing discrete, offshoreable components of a process through a 3rd party outsourcing provider has proven to be sufficient in order to lower costs. Process metrics tend to adequately measure and reward success in such offshored processes.



However, to create true organizational value, there is the need to enable "Transformational Business Partnerships". In other words, one integrated team needs to be created from client & partner organizations that combine and assume end-to-end responsibility for the business function and articulate its value through business metrics.

This is more so true in the case of Order Management and supply chain functions where the alignment of these processes with the core of an organization's business model is that much more intense. Any form of sourcing or global skills in these areas will not be truly successful or transformational if the Business Metric approach is not adopted.

Often sourcing initiatives do not create the expected value because the outsourcing partner, being once removed from the real business, tends to focus on operations and processes dispassionately. This leads to a significant focus on a number of intermediary metrics that in reality may not have a significant bearing on the end outcomes and thus may lead to managers 'missing the woods for the trees' - being once removed from the real business - and becoming Process Managers as compared to Business Managers.

The Process Metrics Approach is not really adequate.....

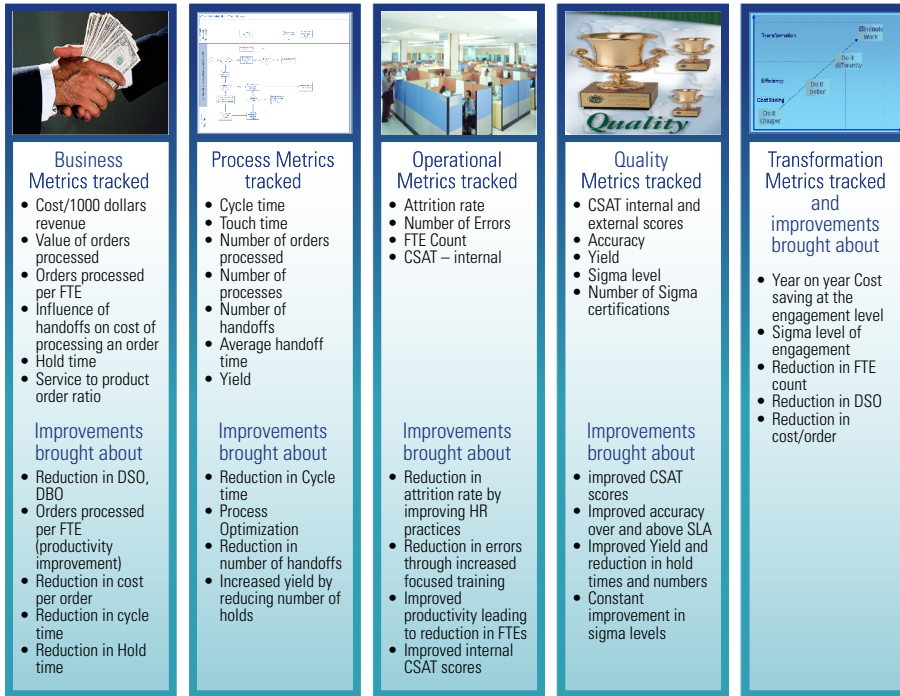
Traditionally, order processing operations are managed in terms of operational efficiency and effectiveness metrics, such as touch time, request TAT and transaction accuracy. This conventional approach to managing order processing operations (either in-house or outsourced) has tended to focus on and around maintaining SLA's and a "Green" status.

While these are fine operational metrics, the underlying business impact and business metrics very often betray large gaps and opportunities with operational metrics. As an example, in one of our client situations, while individual processes met their operational targets, the challenge lied in some underlying business metrics that were characterized by the following issues:

- \$150 Million worth of orders on hold - impacting cycle times and revenue recognition
- Large number of high value orders not booked
- Increased processing costs - rising wage and overhead challenges
- Complexity in exception handling impacting order flow and costs
- Increased complexity due to an acquisition

.....and clearly value is driven by a 'Business Metrics' Approach

Order processing and fulfillment groups need to be viewed as an end-to-end order management service that could be managed in terms of business metrics. All process, operational and quality metrics need to be aligned to these service-level business metrics. In our order management practice, we define a set of business metrics that are key outcomes and then define a set of process, operational and quality metrics that are aligned to these metrics. Using this method, we track the intermediary metrics while always keeping an eye on the business outcomes or key business metrics.



Drivers of transformation value in Order Management outsourcing: Impacting cost & driving incremental revenue

The focus on the end business metrics enables the operations' teams to focus not just on process metrics but the end business impact of each of the processes. This can result in the ability to impact underlying cost and revenue elements. Some of the possible outcomes using this approach could be:

- **Substantial reduction in cycle times and cost per order** enabled by reduction of order processing errors. A strong focus on analytics in your order management process can result in a significant amount of gains through identification of 'problem children' and systematically eliminating the drivers for the same.
- **Achieving a strong understanding of key value elements** that need to be standardized in a scenario of rapid inorganic growth. Typically an environment of inorganic growth creates duplication in processes and significant effort wastage. A business metric approach can help focus on the key elements that need to be standardized without actually waiting for a massive post-merger integration activity on process standardization.
- **Improved Revenue recognition** by creating high-value order monitoring teams that can help remove process flow bottlenecks on top accounts and orders. Business metric orientation can help eliminate the classical problem stemming from process orientation which treats all business scenarios in a similar fashion.
- **Plugging revenue leakage** in complex orders with process improvements. Typically complex orders involve non-standard situations that are not interpreted well and usually lead to 'money being left on the table'. An understanding of the underlying business and the key business controls inherent to it will help eliminate these situations and provide significantly greater revenue assurance within the Order Management process.

Enabling the drive towards business metrics

Migrating to a business metric approach in an order management function, especially in an outsourced situation, does not come naturally or automatically. Certain environmental and structural elements facilitate the institutionalization of this approach.

- **Training:** Training is a critical component in cultivating an orientation to business metrics. It encompasses providing an understanding of the overall business model, the nature of the industry, competitive forces etc. Training also comprises of soft skill training that drives greater accountability and enables ownership of end-to-end outcomes.
- **Functional rotation:** Rotation of personnel across functions such as sales, logistics and fulfillment/ order operations helps provide a better appreciation of cross-functional challenges. It helps drive greater ownership of an end-to-end business metric. In an outsourced scenario, rotation of provider personnel within your organization is an effective tool.
- **Incentive mechanisms:** Compensation structures and incentive mechanisms have to be aligned to business metrics and not merely to operational or process metrics. This is required to drive behavior that is aligned to business metrics. Often organizations underestimate the importance of scorecards and compensation structures that are aligned to business metric. In our Order Management practice, we have examples of some engagements where there is just one SLA which stands as a classic example of a partnership focused on business metrics.
- **Cultural alignment:** No amount of hard alignment will work if it is not complemented by the 'soft' cultural alignment between an outsourced provider and your organizations. This cultural alignment helps instill a sense of passion to collectively drive business goals.
- **Data driven:** A key enabler to drive business metric alignment is to have a manager and a team that is heavily data driven. Churning data to come up with meaningful trends that can be leveraged to identify patterns of customer and internal stakeholder behavior is the key to successful Order Management operations.
- **Passionate about 'problems':** Humorously enough, the last enabler we have noticed is a bit of a paradox. Successful Order Management operations require one to be passionate about 'problems'. Business managers in this space need to enjoy 'problems' (order holds, non-standard discounts, complex orders etc) instead of viewing them as situations that need to be resolved. This often is a personality trait but at one level we have seen that this can be coached to ensure that people do come in with the required expectations set.

Adopting the business metrics approach is the Holy Grail for outsourced service delivery. End-users appreciate how the whole setup of process, systems and operations start with the customer. Vendor managers in client organizations are able to demonstrate how they have built strategic relationships that deliver business value and minimize risk. Service providers and their employees love it - it gives a clear goal to design processes and measure the success of transformation. It also transforms a BPO associate's job from that of mundane processing of transactions to helping clients sell more products at lower costs, buy more products for a lower price or deliver world-class services!



Win in the flat world

Why BPO will grow in Europe BPO Market has grown significantly, but Continental Europe is a slow adopter

– Michel E. de Zeeuw,

Abstract

Overall the Business Process Outsourcing market has grown significantly over the past 5 years with average annual growth rates of above 25% for Finance Outsourcing for example. However this growth is primarily driven by large North American and British firms.*

Large US based corporations have led the charge to BPO, driven by the potential cost savings offered in off-shore locations. They have moved significant portions of their Business Processes to India initially and then also to the Philippines, China or Eastern Europe. Quite a number of these companies started their own off-shore shared services organization in these countries and later outsourced it.

The European BPO market started to move in the UK. However companies in Continental Europe are slower in adopting. Social and regulatory constraints, cultural fit, ability to manage different cultures, language capabilities are the reasons often put forward to explain this.

I believe that Continental Europe is now the next large growth market. Royal Philips has set the tone last year by signing a 7 years outsourcing agreement with Infosys BPO to provide Finance & Accounting and Procurement services to more than 400 Philips organizations across the globe.

* Source: Everest Research Institute



BPO Providers have become mature

Thanks to the first movers in North America and Europe over the past 5 years, the key BPO providers have now reached a scale and maturity level that enables them to fulfill more promises of outsourcing and enhance their value proposition. They are increasingly positioned to support their customers in improving their competitiveness through transformation and automation of their business processes.

Scale enables investments for quality and technology that most captives cannot afford making. Infosys BPO for example has training capacity for up to 10,000 students a day, in all sorts of training courses that support its outsourcing business in IT and BPO. Quality processes, recruitment are another example of significant investments that require scale.

The breadth of the service offering is now wide and expanding from traditional transactional work to higher value added services including Procurement and Knowledge Services. Specific business models can now address the language requirements that are so dear to Continental European hearts.

As labor arbitrage may not last forever BPO providers have to find new ways of adding value for their customers. The top players including Infosys are investing heavily in new talents, technologies and partnerships to become true transformation partners for their customers.

It is time for Europe to grow

Competing in the global economy and having to deal with a strong Euro, European firms need to be more scalable and more competitive. Cost reduction and organizational agility are essential for all European based companies willing to compete on the global market. In addition the availability of skilled resources is increasingly becoming an issue in Europe in many areas including Accounting.

Outsourcing is an answer for Business Processes that are not core to the company's value proposition.

In particular, the market of small and mid size businesses is due to grow very fast. Some large players with revenues of 30 Billion Euros and above have created themselves captive centers off-shore. They could do this because they have some scale, expertise and presence off-shore to avoid outsourcing. We have however seen a lot of these "captive" organizations moving to outsourcing after a few years, as they faced investment issues and could not offer a long term value proposition for their offshore staff.

Smaller international companies do not have the option to start as a captive and will have to outsource to continue to reduce their costs and increase scalability to better seize global growth opportunities.



About the Authors:

[BPO Providers as Trusted Transformation Partners](#)

Amitabh Chaudhry - Managing Director and Chief Executive Officer. 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.

[Defining the BPO Value Spectrum: what works for your enterprise?](#)

Philip Fersht, is Research Director, AMR Research. He has focused on advising AMR's buy-side clients on executing best practices when determining outsourcing strategy, vendor selection, post-transaction governance and the intersection between IT and business process strategy within an outsourced business model. He also focuses on business process outsourcing, remote infrastructure management and application outsourcing areas. Philip received a Bachelor of Science, with Honors in European Business & Technology and a Diploma in Business & Technology.

[BPO as an alternative to the audit & consulting industry](#)

Sylwia Depczynska, Compliance Unit Manager, Infosys BPO, Poland, has 12 years of work experience in the area of finance, accounting, audit and internal control, including 5 years in the Business Process Outsourcing Sector. She is a financial expert with broad experience in all aspects of accounting and taxes (incl. VAT, income tax), thorough knowledge of local and international accounting standards including IFRS & US GAAP, Internal Control Standards, SOx requirements and audit techniques. Sylwia is a Certified Polish Chartered Auditor, Member of National Chamber of Statutory Auditors and the Economics Faculty at the University of Lodz.

Malgorzata Glinska, Compliance Unit Consultant, Infosys BPO, Poland, has 4 years of work experience in the area of audit, finance and accounting incl. over 3 years in the Business Process Outsourcing area. She has Masters in Finance & Banking and completed three levels of postgraduate F&A courses at Polish Accounting Association, obtaining Chief Accountant certificate.

[Breaking News: Newspapers, facing the risk of 'survival'. A cause for concern, or panic?](#)

Subrat Mohanty is the SBU Head for Emerging Market Segment at Infosys BPO. He has a decade of experience in consulting, solution design and managing P&L of large operations. At Infosys BPO, he has been instrumental in building businesses organically across its key service lines – F&A, Order Management, Knowledge Services and Procurement. Subrat led the company's foray into new areas like Media and Entertainment and Retail/CPG. He is an Engineer and holds an MBA degree from IIM Calcutta.

Atul Shahi is a Senior Consultant with the Media & Entertainment vertical - Solution Design and Implementation (SDI) team. He has about 5 years of experience in the industry and has worked across the global sourcing value chain – including several consulting and BPR assignments with Fortune 500 clients in the US and Europe. He has been with Infosys BPO since February 2006 and has been instrumental in the growth of the M&E vertical at Infosys BPO. He holds an MBA from Indian School of Business (Hyderabad).

[Operations Excellence: The Key to Sustained Business Performance](#)

RamaMohan KV is the head of the Business Transformation Group and Risk Management in Infosys BPO. He holds a masters degree in Quality, Reliability & Operations Research. Ram is a Six Sigma Master Black Belt. He has held various positions in the Operations and Quality functions across manufacturing and service organizations.

Raja V. leads the transformation and operations excellence activities in Infosys BPO. He has more than 15 years of experience in driving Lean and other process transformation activities in many organizations across industries.

[Moving the needle in Order Management outsourcing: From Process metrics to Business metrics](#)

Prashant Radhakrishnan is Head- Solutions Design – Order Management Practice at Infosys BPO. Prashant has 12 years of experience in the areas of Sales, Operations and Global Marketing in Hi-tech, IT Hardware, E Business and IT Services. Prashant holds a post graduation in Management from the Indian Institute of Management, Calcutta.

Vijay Kumar B. is the Solution Anchor – HTDM, Infosys BPO. He is responsible for identifying solution themes and implementing outsourcing solutions for our clients in this space. Vijai has 6 years of experience in the Outsourcing industry spanning the software services, IT infrastructure and BPO space. He is a post graduate in management from the Indian Institute of Management, Lucknow and also holds a professional degree in Electronics and Communication Engineering.

[Why BPO will grow in Europe](#)

Michel E. de Zeeuw, VP and Executive Client Partner EMEA

Prior to Infosys he was Senior Vice President at Royal Philips in charge of Global Finance Shared Services since February 2003. In this position he implemented a global captive Shared Services organization of more than 2000 FTEs, generating 25% of savings for Philips and reaching world class costs status. Michel is globally recognized as a thought leader in the Shared services Space. He was a member of the European Shared Services council of the Conference Board from 1998 to 2007, and co-chairman of the council from 2004 to 2007.

Questions? Opinions?

Please visit
<http://www.infosys.com/bpo>

Infosys BPO Ltd. (www.infosys.com/bpo), the business process outsourcing subsidiary of Infosys Technologies, focuses on integrated end-to-end outsourcing and delivers transformational benefits to its clients through reduced costs, ongoing productivity improvements, and process reengineering. It has been recognized as one of the leading BPO providers in the world by The International Association of Outsourcing Professionals, NASSCOM, Dataquest, Red Herring, FAO Today, NelsonHall and others. Infosys BPO. Infosys BPO operates in India, Czech Republic, China, Philippines, Poland, Thailand and Mexico.



For more information, contact bpo_marketing@infosys.com

www.infosys.com/bpo

© 2008 Infosys Technologies Limited, Bangalore, India. Infosys believes the information in this publication is accurate as of its publication date; such information is subject to change without notice. Infosys acknowledges the proprietary rights of the trademarks and product names of other companies mentioned in this document.