BPO Future Forward

Redrafting Business Models - Tomorrow's Enterprise in Action

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Foreword

Dear Reader,

In the changed world, organizations around the globe are more receptive to change. Managing this change and adapting to new business dynamics calls for organizations to be open to innovation and transformation, by developing more flexible business plans & models for the future, as the key to stay ahead of competition. This redrafted agenda encourages organizations to now look at their business partners to demonstrate creative, innovative offerings that can enable this change.

It gives me immense pleasure to present to you the 5th edition of the Infosys BPO Thought Leadership Journal. The current theme of the Journal is centered around Redrafting Business Models - Tomorrow’s Enterprise in Action, allowing for candid and incisive views from global outsourcing strategists and Infosys subject matter experts on this subject.

The thoughts presented in this Journal articulate strategies & solutions on emerging practices & trends such as

- Sustaining competitive advantage by realigning integrated business services
- Adopting hybrid sourcing model
- Managing supplier relations in the changed world
- Adoption of Autonomation in the services industry
- Emerging reality of the next wave of HR outsourcing
- Plugging program value leaks to enhance solution value
- Managing change through Platform based outsourcing

I would like to thank Bill Huber, Director of CPO Services, TPI; Bob Cecil, Executive Director, Business and Financial Processes Advisory Services, EquaTerra; Peter Bendor-Samuel, CEO, Everest Group and Eric Simonson, Managing Principal of Research, Everest Group; Carlos Cordón, Professor of Process Management at IMD and all the authors for their contribution to this edition of the Journal.

Your feedback on this edition is welcome at BPO_Marketing@infosys.com

Best regards,

Ritesh Idnani

COO
There's nothing like a good mix of demand-side pressure along with supply-side innovation to spur companies to rethink their business models. On the demand side, the "Great Recession" certainly shook companies to their core. Many weren't sure if they would survive, much less prosper. No longer could they rely on cheap capital to fuel what appeared to be unfettered growth not just in developing countries, but also significantly in North America and Western Europe. The new mantra became "conserve cash and reduce costs".
On the supply side, the introduction of cloud computing alongside the rapid movement toward globalization of business services has stirred new possibilities. Cloud computing allows companies to remotely manage their processes and underlying infrastructure in a way that not only reduces costs, but also allows for a more variable “buy by the drink” cost structure. Think of the way in which Amazon forced companies to rethink their business models with the advent of the internet. That same company, along with many others, is now doing the same thing with cloud computing.

Throw economic turmoil and cloud computing in with the globalization mega-trend and the corresponding ability of companies to outsource and offshore business services and you see great opportunities for companies to recraft their business models. Will everybody jump on this bandwagon? Probably not. During the economic downturn, companies took an axe to elements of cost such as travel, inventories, and most noticeably labor. These actions allowed them to ward off trouble in the short term (Fortune Magazine reported that Fortune 500 companies raised earnings a whopping 335% despite revenue declines of 8.7% in 2009)¹. But, the real question is whether these savings are transitory or will be truly sustainable. As the global economy strengthens, will companies lose focus on cost competitiveness, relaxing cost control policies and hiring back staff into old models? Or will they instead fundamentally shift their business models to take advantage of the robust offerings of the market place? Those who do the latter will truly have competitive differentiation.

While cost reduction is still the primary reason for undertaking Integrated Business Services Realignment, it certainly isn’t the only reason. Gaining greater access to talent, creating agility and enhancing overall company business results are other prevalent reasons.

The good news for companies ready to take on the Integrated Business Services Realignment challenge is that a plethora of options have opened up for them within the last five years. We have observed the following major changes.

**It Isn’t Just Back Office Anymore**

During the early advent of shared services, outsourcing and offshoring, companies were naturally putting more transactional processes and discrete projects such as accounts payable, IT desktop, applications development, and payroll into these alternative delivery models. No longer. Now companies are also scrutinizing their mid- and selective front-office processes to see if they can benefit from leverage and offshore models proven successful in their transactional service portfolio. More knowledge-intensive processes such as engineering, marketing, research and legal are in fact the fastest growing market for outsourcing and offshoring. Over the past seven years the knowledge process outsourcing (KPO) industry has experienced a cumulative annual growth rate of 46%; almost double that of business process outsourcing (BPO)².

Consider the following examples:

- A pharmaceutical company has outsourced clinical data management, adverse effects research, medical writing, and applications development and maintenance for drug discovery applications.
- A consumer products company is using an outsource provider to help it decide product pricing, shelving and launch plans.
- An internal captive shared services organization is performing customer profitability analysis on behalf of its operating units.

**Multi-Tenant Process Models are Finally Emerging**

The early promise of BPO was that an external provider could fully leverage their operating platform across multiple

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¹ Fortune Magazine, May 3, 2010  
² Evalueserve, 2010
customers - the “one-to-many” model. In reality this promise was only partially fulfilled. Customers enticed by the benefits of offshore labor arbitrage were more willing to accept a basic “lift and shift, your mess for less” model. While companies needed to manage the political and transitional risks of moving to an offshore model, for the most part it did not require them to take on the additional challenges of cross-company, or even to a large extent intra-company, process standardization. Further, the service providers found that developing a true cross-industry platform solution for all processes wasn’t feasible.

With the experience of about a decade of BPO development behind them, both providers and buyers have come to a more rational approach to fulfilling the “one-to-many” promise. Not only do these utility platform approaches provide cost savings from economies of scale, in many cases they also allow for greater agility to scale costs up and down based on changes in workload volume. This latter benefit is particularly relevant for today’s companies as they continue to have high uncertainty around the nature of the economic recovery.

Multi-tenant models take on multiple forms including:

**Wrappers**

Outsourcing providers recognized that they couldn’t simply change out the core ERP system of their clients for a single integrated ERP version across all clients. But they could standardize on enabling technologies that wrap around a client’s underlying ERP. Classic examples included scanning, workflow and account reconciliation tracking.

**Management Practices and Integrated Knowledge Management**

At its base level, outsourcing providers can ensure training programs and practices such as Six Sigma are consistently applied across their clients. A more recent trend has been that providers have now gathered a large enough base of clients with similar processes that they can move beyond simply creating “best practices” playbooks and templates. They are now mining comprehensive knowledge bases to identify granular level changes that one client can make to their processes based on a review of the drivers of performance across their clients.

**Cloud Computing**

Cloud computing has started to take on a ubiquitous tone to represent almost everything offered over the internet. While there are many flavors of cloud computing, two of particular relevance are utility computing and software as a service (SaaS). Utility computing entails storage and other virtual servers that companies can access on demand as well as share computing space. SaaS is an application over the internet to multiple clients using a multi-tenant architecture. Salesforce.com is probably the best known SaaS offering. We have found that SaaS is gaining greatest traction among large enterprises in the business services for those processes which require less customization and integration than others. For example, desktop applications such as Google Apps and human resources applications such as Workday and Sapien are gaining greater market traction than finance and accounting applications. Some analysts suggested that SaaS would prove to be the death of outsourcing. We see a quite different pattern where outsource providers provide managed services with a SaaS partner.

**Platform-Based Solutions**

Platform-based solutions are typically a set of managed business processes built around a standard/or semi-standard ERP module or bolt-on and hosted by a service provider. In many cases these are offered as a SaaS. These are most commonly developed for an industry-specific process (e.g., Infosys’ Newspaper-in- a Box Advertising and Circulation Business Platform) or horizontal processes like human resources similar to SaaS. We do not expect to see multi-tenant platform-based solutions for the full ERP suite for large enterprises.

**Service Oriented Architecture (SOA)**

Similar to cloud computing, SOA has taken on a variety of definitions. Within the context of multi-tenant models it refers to the integration of multiple systems using a middleware layer of computing. To date, SOA has mostly been applied internally within a single company to integrate disparate systems. However, under the cloud computing umbrella, we are starting to see the emergence of integrators across multi-tenant cloud applications. Stay tuned to how this turns out as the promise of multiple multi-tenant cloud applications as nodes of an integrated hub is enticing.

**It’s a Smorgasbord of Service Delivery Options**

With the alphabet soup of services and platforms available (e.g., ITO, BPO, LPO, KPO, SaaS, SOA) comes an equally large range of options for how business services can be delivered
ranging from pure outsourcing to internal captive and everything in between. The most common options we see in the market include:

**Staff Augmentation**
External provider offers staff to support initiatives. Most common in IT applications development and maintenance and early stage KPO.

**Niche Outsourcing**
External provider takes over the people, process, and often technology, for a narrow set of activities.

**Integrated Provider**
External provider takes over the people, process, and often technology for a comprehensive set of activities. Most common BPO model.

**Joint Venture or Tied Deal**
External provider enters into a joint venture or other revenue sharing relationship with the company. Common in early BPO deals.

**Virtual Captive or MicroCaptive**
External provider provides physical assets and administrative staff, but the company retains significant management. Often attractive for more consultative processes.

**Build, Operate, Transfer**
External provider builds capability, operates for a period of time and then transfers ownership back to the company.

**Captive with Build Partner**
Company establishes internally managed shared services, often in an offshore location with an external build or investment partner, for technology and physical infrastructure and recruitment.

**Internal Captive**
Company establishes internally managed shared services.

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**Tying It All Together**
Companies are no longer looking function-by-function and process-by-process at alternative delivery. To maximize the impact, they are looking across their portfolio of business services for both stand-alone as well as cross-service integration opportunities. In some cases companies are turning to global multi-functional shared services to drive an integrated portfolio view. In other cases, they are creating enterprise-wide sourcing organizations to develop the strategy, execute the plan and manage ongoing relationships for alternative service delivery.

Given the number of options available and the complexity of establishing and maintaining relationships these new groups charged with "Integrated Business Services Realignment" require a unique set of skills and tools often not found in the same group of individuals who have managed the individual business services to date. Key skills and tools that are required include:

**Analytical**
To sort through the various service delivery alternatives and develop a strategy and plan for realignment

**Commercial**
To manage the technical aspects of complex sourcing arrangements

**Relationship**
To communicate in a collaborative nature with internal management as well as external providers to influence outcomes

**Technical**
To understand and evaluate alternative solutions to meet business needs

**Business**
To understand the priorities of the business and the potential business impact of alternatives

**Program and Change Management**
To guide complex projects to completion
If you are just beginning “Integrated Business Services Realignment,” a typical starting point is to gain alignment among key stakeholders for a service delivery model with a supporting opportunity case. One of the frameworks we have found successful is to plot the portfolio of potential business services on the following grid to define the most appropriate delivery model for each. Following this initial mapping, companies then consider the various additional levers they can pull within each service delivery model (e.g., SaaS, Platform Based Solutions) to drive a compelling opportunity case.

Whatever analytical framework you use, remember that any significant organization change will require dedicated resources with the right skills to carry you through a complex change journey. The journey may have its bumps in the road, but in the end the benefits of true competitive differentiation wins out.

About EquaTerra

EquaTerra sourcing advisors help clients achieve sustainable value in their IT and business processes. Our advisors average more than 20 years of industry experience and have supported more than 2,000 transformation and outsourcing projects across more than 60 countries. Supporting clients throughout the Americas, Europe, Middle East, Africa and Asia Pacific, we have deep functional knowledge in Finance and Accounting, HR, IT, Procurement, Real Estate and Facilities Management, and other critical business processes. EquaTerra helps clients achieve significant cost savings and process improvement with internal transformation, shared services and outsourcing solutions. For more information, please contact Lee Ann Moore at +1 713.669.9292; www.equaterra.com.

About the Author

Bob Cecil is executive director of EquaTerra’s Business and Financial Processes Advisory Services, which includes finance and accounting, supply chain, customer care, facilities management and real estate, and internal service delivery transformation engagements. Bob has helped companies realign structure, governance and management processes; establish shared service centers; evaluate and transition services to outsourcing arrangements; plan and transition processes to offshore centers; re-engineer administrative business processes, and reduce overall cost structure and spend on goods and services.
Where are the world’s leading companies heading with their use of outsourcing and offshoring efforts to achieve their competitive advantages? Everest recently completed a study of insights provided by global services executives in large organizations that are mature in their use of offshoring to drive optimized services and sustain their competitive edge. The study focused on their learnings to date and the challenges they face moving forward in using global sourcing to meet the objectives of their organization. The study revealed a phenomenon around "hybrids", which has significant implications for delivery of services and where the world’s leading adopters of offshoring should channel their investments.

The so-called hybrid model was at the top of discussions with executives participating in the study. However, the term “hybrid” is used very loosely, typically implying only something that is no different than the situation in which many organizations find themselves today - that the organization uses both outsourcing and captive shared-services models.
When and why is a so-called "hybrid" sourcing model not really a hybrid?

Using the term "hybrid" to simply mean that an organization accesses services from both captive shared-services and outsourcing is not helpful; utilizing both models is simply a mixed model, not a hybrid. One can liken this to the options available for automobiles.

Today, one can own a car that runs on a gas engine or a car such as the Chevy Volt that runs on an electric motor. Each has advantages and disadvantages, but owning both a gasoline-powered car and an electric car does not mean that one owns a hybrid car (nor does it create a hybrid garage that serves as home for the two cars). A hybrid vehicle such as a Toyota Prius solves challenges of both gas and electric models, creating a new breed composed of a mixture of elements of both the gas and electric breeds.

By extension, a hybrid sourcing model should combine the best attributes of each model into a model. More specifically, a hybrid sourcing model is one that combines the strengths of outsourcing and captive shared-services models to create a new model that is designed to capture additional value not available through a single model while better managing risk.

Before exploring the design points that one can use to shape a hybrid model, two other factors deserve consideration. First, hybrid models will not be applicable across all types of services. In many cases for a particular scope, a pure captive shared-service model or outsourcing model will be appropriate. As a result, utilizing a hybrid model will not mean that all services operate in a hybrid context. Second, since one must combine both models into a sensible solution, additional integrated design is required which will seldom occur if utilizing traditional sourcing frameworks and processes. In many cases, sourcing processes and organizations consider an outsourcing or captive model in isolation and do not attempt to combine the two.

Design points in the hybrid model

Our analysis identified several angles from which leading companies are successfully uniting or combining the use of both models to achieve greater value in delivery of services. We can liken them to a model’s design points.

Let’s look at three of the design points or service delivery purposes that drive uniting the two models into a hybrid:

- Speed and flexibility
- Operational resiliency
- Investment leverage

As the following examples show, there are advantages to combining the two models at certain points for certain purposes yet still maintaining both separately for other purposes.

Service delivery speed and flexibility

The business needs in this design point include gaining access to new skills, controlling the concentration of risks or accelerating the provision of new services. Companies establish their captive shared-services centers in locations such as India or the Philippines, which provide adequate labor pools to allow operating at a large scale. But they lack flexibility and are constrained from delivering services on a global basis because they cannot easily and directly participate in labor pools in other locations.

For example, an integrated oil and gas company has several large captive shared-services centers in tier-one cities in India but now wants to expand its services in different languages. It needs to be able to participate in the labor pools and language skill sets in South America and China. Combining with a third-party outsourcer’s labor pool to quickly deliver the newly needed language skill sets solves the business challenge while enabling the company to retain the well-honed advantages of its captive centers and leveraging existing process definitions and supporting tools.

Operational resiliency

This design point enables an organization to more consistently deliver services as market conditions change. Several large global banks are using this strategy to control their concentration of risk. If, for example, a captive shared-services location overheats due to high inflation rate for scarce skills such that continuing those operations is unsustainable, the bank can use an existing third-party outsourcer to quickly scale-up the necessary skills in a different location in which the third-party has a pre-existing delivery capability and recruiting pipeline. At the same time, the company can maintain judgment functions in the captive unit that it is not comfortable turning over to a third party.
By combining the best of both models, the bank can deliver more services from offshore (greater total labor arbitrage) than it can do with either model alone. Additionally, having more sources of supply that each operate at an efficient scale provides the option to scale volumes up or down to more quickly respond to changes. Although this may temporarily increase costs, it provides a comparatively cost-efficient mechanism for making significant changes to a sourcing model when conditions change.

Leveraged investments

This design point ensures investments in capabilities, productivity, technology, and knowledge are better leveraged to create increased returns. Simple examples of this include facility sharing to ease capacity planning constraints or common project management tool sets.

A more complex example is the investment third parties make in training fresh talent. By cultivating relationships with universities and building corporate campus training programs, outsourcing suppliers can develop a scaled stream of lower-cost talent that can be used to provide services at the bottom of the pyramid. This then can allow captive resources with scarce, high-order skills to allocate more of their effort to experience-based activities such as system design, planning, and interpretation of analytics.

Analytics is a key area for business intelligence investments in today’s competitive business arena. Organizations can leverage a third-party outsourcer’s investments in analytics to operate at a scale prohibitive to the capital investments in a captive shared-service center. At the same time, the organization can invest in building deeper domain and company expertise within the captive unit to ensure that it applies the results of analytics to the business.

Predators or Collaborators?

While the market talks about using a “hybrid” model, very few companies actually have a clear vision of how to use this model. Analysis of examples to date reveals that organizations wish to attain new types of value while better managing risk. Its “design points” are also becoming more clear as mature users of outsourcing innovate within their own models.

In reality, the vision is to leverage the advantages of a collaborative approach to services, uniting a mix of captive shared-services with outsourcing for certain needs. By combining the benefits of one model at a weak point in another model, companies can achieve better outcomes at a much lower cost and risk profile.

A key to success in leveraging the united model is balanced leadership that aligns the parties so the two models do not end up preying on each other. With effective leadership, the united model will result in both models expanding their scope together.

ABOUT THE AUTHORS

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Eric Simonson is Managing Principal of Research at Everest Group. He oversees the Everest Research Institute, which focuses on delivering actionable sourcing-related analysis and insight to senior management. Eric has extensive experience in developing sourcing strategies, assessing offshore delivery models, and designing governance organizations. Before joining Everest in 2002, he was a consultant with McKinsey & Company.
Smart companies outperform competition by collaborating with a few selected suppliers. These companies are the most attractive customers for their key suppliers. The way to create such superior collaboration is to lead the relations by managing its drivers, not its outcomes: leading the network of interactions between managers from both companies and managing the perceptions about the partner company. I present here the key elements to transform traditional customer-supplier relations in superior collaborative ones.
It has taken the collective suicide of the US car industry for its executives to realize that collaborative relations with key suppliers are superior to adversarial ones. Very recently, in April 16th, you could read in Automotive News: "Chrysler purchasing boss says adversarial days are over". Furthermore, the head of purchasing of Chrysler stated: "The days … where we forced suppliers to kneel at our door and sprinkle rose petals before they come in, absolutely has to be over. It’s a collaborative business. If we work together, we’ll have a better equation at the end."

Similarly, on April 19th the financial times published that the new global purchasing chief of General Motors, Bob Socia, "is seeking to mend fences with suppliers". By contrast, managers at Honda talk about "super suppliers" - a small group of companies with which the company enjoys a special relationship. In our research we realized that a similar approach was evident at other firms that outperformed their industries. Over time, we developed a simple shorthand term to describe the impact of these deep relationships - we called it the Power of Two.

The Power of Two

We believe that the best way for your company to increase its competitive advantage is by forming close collaborative relationships with a small set of customers and suppliers. You can achieve cost breakthroughs, increase your market share, achieve significant top-line growth, and create competencies that cannot be copied.

We synthesized these ideas through several years of research, exploring them with thousands of executives at IMD and working as consultants to firms implementing the concepts. Putting the plan into action requires you to make some changes in your company as well as in the suppliers. But the payoffs are significant and achievable. For example:

- Bombardier Transportation, the Montreal-based train and aircraft manufacturer, has developed collaborative partnerships with ten suppliers. Working jointly, they have been able to support a significant increase in BT’s market share. BT can bid with aggressive prices, it can deliver at those prices, and BT and the suppliers can still make good returns.

We call these relationships "pairs of aces." It is the collaborative and symbiotic nature of the pairs of aces relationship that unlocks the phenomenon we call the Power of Two. The customer and the supplier must recognize their need to jointly overhaul the way they do business: taking out unnecessary work, reducing any cost that is borne by either of them, creating greater value, and capitalizing on a new strategic relationship.

To develop this kind of relations it is fundamental to recognize the key drivers of customer-supplier interactions.

Leading vs. lagging indicators.

Most companies measure their suppliers’ performance to great extents, but seldom measure how they perform as a customer. Usually organizations measure “hard” factors like on-time delivery or total amount of money spent, but less often “soft” factors like amount of visits or number of exchanges. We’ve measured relations between customers and suppliers over time and typically find something similar to figure 1.

This figure depicts the evolution of a customer-supplier relation over time in four key areas: sales, joint projects, joint learning and networking (meetings, interactions, social events and the like). The last three measures are qualitative and, therefore, a subjective assessment of the relation by the executives. The most interesting observation from that figure is that sales are a lagging indicator, the consequence of the other three. In this particular case (a supplier of aluminum castings to an electric products manufacturer), there is a two-year delay between join projects and sales. In year 7 a new product was being developed, so there is a peak in joint projects. Two years later this new product has been launched and reaches top sales.

Intuitively it makes a lot of sense that joint projects, joint learning and networking drive the relations. That is the reason why executives encourage these activities. The paradox is that most companies measure to the last detail sales and other hard indicators (which are the lagging ones), but rarely the efforts in joint projects, joint learning or lunches with customers and suppliers. That leads companies to focus on the consequences of past actions rather than on the drivers for the future.

The clear conclusion here is to measure the relation in both ways (like a 360 tool does for leadership) and to include soft indicators, which are leading indicators of the relation.
Picking the superior Customer - Supplier dyads

To create win-win relationships to outperform competition companies must pick only a few partners to work with. Our own observations indicate ten represents a reasonable upper limit on how many of these special relationships a company can develop. Collaboration requires a major investment of time, money, and energy.

Major Changes in Procurement

The upper limit of ten suppliers to collaborate mandates a drastic segmentation of the supplier base. Companies should continue to treat the large proportion of their suppliers in the classic combative way: playing one against another, tough negotiations, etc. A smaller portion should be collaborative and provide the pool from which to develop pairs of aces. The basic concept is to have the smartest suppliers view you as the most attractive customer. The following are five rules for how to become attractive to your suppliers:

1. Determine which suppliers are important. Identify which partnerships will pay off in the long term, and invest in them.

2. Increase the supplier’s comfort level. Make sure that supplier managers know their ideas are welcomed, acknowledged, and implemented. At the same time be a demanding customer: Challenge your suppliers, but don’t crush them.

3. Help the supplier properly evaluate its expected payoffs. A typical negotiation technique is to hide information. In fact, keeping information from key suppliers leads to poor evaluation and diminished attraction of both customer and supplier.

4. Manage the perceptions. Understand that it is perceptions that matter, and that these are often totally unrelated to reality. Proactively manage the "stories" and "feelings about a supplier."

5. Sell the opportunities in your company to the supplier, and understand which other customers and initiatives are in the priority list of the supplier.

Results

Several firms have applied this set of rules and the results have been uniformly good - more than good!

For example, a large manufacturer in the transportation
industry has worked with five carefully selected dyads. The five were purposely chosen to be quite different, in order to test the robustness of the concepts. All dyads were able to successfully implement major improvement efforts:

- With its largest supplier in terms of volume joint effort to develop standard/modular designs was expected to lower costs by as much as 20%.
- A small/medium size supplier that has been working in one geographical area; the improvement efforts were to develop an approach that could readily supply many more sites.
- A relatively new supplier; this case offered a good potential for joint design work with final customers.
- An electronics manufacturer that specializes in long life cycle products; here the dyad expected to dramatically increase business through outsourcing.
- An eastern European supplier; the primary objective here was to integrate the supply base in low cost countries.

The way of working described here is radically different from the classic procurement approach, based on price takedown and combative relationships with suppliers. There is much to be gained through cooperative relationships with a carefully chosen few suppliers.

There are a few key learning points that we see as coming from our work:

- There is a new way of working to create superior customer-supplier collaboration.
- The customer is not always right. Give up on this idea. You have much to gain by listening to what good suppliers can tell you.
- Being more attractive to the smartest suppliers can pay major dividends. In the end, the firm that can leverage the brainpower of smart suppliers will win the competitive game.
- Non-recurring costs, particularly those of contracting and negotiation are damn expensive. Not only do these waste money and time, they keep people from working on much more productive ideas.
- Cooperation over the long haul requires “care and feeding” from senior management. There are innumerable ways to mess up a trustful relationship. Something that has been built for years can be destroyed in a few days.
TO KNOW MORE

The way of working described here is the result of several research studies to understand how to improve customer-supplier relations. The process has been applied with success to several units of global companies, like Bombardier, Philips or Nokia to improve the relation with customers and suppliers. Readers can find more information about the process and the research leading to it in the following book and papers:

- Cordon, C., and Vollmann, T., "The next game in purchasing: be the most attractive customer to key suppliers", IMD Perspectives for managers, no. 86 (2002).

ABOUT THE AUTHOR

Carlos Cordón is a Professor of Process Management at IMD. His areas of interest are supply and demand chain management, process management, and outsourcing. He has won over the past years several prizes for his cases and articles on supply chain management, outsourcing, and process management. His latest book, “The Power of Two: How smart companies create win-win relationships to outperform competition” is the basis for this article.

Professor Cordón is also a consultant to multinational companies in the electronics, food, chemical, pharmaceutical, car, and other manufacturing industries.
Are you in the business of IT or are you using IT for business-operations?

While operations are cost-consuming activities, have we been able to squeeze out value from the resources (including the technological investments) involved?

But before we get into discussing this value, it would be necessary to understand operations better.

Effective operations calls for a fine balance between technologies, the people involved, the tasks being performed, the planning and control mechanisms, etc. But, I posit that for many organizations, IT Automation has come to mean Total Automation or Nothing - a black-and-white approach to business decisions. I posit that companies may be making certain wrong decisions by focusing on technology related costs in isolation. Where is the next big impact going to come from if you have already implemented ERP? Let’s ask that question again. Are we in the business of IT or are we using IT for business?
Automation or Autonomation?

Given a choice, Operations Managers would want complete automation - as recourse to reduced operational challenges particularly those involving their employees. But as the accompanying story (The Evolution of the Technological Landscape) postulates, this is a chimera. For multiple reasons, automation and manual effort will co-exist.

So, how do we handle this dichotomy? There are lessons to be learnt from the Japanese manufacturing sector, particularly the automotive industry.

Utilising a human being as a source of energy is inefficient, in addition to being boring and monotonous to employees. Similarly, using an operator as a sensing device is not only un-economical, but would also result in excessive fatigue and errors.

The Japanese also realized that the law of diminishing returns on technological investments sets in very quickly. (This is equally true while automating enterprise applications/processes and is also a reason why many processes continue to be manual even in tech-savvy organizations).

After years of experimentation, the manufacturing industry has struck a balance between automation and human involvement. The Japanese refer to this concept as Jidoka or Autonomation. Simply put, Autonomation is automation with human intelligence. Human capabilities are used for those activities that are best suited for the human mind - decision making, creativity and flexibility. This is what we need to explore for our IT enabled office processes as well.

How does Autonomation Work?

Autonomation works on two fundamental principles. One, an additional degree of automation is created around existing equipment, tools, methods and people at the interface of equipment and people. Standard components are used and hence changes can be gradual, smooth and very cost effective. Technologies used are easy and simple to understand, maintain and upgrade; losses are minimal in case of breakdowns. For this reason and also because investments are low, the risks involved are also low.

Two, it exploits tolerance of uncertainties or imprecision to achieve tractability, robustness and, in the end, low cost solutions. It abhors the high cost of sophisticated automation and recommends the use of innovative and intelligent solutions at an affordable cost. This is its fundamental difference from Automation.

These are also key elements of Lean Manufacturing approaches.

Thus, for example, a manufacturing shop may choose to buy 5 simple lathe machines cheap rather than an expensive CNC one. The flexibility to handle a vast range of parts is obtained by using each of the five machines for specific ranges. The fringe benefits that can be obtained from the CNC machine (unplanned part ranges, for example) are given up for lower costs and more importantly, higher flexibility.

Benefits of Autonomation

Autonomation is particularly suitable in the current business environment and benefits go far beyond productivity improvements.

a) Flexibility to address rapid changes in customer requirements and process parameters.

b) Increased reliability and predictability of operations as errors are reduced drastically by reducing manual interventions; enhanced customer satisfaction.

c) Faster turn-around-times and time to market due to enhanced flexibility.

d) Lower cost of operations not only because of lower autonomation costs and productivity improvement. But also as operation equipment by even semi-skilled and unskilled labour is now feasible, with just a little training.

Relevance of Autonomation in BPOs

BPO service providers have used autonomation approaches. An obvious example is the use of VBA macros/scripting tools rarely touching clients’ enterprise applications. But the focus has been more on reporting automation and less on process automation, particularly where interactions with ERPs have been involved.

Infosys BPO believes that viewing transaction processing as the logical sequence of keystrokes and mouse movements, could lead to automating some of the transaction processing activities. It has had some good success when clients’
enterprise applications have been based on Mainframe technologies or certain ERPs.

The intent here is to avoid meddling with clients’ enterprise applications and to keep costs extremely low.

For a large retail client, for example, Infosys BPO built some tools that would use the input data that has been brought into a spreadsheet and navigate through the appropriate screens and fields on the ERP, applying the requisite business and processing logic and complete transactions automatically. This yielded productivity improvement of about 30%. Changes to business logic can be incorporated quickly.

Advantages of this Approach

Apart from the obvious productivity & accuracy improvements, this approach to handling transaction processing offers some exceptional benefits.

a) In this operating model, manual work is involved (where data extraction tools are not used) only in moving input data elements to a spreadsheet. Hence associates need minimal training on working with ERPs.

b) The availability window of ERPs is not a constraint anymore, thus providing for round-the-clock operations. This has positive implications on turn-around-times for clients.

c) More importantly, quality audits and corrections can be made prior to processing in the ERP rather than as post-mortem exercises. Such audit would only involve checking/validating the input data captured in spreadsheets.

d) The negative impact of latency in an outsourced environment is reduced as associates’ need to interact with ERPs is now minimal. This further reduces lost capacity.

Conclusions

It is unlikely that ERPs will be replaced by something different and better (while there will be better and more efficient delivery models - Software As A Service, etc.). By ignoring the opportunities provided by Autonomation, organizations may be missing out on a tremendous opportunity to squeeze value from their IT investments.

When BPO providers and clients jointly work on technology-operations interfaces and take requisite risk-mitigation steps, autonomation can provide phenomenal benefits to both parties. Potentially, this will be BPO on Steroids.
Up until the 1980s (and even into the early ‘90s), IT investments in those organizations that could afford them were on stand-alone applications in various departments. Thus they were likely to have bought an application for Material Requirements Planning (MRP), another for procurement activities, a third for payroll, etc.

Such Islands of Automation were what ERP vendors wanted their clients to do away with, in the ‘90s, through their pitch of Integrated IT Systems. The promise was that ERP systems will provide seamless data and information flow across all functions and improve productivity drastically.

But reality has of course been different. While a completely integrated enterprise application is conceptually feasible, organizations have had to take some tough calls. Do they implement the base ERP as bought and modify their processes to suit the available ERP functionalities or do they customize the ERP to suit their needs? Can they afford all the customization needs? What do they drop from their wishlists?

Thus, in reality, post ERP implementations, many organizations still have manual processes or have those ‘islands of automation’ though fewer. The white spaces in the adjoining pictures indicate manual processes or work arounds.

This then leads to the conclusion: Much of manual work (and hence outsourcing needs) exists in an organisation because of conscious choice made between investment dollars and ‘moving towards complete automation’.

Service providers like Infosys BPO have an excellent understanding of both technology and operations and are thus able to conceptualise, develop and implement additional IT solutions.

Point Solutions are one such type. They are solutions to address specific needs. A good point solution, for example, would be those functionalities that are not ‘standard’ in an ERP, but are very common areas of ‘customization’.

Platform solutions, too, focus on unaddressed needs in an ERP, but provide for additional functionalities as well as means of integration with the ERP. In some respects, a platform solution could mean that...
users could be interfacing with the platform rather than the ERP for certain functionalities.

Service providers of course also provide alternate operating and pricing models (transaction pricing, for example) when they offer Platform Solutions.

Some organizations understand the implications, and benefits of autonomation (see main story). Our experiences indicate that remarkable improvements can be made to operations using these approaches.

There are two broad categories of autonomation tools. One type seeks to create bridges amongst the 'islands of automations', i.e. through integration of disparate applications. This integration is done, typically, through the user-interface rather than through the back-end to reduce the IT development complexity and costs involved.

The second type focuses on reducing the manual effort and time involved in processing various applications (the yellow space in the graphic above). Both result in tremendous improvement in productivity, turn-around-times and output quality.

ABOUT THE AUTHOR

Raja V leads the transformation and operations excellence activities in Infosys BPO. He has more than 17 years of experience in driving Lean and other business transformation activities in many organizations across varied industries.
HR experts around the world agree that the nature of workforce will alter drastically in the next few years across industry sectors. The initial wave of HR Outsourcing was primarily driven by cost savings and focused on getting hygiene issues like payroll and compliance right. But the next wave of HR Outsourcing will be determined by considerations beyond these hygiene factors.

In a world, where computing will be pervasive, employees will expect superior HR services to be delivered through newer channels. This calls for better enablement of technology in HR. Technology capability of HRO vendors will be all the more important in the emerging scenarios. This paper examines the emerging reality; its implications on HR and urges organizations to rethink their partnering choices for outsourcing.
Welcome to the virtual workplace!

The explosion of collaboration and communication tools on the mobile/internet space has changed the way people share and interact with family and friends. Why should we expect them to be any different at the workplace!

Today, employees are far more connected in the virtual world than ever before. Increased connectivity means increased freedom to choose the kind of work. Also the kind and scope of services that an individual can deliver is far more. Today, armed with a smartphone (and they are getting smarter everyday) and access to a plethora of newer technologies and platforms like social networking sites, professional networking sites, new payment mechanisms, new technology verification capabilities, individuals can become virtual organizations.

They come to know about suitable opportunities and connect and compare with peers through social networking sites. News and Information about best practices and breakthroughs travel faster than formal channels. People read more on their mobiles and computers than on paper. They transact easily over the web including paying for all their services. These are not just the young, and these are not people just in developed economies. There is increased acceptance among the young and old alike in emerging economies of using newer communication media.

And this revolution may not be restricted to a few knowledge workers. Technology is fast changing the way work gets done in factories and the field. For skeptics, here is an extreme example; uneducated farmers in India are already using their mobile phone to switch on/off irrigation pumps (located Miles away), to optimize the flow of water! So, it can only be imagined how innovations in this space will significantly alter work at factories and offices.

HR will need to deliver to these digitally enabled, globally dispersed workforces and this is no longer a choice. It is an imperative.

Let’s have a look at few numbers to illustrate what we mean. It is estimated that more than 60% of world population today has mobile phones¹ and 26.6% has access to computers and internet². Further, larger bulk of this population is the youth which will also constitute the larger proportion of the future workforce. With the advanced 4G technologies and advent of newer unified communication media (a music player that can also access the internet, a social networking site that can be updated using voice, a phone that is also a GPS and a camera and a scanner), it is only a matter of 4-5 years when a majority of employee population of all organizations worldwide would be this new breed that needs to be attracted, trained, managed and developed in different ways.

It is for HR to leverage these e-Enabled employees to open new ways for organizations by tapping into every individual’s knowledge and skills for its business through appropriate tools.

The New Age HR - It’s all about Delivering Value

Employees are evolving on one hand and on the other hand business expectations from HR are changing as well. CEOs of the world are forced to optimize existing operations and explore new avenues of growth in difficult times. The mix of talent that is required to deliver on these expectations is geographically dispersed. Though virtual teams may be imperfect and inconvenient solutions, they are necessary.

In the new era, HR’s value will be measured on new parameters. HR will have enable people and teams to work together from different places; create an environment that helps people to acquire knowledge with the least effort and just in time; enable managers and workers to measure and reward performances without the luxury of seeing each other regularly; create channels of communication and arbitration in a matrix structure. The expectations and challenges can be overwhelming.

Acquiring ‘right’ talent at the ‘right’ time from different parts of the world calls for seamless co-ordination and an almost Just In Time sourcing capability built on strong technology.

Administering and developing virtual teams would call for new talent practices that are virtual as well. People require faster training at short notices to resolve their day-to-day expectations. They require a larger informal (though moderated) learning environment to succeed. As teams become more dispersed and reporting structure becomes

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more matrix, it will be imperative to measure performance at shorter cycles than is prevalent today. Timesheets and timeclocks may become outdated in several industries and employees will record time at work through corporate networks or phones.

Data driven decisions in every other part of the organizations will drive metric driven HR organizations to measure and improve the ‘business value’ across towers.

All these would have to be delivered on increasingly slender budgets, and we are talking about serving a workforce that is more connected, informed and mobile, literally.

So how can HR become future ready? There are many aspects that could be discussed, but we will restrict it to the role of technology in this paper.

Technology - An Enabler and Value Multiplier for HR

There is an increasing awareness that technology would pave the way forward for HR to connect, manage and deliver services to a global workforce. And there is widespread agreement that the cost of owning, integrating and upgrading technology is not an easy problem to solve.

The kind of technology that we are talking about is not only the ERP suites or complex back-end applications, but technology that is transparent and user-friendly. Technology that looks simple to the user and reach employees through newer channels.

This calls for a different model of owning and managing technology infrastructure. New models like SaaS offer the freedom for HR to focus on solving some of their core issues, without worrying about technology.

The traditional model of having a separate technology partner and an outsourcing partner for HRO may not make a lot of sense in the future.

HR today needs an outsourcing partner who can think technology, user experience and business process transformation together.

So while selecting a partner for your HR outsourcing journey, it is necessary to think new and think long term. You will need them much more to enable the future than just handle pay slips or churn compliance reports. Factors that were ‘nice to have’ until now but will soon become essential.

A few critical questions to ask before you begin an association would now include:

- Does the partner comprehend the extent of technology play in the future state of HR?
- What is the ability and willingness of the partner to invest in R&D and innovation?
- Does the partner have frameworks and enabling environment to support technology led differentiation?

What Infosys is doing to enable the future HR?

Here are few examples of what is in the works for enabling the future of HR Outsourcing at Infosys:

- **Hire-to-Retire Platform:** A comprehensive solution that provides HR an integrated technology and processing solution for managing the HR functions out of a box. This ensures that organizations can migrate and deliver HR services with optimal total cost of ownership.

- **Smart HR Portals:** Enabling Employee and Manager Transactions through web and mobile portals.

- **HR Reporting and Analytics:** The HR analytics framework is designed to provide crucial business intelligence to organizations that can support critical talent management and organization design issues for global organizations.

- **Learning on the go:** A Just-in-time knowledge solution that delivers expert advice through hand-held devices served out of the platform to solve critical knowledge needs of the organizations and cuts millions on training spend.

- **Competency Frameworks:** A simplified model that can be easily implemented and helps the organization to migrate to best of breed HR practices. The framework also helps to bring down costs by enabling a cross-functional shared service centers across talent acquisition, administration and development cycles.

- **Smart ID cards:** Critical HR transactions including timesheets and cash advancement and settlements managed through biometrics and embedded technology.
Conclusion

Delivering plain services and cutting cost will soon be passé. The Next Wave of HR Outsourcing will require HR of progressive organizations to partner with outsourcing vendors who are willing to invest in enhancing employee experience through new age technology innovations. Solutions developed should be future focused to take the HR organizations a step closer to the mobile and technology savvy employees.

ABOUT THE AUTHORS

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Surabhi Mishra is a Principal Consultant in the HRO practice at Infosys BPO. She has over 8 years of in-depth experience in helping organizations transition HR operations and consulting on transformational HR. Surabhi is an MBA and a certified GPHR by SHRM.
Executives who fund major technology investments rightly expect ROI promises to come true. Unfortunately, most projects fail to deliver on this assurance. A major, overlooked cause of these value shortfalls is management’s lack of awareness of where and why value disappears, and how to stop it. By focusing, for example, on using a trustworthy business case to drive requirements, design, accountability and value tracking decisions, management can make major strides in realizing ROI promises. By intently managing the entire program to be “on-value”, as well as “on-time” and “on-budget”, the risk of ROI shortfalls can be significantly mitigated.
Why Value Gets the Short Straw

What a difference a few decades can make. During the "old days" of the 1980s and 1990s, IT-enabled solutions played at best a "support" role in driving business success. Not so today. Now executives agree that the business "can't succeed without good IT solutions". And they expect these solutions to be delivered.

Thus, it is ironic and disturbing that the business value expected by senior executives from major IT-enabled solutions is realized all too infrequently. From our multi-year review of the causes of program success and failure, we've concluded that a root cause of value shortfalls is senior leaders' lack of awareness of:

- Seriousness of the value leakages,
- Where value leaks occur, and why,
- Management's role in stemming these leaks.

Many myths contribute to this lack of awareness of the significant implications of value leaks. Here are a few, along with their corresponding realities.

**Myth #1**
A business case is a waste of time when the project's need is "obvious".

Often solutions must be developed for regulatory or competitive reasons, or because decision-makers agree on its importance. For these business imperatives, why waste time and money creating a business case for such an obvious need?

**Reality #1**
Providing convincing support for a funding decision is only one of several important roles for a business case. Even if the need to go forward with a project and therefore its funding is obvious, a business case exercise is recommended to estimate 'how much value can be created', as well as to understand 'where and how that value can be realized'. Foregoing the creation of a business case can be a significant value destroyer. Regardless of the solution’s agreed-upon importance, value potential can disappear in hundreds of ways during solution development and implementation. For example: (a) less than top talent is assigned to implementation because executives don't understand the importance to them of solution success, (b) solution users who must endure their world being turned upside down, become less committed because they have no vision of what’s in it for them, and (c) due to lack of accountability for value realization, that organization focuses elsewhere.

**Myth #2**
Decisions on solution requirements are best made by conferring with the most knowledgeable business and technical people.

**Reality #2**
In our experience, the subject matter experts (SME) -- from business and technology - often have a lot of good input to provide for solution requirements gathering. However, they typically collectively provide more requirements than can be addressed with the budgeted time and funding for the program. Not all requirements are created equal and prioritization is critical to ensure that the most important requirements are included first in the solution that gets implemented. Value impact is too often the missing, most vital decision criteria for prioritization of solution requirements. By insisting that the impact on business case value expectations by a central part of the conversation, political and technology bias can be bypassed.

**Myth #3**
Solution design by talented technicians automatically generates optimal business value.

Highly skilled designers, armed with the necessary motivation, tools and management oversight, are key prerequisites for design success.

**Reality #3**
The meaning of "design success" can be unclear. Does it mean that the solution operates smoothly? That design caused system errors are infrequent? Design success should be measured by the solution's ability to deliver the business value upon which the investment was justified. Given that the most skilled technicians have hundreds of choices for selecting their final designs, what guides their final choice? Too often talented technical experts focus on designing-to-experience, because they are given no design-to-value targets.
Myth #4
Formalized value tracking during and after implementation is an unnecessary overhead expense. Getting too formal about value management complicates the project and could prolong its completion.

Reality #4
Solution implementations require large amounts of change, to processes, procedures, roles, interactions and behaviors - all typically under a tight time constraint. As the solution is implemented, its complexity and chaos too often leads to focus on “just getting the job done”, rather than doing the job to reach a value target. In addition, surprises always occur, and adjustments must be made quickly. Early warning of possible value target shortfalls provide lead time to take correction action. Such warnings can only occur when a value tracking (and correction) process is in place.

Myth #5
Project value returns are maximized if projects are strictly managed to time and budget. Being “on-time” and “on-budget” are crucial management disciplines that have stood the test of time. No project can afford to be without them.

Reality #5
While essential, being “on-time” and “on-budget” are no longer sufficient for achieving value success. They are a means to an end - which is being “on-value”. To assure “on-value” occurs, committed managers instill a discipline of value-enhancing best practices, measurements and monitoring mechanisms, along with establishing a culture of “value first”.

A Framework for Managing to “On-Value”
The enterprise cost-benefit of a value assurance discipline is impressive. On average, for less than five percent of the cost of a project, value assurance methods can be installed. Due to economies of scale, that percentage is lower for larger projects. For less than one percent of the annual IT capital budget, an enterprise-wide set of value assurance practices, standards and methods can be applied. Given that surveys indicate that 50% of all IT projects fail to deliver their full value, the return on this investment in management practices and tools can be high.
Management frameworks, when carefully designed and installed, have made important contributions to business success over the decades. Charts of accounts and the related structures of financial P&L, Balance Sheet and Cash Flow statements come immediately to mind. Strategic planning and budgeting frameworks help focus scarce resources on optimal targets.

To provide a straightforward framework for maximizing value from IT-enabled investments, Infosys has been developing, over the past several years, the Value Realization Method (VRM™). This approach, now in use at clients worldwide, guides management in not only uncovering the full value potential in IT investment proposals, but also taking steps to assure such potential becomes real.

VRM incorporates management best practices related to value achievement. VRM’s key tenet is that managing value achievement is an end-to-end activity requiring pro-active management involvement every step of the way. Value activities parallel the implementation life cycle of a program. As defined in IMPACT, Infosys’ program management approach, VRM components are divided into Find Value, Design Value and Capture Value categories (See Table 1).

### Value Realization in Action

#### Gaining Funding From Reluctant Stakeholders

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<th>CLIENT CONTEXT</th>
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| The client is a leading financial services firm offering mutual funds, retirement and related offerings.  
| Executives desired higher profit margins, along with aggressive revenue growth over the next five years.  
| The envisioned order management program was experiencing a lack of commitment and consensus among stakeholders due to ambiguity of both the solution capabilities and the Business Case related to them.  
| The client requested Infosys to identify the most relevant order management capabilities, create projects around those capabilities, define the optimal implementation sequence for a three year rollout, and develop a more detailed and credible Business Case to justify this entire approach to key, but skeptical stakeholders. |

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<th>ROLE OF VRM</th>
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| The Infosys team re-validated the existing Business Case, solidified existing value areas, uncovered additional benefits, both tangible and intangible, and thus developed a more credible VRM Business Case. The Value Diagram was also created to help communicate enterprise value to diverse stakeholders.  
| The team also used the VRM Decision Framework to create a value-driven project prioritization framework to identify the optimal implementation sequences.  
| The central focus of the VRM Business Case was to define value stories showing how the projects supported key strategic initiatives important to decision makers.  
| VRM Value Profiles were used to clearly and succinctly articulate value drivers, rationale, and evidence. |

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<th>EXPECTED RESULTS</th>
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| The client used the Business Case and related deliverables to battle for $9 million in 2009 funding from the executive steering committee despite significant industry-wide economic challenges that were creating pressure to cut proposed funding.  
| The Business Case helped obtain buy-in from executives influential in gaining final funding approval. |

#### A “Flash Audit” for Assessing Value Shortfall Risks

Here is a technique for quickly gaining insight into where your organization is on the value mindset spectrum. While not scientifically rigorous, this Flash Audit shown in Table 2 is an illustrative example of how such an audit can provide a general indication of your firm’s value focus versus Infosys’ experience with other clients.

**Instructions:** Give the audit to stakeholders whose support is key to a program’s value success. Ask them to answer each question by indicating with an “I” (Importance of the issue) and an “A” (Agreement with the statement) on the scale of 1 to 4. When audits are returned, add up the scores from each answer. Maximum possible score per audit is 80 points. Infosys experience ranks best practices as those that score in the 3 to 4 range. A total average score of all responders of 70 or more is considered “Very Good”. Total average scores of “60 to 70” are “Encouraging”. Scores less than 60 are rated as “Benefiting from improvement”. 

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In Conclusion: It’s ultimately about managing to “on-value”

Value achievement for major IT-enabled investments is too important to be left to chance, or a casual management focus. Business value can be maximized when management commits to creating a culture that fully understands and commits to bringing the project to completion not only "on-time, "on-budget", but - most importantly - "on-value". That can be accomplished by adopting proven management best practices that keep laser focus on value achievement from the day the project is proposed until the day the solution is retired.

ABOUT THE AUTHORS

Jack Keen is Value Analytics Leader for Infosys Consulting. He has provided value realization guidance to executives of major firms, worldwide, for the past 20 years. He is a charter member of Infosys’ global thought leadership team for VRM. His authorship of a top selling book on value best practices (“Making Technology Investments Profitable: ROI Roadmap to Better Business Cases” (John Wiley & Sons)), is soon to be released in a second edition.

Sharad Elhence is a Partner at Infosys Consulting and leads the firm’s global consulting practice focused on supply chain management. He’s also the global leader for Infosys’ Value Realization Method™ (VRM) and co-architect of Infosys’ Business Value Articulation (BVA) capabilities. Sharad has 22 years consulting and leadership experience in supply chain and operations improvement. Most recently, he was Chief Operating Officer for an early stage provider of enterprise performance and knowledge management solutions. Earlier, he was Vice President at i2 Technologies, the leading provider of software solutions for supply chain management. Before i2, Sharad was a management consultant at McKinsey & Company in their Dallas and Zurich offices.
One of the most significant developments in BPO is the growth in platform-based offerings. These offerings promise the transformation, innovation and one-to-many cost savings that are often sought, but are all too infrequently realized, when companies pursue outsourcing strategies. It is important for companies considering outsourcing to understand the potential of platform-based offerings, and also the challenges that they present, particularly from a change management perspective.
Overview

Platform-based BPO is a form of BPO where the service provider includes the underlying technology as an integral part of the service. A well-known example that has existed for years is ADP’s standard payroll offering. Recently, Infosys and other major outsourcing service providers have begun to offer a variety of platform-based BPO offerings. In Infosys’s case, examples of these offerings include its “Infosys Business Platform for HRO,” “Source to Pay Platform” and “Newspaper in a Box.”

From a technical perspective, platform-based BPO can reflect technology infrastructure based on a leading industry enterprise software product such as SAP or Oracle, sometimes with a customized configuration, and with a variety of “bolt-on” adaptations designed by the outsourcing service provider. Bolt-on adaptations can be almost anything, but commonly include imaging and workflow, case management and data analytics tools. Platform-based BPO can also utilize entirely independent proprietary software developed or purchased by the outsourcing provider.

The technology supporting a platform-based-BPO solution is sold in a Software-as-a-Service (SaaS) model that is bundled with the cost of services. The service provider generally hosts the software through a secure private network. Cloud-based versions, accessible over the Internet, are also beginning to emerge, but according to Kevin Smilie, who leads TPI’s cloud computing initiatives, “The market for business-process-as-a-service in a cloud environment will be constrained to point solutions until the IT market has matured enough to integrate them across processes and technologies. The first major tipping point is likely to be the emergence of an ERP cloud solution that can actually take the place of the primary packaged software offerings entrenched in the market today.”

Benefits to Platform-based BPO

The potential benefits of Platform-based BPO are fourfold. Both the client and service provider can improve efficiency, reduce cost and raise service levels in platform-based BPO environments.

- First, by optimizing its BPO process to a standardized technology offering, the service provider can in theory provide both greater process efficiency and improved resource utilization across multiple clients. As a result, the provider can support a higher transaction volume with fewer resources.
- Second, because the underlying technology is provided with the service, no capital investment is required by the customer. Furthermore, the deployment of the same technology across multiple customers, supported by a leveraged technology team often located in a lower-cost market, should combine to reduce the service provider’s total cost of ownership. Some of these savings can be passed on to the customer.
- Third, a continuous feedback loop between the service delivery team and the technology team across multiple client engagements enables ongoing enhancements to the underlying technology. This can include new functionality and related applications geared toward enablement of continued positive business impact beyond cost savings.
- Lastly, because the services are optimized to the platform from the beginning, the amount of time to achieve savings should be reduced.

In addition to these benefits, a platform-based BPO model can reduce governance complexity by essentially establishing the service provider as the single point of accountability for the entire solution. This means that the provider is better able to provide true end-to-end service levels, and from the customer perspective, governance can focus on business outcomes. This should also mean cleaner and more comprehensive data and insights from the service, which is in line with the goal of a developing a “smart enterprise.” A platform-based model also provides a clearer dividing line between the service provider and the customer, which is advantageous for client companies that embrace a core competency strategy.

In summary, platform-based BPO carries the promise of business transformation beyond labor arbitrage and incremental Six Sigma improvements.

Platform BPO Provider Characteristics

Platform-based BPO providers tend to fall into several categories:

- Companies like Infosys that offer strong IT & BPO services, who are leveraging their low-cost IT
capabilities to differentiate their BPO services.

- Niche companies with a strong concentration on a single function, such as some pure-play payroll, benefits administration or procurement providers.
- Pure-play BPOs who are developing or commissioning targeted technology solutions based on their deep insights into certain processes.
- Multinationals who have acquired software vendors and are incorporating them into their delivery strategy.

Market Development

The market for platform-based BPO so far has been strongest around point solutions rather than core applications. A primary reason is that larger enterprises tend to already have an investment in a core platform such as SAP or Oracle, and are reluctant to jettison their investment. Differences in organizational and IT structures also favor platform-based BPO adoption at smaller companies. Platform-based sourcing requires the commitment of multiple senior executives, for example, in the case of F&A the CIO and the CFO would have to approve the engagement, in HR the CIO and the CHRO, and so on. For these reasons, the initial market appears to be strongest among mid-market companies who may be underinvested in technology, are not as committed to their legacy systems as large firms with extensive ERP investments, and will perceive platform-based BPO as an avenue to acquire both technology capability and cost savings.

Notwithstanding these challenges to platform-based BPO adoption, TPI has observed a general trend to an increased number of BPO contracts which include bundled technology, as Figure 1 documents. For example, in the Procurement outsourcing marketplace, TPI observed clear increases in the percentage of such deals in 2009, particularly involving eRFX, Contract Management and Supplier Performance Management applications. The pattern was reversed for the more transactional software components of eProcurement and Catalog Management, which often involve core ERP engines.

Not surprisingly however, more transformational deals tend to incorporate a higher technology component. For example in Figure 2, which is similar to the first graphic but compares Full Source to Pay outsourcing with the broader Procurement outsourcing market, there is a clear increase in engagements in which the technology is provided by the service provider, even in the core transactional areas.

![Figure 1: Procurement Software Profile - Historical Comparison](source: TPI Prevalence Database™)
In the short term, we may continue to see sluggish adoption of platform-based BPO by larger enterprises. Initial large adoptions are likely to fall into several categories:

- Companies where current technology has been in place for some time and licenses are due for a refresh.
- Companies undergoing M&A activity requiring systems rationalization.
- Companies who are underinvested in core technology and are seeking an initial strategy to upgrade their systems.

2010 appears to be a transitional year for platform-based BPO and early adopters are likely to see service providers offer attractive value propositions in order to build market share.

Change Management Considerations

Platform-based BPO is distinct from traditional BPO in that the provider will not generally adopt the customer’s "as-is" processes, but rather is offering a pre-defined "to-be" environment with little room for customization. This pre-defined environment offers many benefits, but it will be difficult for many customers to manage expectations from multiple constituencies within their organization who will quickly point out that the to-be environment is "not the way that we do things." Platform-based BPO represents transformational change and will need to be managed accordingly.

Before launching transformational change initiatives like platform-based BPO, companies should assess and possibly upgrade their level of change readiness. A high degree of readiness can enable a company to leapfrog its peers by taking advantage of the opportunities presented by platform BPO to deploy improved capabilities. However, an unrealistic overconfidence in change management preparedness can result in catastrophic setbacks to company capabilities.

Transformational change comes through operational innovation, which business strategy guru Michael Hammer describes as "the invention and deployment of new ways of doing work," as opposed to operational excellence and operational improvement, which describe refinements to existing operational processes. The ramifications are that unlike the change management associated with more traditional forms of outsourcing, which comprise communication, organizational strategy, employee engagement and risk management, in a platform-based BPO
project, change management goes down to a very detailed level, as the new business model needs to be integrated into retained business processes.

When planning a platform-based sourcing initiative, customers should plan for at least a fifty percent higher level of internal transition resources, and up to a two times increase in the frequency of governance meetings through the transition process. This belt-and-suspenders approach should be built into the business case and will more than pay for itself in a successful completion of transition, and faster realization of the benefits of platform-based BPO.

ABOUT THE AUTHOR

Bill Huber is Director of CPO Services for TPI, the largest sourcing data and advisory firm in the world. Bill joined TPI following a successful career as a sourcing leader spanning four Global 500 companies with responsibility for all areas of outsourcing and procured services. Since joining TPI, Bill has led strategy and implementation initiatives in the automotive, building products, financial services and life sciences industries, resulting in both internal and outsourced solutions. He is a nationally recognized thought leader in Sourcing and Commitment Management and was recently two-term Chairman of the Board of the International Association for Contract and Commercial Management (IACCM). He currently is a member of the Advisory Council of Sourcing Interests Group, a prestigious organization that brings together the most influential players in the sourcing industry. Bill recently chaired an international academic conference on the subject of commitment management and has written and presented frequently on change management and sourcing strategy. Contact him at bill.huber@tpi.net.
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