Value based outsourcing

--Strategy for building sustainable competitive advantage
Key trends in the emerging outsourcing landscape…

- First generation of outsourcing by ‘early adopters’ is over
  - Next generation of clients demanding greater sophistication from providers

- Clients are increasingly asking the question…what is beyond cost arbitrage?
  - This question used to earlier appear only in the sales cycle but now comes up during day to day delivery

- Plain vanilla BPO services such as F&A and Order to cash are no longer pure horizontals
  - These are tightly integrated with the industry supply chain and industry specificity
  - Providing value to clients today requires a deep understanding of the business landscape and underlying drivers

- Intensely competitive landscape with multiple types of providers
  - Captives, third party, large IT players in BPO, traditional Big 4 consulting companies
  - Differing perceptions on the cost economics – inhouse capability trade off

- There is a war for talent; People are the most critical asset
  - Engagement of talent is critical to the success of any provider in the war for talent

- Traditional business models of outsourcing providers are under threat from varied sources
  - Technology product companies that offer immense savings from efficiencies
  - Bundled service offerings and innovative pricing models
need introspection by providers on some fundamental questions

• How do you constantly do things cheaper, better, faster and sometimes differently?
• How do you manage the complexities of multiple industries and value chains within one outsourcing industry?
• How do you build competencies to force clients to continually push the bar on definition of ‘core’ and ‘non-core’ activities?
• How do you constantly transform traditional operating models?
• How do you win the war for talent?
• How do you manage increasingly blurring capability boundaries in the process management space?
Faced with these questions, the key to creating sustainable competitive advantage is to focus on value based outsourcing.

**Tenets of value based outsourcing**

- **Breaking the value curve**
  How do you constantly do things cheaper, faster, better?

- **Innovating business model**
  How do you manage increasingly blurring capability boundaries in the process mgmt space?

- **Create ‘talent melting pots’**
  How do you win the war for talent and create an environment for disparate skill sets to co-exist?

- **Move from ‘operating’ to ‘transforming’**
  How do you constantly transform traditional operating models?

- **Migrate from ‘process’ to ‘product’**
  How do you manage the complexities of multiple industries & value chains?

- **Challenge the definition of ‘core’ activities**
  How do you build competencies to force clients to continually change definition of core?
Tenet 1: Breaking the value curve

**Constantly forcing the organization to do things cheaper, better and faster**

**Do it cheaper**
- Mesmeric focus on operating costs
- Aligning skill sets to ‘process complexity’ levels
- Leveraging the global skill supply chain (Constantly move work between your global delivery centers)

**Do it faster**
- Knowledge management
- Technology augmentation
- Internal competency pools through training

**Do it better**
- Role reengineering
- Shop floor automation
- Process & org restructuring
- Six sigma
Tenet 2: Migrate from ‘process’ to ‘product’

Building deep industry and functional knowledge to productize BPO offerings

- Focus on business solutions as opposed to service offerings
  - This is cliché but still an industry problem!
- Build industry focused and function focused centers of excellence
  - Investments in sourcing people with relevant experience
  - Domain specific training material and training programs
- Move from selling credentials & experience to selling best practices and benchmarks
- Move from process metrics and service levels to business SLAs
  - From productivity & turnaround time to cost per transaction or % of savings generated
- Build and demonstrate understanding of client risk perceptions
Tenet 3: Constantly challenge the definition of ‘core’ activities

*Challenge yourself first and then build competencies to challenge clients*

- Simply put, what was ‘core’ 3 years ago is today ‘non-core’ and outsourceable;
  Providers 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

- Two pronged approach to building competencies and pushing this bar
  - Incremental: Based on existing capabilities, move up the value chain in each functional area (E.g. Analytics, Management reporting, product profitability analysis, sales forecasting etc)
  - Out of the box: Based on market potential, build ‘green-field’ competency centers that can be leveraged to push the bar (E.g. Credit research, Risk modeling, Legal services etc)
Tenet 4: Move from operating to transforming

*Transform operating models by influencing underlying levers of process management*

- Automate internal activity & information flows amongst process participants
- Optimize document & information flows with external interfaces
- Process tools & techniques (Create point technology solutions that optimize process efficacy)
- Enhance process stability & capability through standardization and consolidation
- Alignment of org structure & process to business stakeholders
- Enhance customer satisfaction and business assurance through improved controls in the process

The ‘What’ of Transformation
Tenet 5: Create ‘talent melting’ pots
Win the war for talent through enriched employee sourcing, development & engagement

**Sourcing people**
- Aligning skill sets to process complexity
- Influence the quality of the resource base
- Focus on enhancing supply as opposed to competing within existing supply

**Developing people**
- Scalability to come from an optimal mix of ‘learners’ and ‘experts’
- Training to continually move people from the ‘learner’ category to the ‘expert’ category

**Engaging people**
- Nurture professional aspirations within the boundaries of an outsourcing environment (E.g. supply chain professional certifications, CA certification etc)
- Provide an environment where different skill sets, profiles and employee needs co-exist; Leverage the advantage of a diverse professional community namely bankers, lawyers, finance professionals, supply chain & logistics professionals
Tenet 6: Innovation in all aspects of the business model

Watch blurring capability boundaries and convert threats into opportunities

• Innovation in capability management
  – Process management is the space that we are in; Acknowledge this and understand the true nature of competition
  
  – There are multiple providers of process management solutions in addition to BPO providers namely:
    • Industry specific TPAs
    • Niche technology product companies
    • Large IT companies focused on custom built application development
    • People centric solution providers namely temp staffing firms etc
  
  – Consolidation of these diverse capabilities is already being driven by client demands for end to end solutions
  
  – Alliance building and smart acquisitions will hold the key to success

• Innovation in other aspects
  
  – Pricing models
  
  – People sourcing
  
  – Leverage of statistical and operations research techniques in planning and optimization
  
  – Leverage of technology in transition
Thank You

www.progeon.com