

EXECUTIVE SUMMARY



A PROACTIVE APPROACH TO
**PROCESS OUTSOURCING EFFICIENCY
AND BUSINESS AGILITY**

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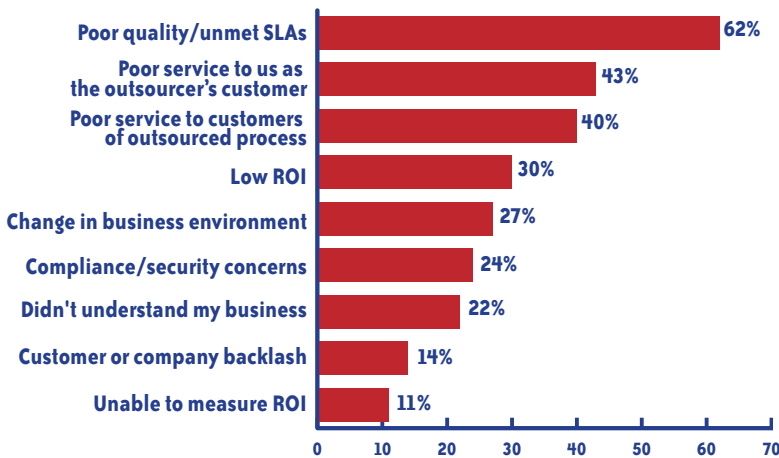
BLENDING BPO WITH BPM DELIVERS ON THE PROMISE OF OUTSOURCING



The expectations and actual experience of user organizations with business process management (BPM) are that it enables greater efficiency, quality and improved IT service levels. As described in this white paper, a recent survey by IDG Research Services of *CIO Magazine* subscribers bears out this reality, and a lot more. Meanwhile, users say broadly that the main reason for engaging in business process outsourcing (BPO) is to cut costs. Sixty-four percent of the survey respondents listed cost savings as the primary motivation for outsourcing, which was 50 percent more than respondents who cited the second closest reason. But when asked why outsourced relationships have failed, the answer most often given was “poor service and quality”, not a failure to cut costs. Decision makers frequently turn to outsourcing providers to farm out processes they feel they are not good at executing internally. In doing so, these users jack up the risk that the engagement will fail due to “poor service and quality”. This happens because, failing to become proficient internally, the user never fully understands the service levels and quality standards against which the outsourcer should be fairly measured. BPM and BPO – which are often considered independently of one another – provide a superb means of achieving maximum efficiency and cost savings as well as quality of service from outsourcing engagements. Plus, combining the two can facilitate moves to bring outsourced processes back in-house. Such a move is often desired if business conditions shift and management decides to bring that process back in-house for greater control of the process. But the key to making all this plausible is an astute combination of BPM and BPO, which, as it turns out, are quite compatible.



WHICH FACTORS LED YOUR COMPANY TO MOVE AN OUTSOURCED PROCESS BACK IN-HOUSE?



It is a story as old as business process outsourcing itself. Company A, dissatisfied with its ability to execute well internally on a business process and achieve the efficiency and savings it wants, turns to an outsourcer. The company offloads the process to the partner and believes it will reap an almost immediate savings. But user satisfaction plummets. Complaints about poor service and poor quality cascade, the “savings” notwithstanding. Communication between the company and the outsourcer deteriorates. Within months, Company A pulls the plug on the deal, much to the dissatisfaction of everyone.

What went wrong? The short answer is everything. To cut to the very heart of the problem, Company A was in a reactive position all along, reacting first to its own internal shortcomings and staying in reactive mode right down to the messy demise of the whole affair.

Situations like these, which are quite common across all types of businesses and organizations in search of optimal process efficiency, are largely avoidable. Success is a matter of harnessing not just business process outsourcing (BPO), but BPO in concert with business process management (BPM). Therein lies the key to optimizing a variety of business processes based on proactive decision making.

SURVEY SAYS: IMPROVEMENTS ARE NEEDED

The top-line findings of a recent survey of senior IT managers at enterprise-class companies by IDG Research Services reveal both the challenges of business process outsourcing as experienced by these companies, as well as the significant potential benefit the managers believe are possible. These findings include:

- An overwhelming number of respondents – 82 percent – said their companies are currently outsourcing a business process or will in the next two years.
- Companies are willing to outsource both non-core and core or mission-critical business processes, but are divided in terms of their overall comfort level in outsourcing core processes. Only a third of the respondents felt they could outsource a core process and still maintain the control they need to guarantee quality.
- Cost savings by far is the top driver in the decision to outsource business processes.
- More than four in 10 managers surveyed said their companies had previously moved an outsourced process back in-house, with most mentioning “poor quality and unmet service level agreements (SLAs)” as the reason for doing so – not a lack of savings.
- Managers who are currently outsourcing business processes are, at best, only moderately satisfied with their providers and with the level of communication with them.
- SLAs are the measurement tool of choice for more than eight in 10 of the managers surveyed for gauging the success of an outsourcing arrangement.

This survey makes it readily apparent that there exists a significant gap between the promise and the reality of business process outsourcing. It is no small wonder that managers remain reticent about outsourcing core business processes when the results often fail to deliver. They outsource to gain cost savings and greater efficiency in business processes, but terminate such arrangements due to poor quality and service delivery.

Despite the challenges and less-than-sterling outcomes of business process outsourcing, the market for it continues to soar. Forrester Research expects it to swell more than seven-fold

A CHECKLIST FOR BPO EXCELLENCE

The first prudent steps in engaging in business process outsourcing are to determine the business processes that will benefit the most from BPO (and thus maximize the organization’s overall benefit), and then select the right outsourcing partner. Then come the crucial steps of developing the right metrics for measuring the success of the engagement while constantly “tweaking the dials” to improve upon an ongoing BPO relationship.

In simplest terms, companies that fail in their BPO efforts generally do so because they just haven’t done the grunt work and due diligence required to ensure success. Thus, it is wise to consider the elements of a best-practices approach to BPO. Here is a checklist.

- ✓ **Model all processes** as they currently exist. One good way to do this is to harness the power of a free business process modeling tool from Savvion called the Process Modeler. In clear terms, the Process Modeler permits anyone in the organization, from help desk team leaders to operations managers, to sketch out all their current “as-is” and desired “to be” work processes. Visual tools then help them see inherent inefficiencies begging for improvement. Staff can also collaborate and share ideas to improve these processes by accessing a central repository.
- ✓ **Put the spotlight on high-value business processes** to help determine which to focus on first. Scrutinize processes that have the most organizational impact as well as those that slice across multiple functional domains. The former holds the

CONTINUED ON PAGE 5

between 2004 and 2008, when it will reach an astonishing \$146 billion globally. It is vital to get it right, or a lot of this money will be spent on dissatisfaction.

THERE IS A BETTER WAY



Marrying BPM with BPO appears to be a solid strategy for driving up satisfaction levels and for increasing the overall comfort level with outsourcing core as well as non-core business processes. BPM represents a systematic approach to enabling measurable improvements to business processes by making them more efficient and more capable of adapting to unforeseen changes in the business environment. A business process itself is nothing more than a defined set of related, if not coordinated, tasks undertaken to accomplish a specific goal. Operating a call center, approving non-standard sales deals or processing an order, consists of multiple related tasks with goals, including problem resolution, up-selling and increasing customer satisfaction.

Applied properly, BPM solutions can give a company the ability to control and manage the life cycle of core or non-core business processes, employing automation and making them repeatable while harnessing employee collaboration to help drive greater insight into these processes.

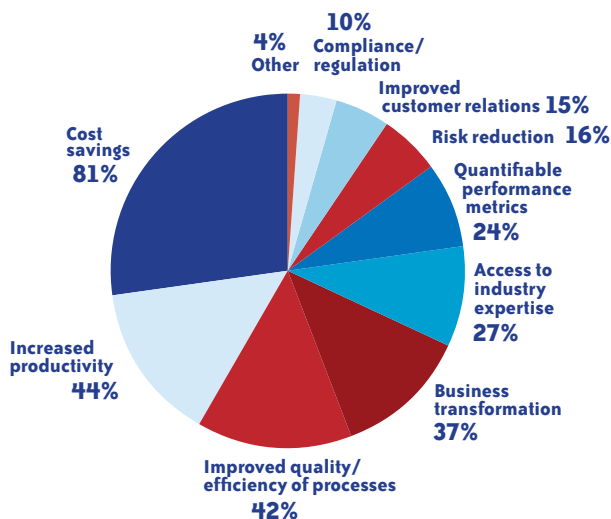
In driving toward optimal process efficiency internally, company managers gain clear vision into the metrics and measurements needed to gauge the success of process optimization efforts. It is for this reason that when these same managers choose to outsource these business processes to a trusted partner, they don't lose control of the vision, strategy and other key components of the process. What they gain are much better ways of telling the partner just what is expected, and then measuring the outcomes more accurately. They are then in the best position to leverage the vested core competencies of the partner to drive even greater process efficiency and build real bottom-line savings.

BPM MEANS BUSINESS

Consider the case of a billion-dollar financial services company that targeted its credit-checking process for business improvement. This was a process the company would undertake 25,000 times each day, redundantly across several different products, but with disparate means of determining credit ratings.

THE ANTICIPATED BENEFITS OF BPO

More than eight out of 10 survey respondents said cost savings most often drive the decision to outsource.



A knee-jerk, reactive step would have been to take this operation and simply outsource it. Instead, the company deployed a BPM solution that resulted in a uniform credit-checking application across all products – and in immediate savings. In fact, with BPM, the company was able to handle 25 percent more credit-checking requests with the same number of people.

Having optimized efficiency internally with this business process, the company felt it could gain still greater efficiency by outsourcing the process. But it did not do so until it had first wrung out all the internal efficiency it could, and in doing so developed an intimate understanding of the metrics and measurements needed to assess overall efficiency. These same metrics and SLAs were ported to the outsourcing partner. With credit checking as this partner's core competence, the outsourcer delivered still greater efficiency and savings.

The story doesn't end there. So adept had this company now become at processing credit-checking requests that it started an entirely new business line, offering this new-found, highly efficient capability to other banks, insurance companies and mortgage

companies. But it all started not with outsourcing a process the company was not good at, but by applying BPM techniques to gain an internal competence, and only then outsourcing to a qualified partner. And because the company had developed its own competence, vision and control of this process, it stands ready and able to take the entire process back in-house, should market conditions change and make this move desirable.

Gene Rawls, vice president of Continuous Improvement & Service Level at Wells Fargo Information Services and a respondent to the IDG Research survey, agrees that you must maintain the ability to bring an outsourced business process back in-house: “It could be a necessary step if our strategic goals or our vision shift.” For example, what was outsourced as a non-core process can suddenly become a core process in the fast-changing regulatory requirement, dominated by Sarbanes-Oxley.

Rawls disagrees with a lot of the conventional wisdom that only non-core business processes should be outsourced. “We have elements of core processes that are outsourced, and we work with the outsourcing vendors to ensure our vision for those processes remains intact,” he explains. “In other words, the strategy remains ours, and we look for partners both internal and external that are willing and able to execute to achieve our vision and our strategy.”

Thus, the key to BPO success and satisfaction lies in reversing a lot of common thinking. Don’t jump to outsource what you don’t do well. Employ BPM solutions to drive as much efficiency internally as possible, *then* seek out a qualified outsourcing partner. It is the difference between a reactive and proactive approach to managing business processes.

A CHECKLIST FOR BPO EXCELLENCE CONTINUED FROM PAGE 3

most potential benefit to be gained from automation, while the latter impacts the most people. These will generally yield the most rapid ROI.

- ✓ **Wring out continuous improvements from these processes** rather than stopping after the initial successes. These improvements are derived through iteration and through battle-tested tools such as Savvion’s BusinessManager dashboards, reports and other business-essential controls. This part is critical: Invest in these improvements *only* up to the point where the risk of further investments outweighs potential returns. At that point the organization has pretty much mastered the process internally and should consider outsourcing options.
- ✓ **Determine which of the now highly efficient, targeted processes** will gain even greater efficiency from a BPO engagement. Be sure the process has already benefited from a BPM solution, complete with metrics and proper internal controls as well as the confidence that these metrics and controls can be handed off to a BPO partner.
- ✓ **Select the appropriate partner for each process.** John Gercak, IT manager at Eaton Corp. and a respondent to the IDG Research survey, put it this way: “A good outsourcing partner will take the time and effort to understand our business and our direction so their efforts are aligned with our business. They have to be able to understand and agree to the right metrics, measurements and SLAs and then refine them as needed to deliver us complete satisfaction. There is a lot of communication needed to make these arrangements work, so you really need to determine from the start that the communications channels are open and will stay open.”

CALL TO ACTION:

This white paper and the research survey behind it are sponsored by Savvion, the pioneer and leader in business process management (BPM), serving the world’s largest and most respected organizations by helping them better create, manage, and optimize their core processes. Savvion is the only player to help you manage and control the entire process lifecycle, from first internal deployment through eventual business process outsourcing (BPO). To see what Savvion can do to help you improve agility, reduce operational costs, and improve customer value, visit www.savvion.com and download the free Savvion Process Modeler software to get started.