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Risk and Benefits of BPO

In some ways the environment towards the end of 2011 felt almost like a repeat of 2008. However, the credit crunch in 2008 largely took the world by surprise, while this time around the Eurozone sovereign debt crisis has been slowly building and organisations are typically more prepared for an economic slowdown or downturn than they were in 2008.

Organisations still tend to think of BPO overwhelmingly in terms of cost reduction, and as most organisations know, while cost reduction may be a necessary condition for business survival, it is not a sufficient condition for business success.

With this in mind, it's important to bear in mind that BPO is first and foremost about process excellence. The industry arose not with offshore labour arbitrage, as is often suggested, but onshore with use of process improvement techniques such as lean six sigma to address sub-optimal processes. Both these 'value levers' remain critical in delivering process excellence at a much reduced process cost, but the 'value levers' for getting the best out of BPO have matured considerably since 2008, as has BPO vendor capability.

So the burning questions to ask yourself when evaluating your BPO sourcing options have now become:

- Can the provider deliver process excellence?
- Can my organisation afford the time and money to do this?
- Is there certainty of success?

BPO has an increasing role in the current environment in assisting organisations get to new sources of revenue, particularly in new geographies. This role extends beyond customer-facing services to services such as recruitment process outsourcing which assist organisations in recruiting suitable employees in a new, or fast-growing, geography. The current environment also tends to support outsourcing of a narrow range of processes or sub-processes, reducing both initial investment and risk.

The current environment predictably tends to mitigate against outsourcing:

- A wide range of relatively complex processes
- Processes where major technology investment is required
- Processes that have long lead times to break-even

So what are the benefits that organisations should be seeking from BPO in the current business environment? Essentially they should be looking to achieve improvements in key business outcome metrics (for example day sales outstanding, inventory turnover, or revenues per customer) through achieved process excellence from both customer and internal perspectives. Despite the difficult times, it's important to think beyond cost reduction and to make a contribution towards the process development of the organisation.

What are the risks? As ever, the principal risk lies in selecting the "wrong" vendor and in failing to set and drive the agenda for achievement of process excellence. It is tempting to economise on building relationships and on governance in the current environment, but organisations need to continue to place strong emphasis on joint working both in day-to-day operations, and equally importantly, in establishing and driving the roadmap for process excellence.

It's also important to carry out due diligence to ensure that the vendor has the capabilities they claim. Whether an experienced or first-time buyer, don't accept or be bamboozled by use of umbrella terms, such as "sourcing" or "supply chain management" or jargon such as "platform BPO", but really look into, at a detailed sub-process level, the activities being carried out now, and the tools being used now, in support of the processes promised. At the same time, ask existing clients not only about these capabilities but also about the vendor's style of governance and relationship management and their actual responses when issues have arisen. Overall, don't accept generalities in response; ask about specific actions in specific situations.

Another significant risk, particularly in times of working capital pressure, is failing to achieve the targeted benefits within the target timescales. Here it is important to undertake extensive due diligence on the realistic business impact of the process levers identified, and on the feasibility, and timing, of the roadmap promised. In particular, from the client perspective, can your organisation resource those actions that need to be taken within your organisation in support of the agreed roadmap.