The Future of Outsourcing
- What to Expect in 2010 -
Sales Leader Series – TeleBriefing #7
November 19, 2009
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Guest Panelist

John Willmott
CEO, NelsonHall
john.willmott@nelson-hall.com
State of the Outsourcing Marketplace

John Willmott
NelsonHall
Contents

- Role of BPO in a Recessionary Climate
- The Good, the Bad, and the Ugly
- Conclusions
Role of BPO in a Recessionary Climate
Seasonally Adjusted BPO TCV Up 25% in Q3, recovering from dramatic fall in Q1 – shows emergence of recession-driven contracts

Key

- Yellow: Business Process Outsourcing
- Blue: Average 2002-2008

<table>
<thead>
<tr>
<th>Global Outsourcing Contract Value ($Bn)</th>
<th>Q3 2009</th>
<th>Q2 2009</th>
<th>Q1 2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Q3 2009</td>
<td>4.6</td>
<td>4.3</td>
<td>3.1</td>
</tr>
<tr>
<td>Q2 2009</td>
<td>3.7</td>
<td>5.1</td>
<td>-40%</td>
</tr>
<tr>
<td>Q1 2009</td>
<td>-15%</td>
<td></td>
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# Impact of Recession on Sourcing in 2009 and 2010

<table>
<thead>
<tr>
<th>Action in response to recession</th>
<th>Taken in 12-months to Q3 2009 (%)</th>
<th>Planned for Q4 2009 and 2010 (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Significant review of business strategy</td>
<td>54</td>
<td>21</td>
</tr>
<tr>
<td>Revision of operational budgets</td>
<td>71</td>
<td>15</td>
</tr>
<tr>
<td>Organizational restructuring and lay-offs</td>
<td>44</td>
<td>21</td>
</tr>
<tr>
<td>Revision of sourcing strategy</td>
<td>34</td>
<td>16</td>
</tr>
<tr>
<td>Review and renegotiation of existing BPO contracts</td>
<td>43</td>
<td>20</td>
</tr>
<tr>
<td>Identification of new BPO opportunities</td>
<td>25</td>
<td>25</td>
</tr>
<tr>
<td>Preparation of RFPs for new BPO opportunities</td>
<td>15</td>
<td>48</td>
</tr>
<tr>
<td>Award of new BPO contracts</td>
<td>8</td>
<td>37</td>
</tr>
</tbody>
</table>
Organizational Priorities in a Recession

• First priority is to cut cost-to-serve in core operations
• Second priority is to retain and maximize value of existing clients
• Third priority is to enter emerging markets more quickly
• Compliance, risk management, and certainty of outcome are critical
• Investment is severely constrained
Required Outsourcing Contract Characteristics

- Greater certainty of business case
- Rapid pay-back achieving year-one cost savings
- Focus on removing cost from high-volume transaction-oriented processes
- Shift in risk in timing and certainty of cost reduction in favor of client
- Shift in pricing mechanisms to move volume risk to suppliers
- Potential increase in contract scope
The Good, the Bad, and the Ugly
Realizing Business Value

Risk Factors
- Cost reduction based on major IT platform change
- IT-centricity
- Extensive subcontracting
- Taking on scope beyond supplier cost levers
- Using the wrong location/channel
- Client abdicating responsibility
- Leaving service unchanged

What works
- Labor arbitrage
- Continuous improvement/six-sigma
- Improved agent management
- Interfacing with client systems
- Channel shift
- Technology fixes
- Limited scope platform BPO
- Operational focus
- Strong client management
Philips Case Study

• Strategy
  – Salary arbitrage (1)
  – Process improvement savings (2)

• Issues
  – Need for increased automation
  – Improving organizational agility
  – Sustainability/what’s the value proposition to staff?

• Actions
  – Development of transformation roadmap
  – Tool for measuring error rates and timecycles
  – Moving global hubs to India and China
  – Leverage technology: PTP platform, general ledger cockpit, OCR, electronic invoicing.....
Key Lessons: BPO Service Management

• Day-to-day operational management is the key requirement
• Be process-led and aim to standardize but continuous improvement is arguably more important than major change
• Start with the possible not the impossible
• It takes time to stabilize operations & to change operations
• Offshore services take time to introduce within complex multi-service contracts
Drivers of Reduced Total Cost per Policy

- Ratio of supervisors to personnel
- Ratio of managers to personnel
- Proportion of customer files in image format

Cost impact
Impact of Staff Turnover

- Low staff turnover often regarded as an end in itself
- But needs to be:
  - The right staff
  - Creative tension
Key Lessons: Use of Technology

• Be pragmatic. A single platform is not always necessary or appropriate.
• Do not under-estimate the complexity embedded in legacy platforms and processes.
• Systems integration projects are still late and over-budget, even within BPO contracts.
• Channel change means changing customer behavior as well as technology.
• Technology is only part of the answer. People management is ultimately more important.
Use of Tools/Technology

• Digitization & Workflow
  – Scanning, automatic queuing, work distribution & agent management

• Specialist applications
  – Auto cash application
  – Invoice duplication avoidance tool
  – Online payments
  – Collections tools
  – Collaborative dispute resolution

• Self-service
## Planned IT & BPO Initiatives

<table>
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<tr>
<th>Initiative</th>
<th>High Extent (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Greater use of standard software packages without further customization</td>
<td>50</td>
</tr>
<tr>
<td>Simplification of business processes</td>
<td>47</td>
</tr>
<tr>
<td>Use of cloud computing/standard supplier managed IT infrastructure</td>
<td>40</td>
</tr>
<tr>
<td>Use of BPO services based on supplier hosted software</td>
<td>27</td>
</tr>
<tr>
<td>SaaS (hosted software using supplier best practice)</td>
<td>23</td>
</tr>
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</table>
Future of BPO lies in Combination of Inward-Out and Surround-the-Core

- Client systems
- Labor arbitrage
- Channel optimization
- Technology “gap fillers”

Non-core functions:

- Platform BPO
- Labor arbitrage

Core functions:

Process improvement

Document/workflow & agent management
## Increasing Optimization of Channels and Delivery Locations

<table>
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<tr>
<th>Channel</th>
<th>Role</th>
</tr>
</thead>
<tbody>
<tr>
<td>IVR</td>
<td>Routing (customer and company controlled) and presenting options; simple transactions</td>
</tr>
<tr>
<td>Web Self-Service</td>
<td>Obtaining information; changing static info; simple purchases</td>
</tr>
<tr>
<td>Email and chat</td>
<td>Technical support and problem-solving</td>
</tr>
<tr>
<td>SMS</td>
<td>Outbound notification</td>
</tr>
<tr>
<td>Agents</td>
<td></td>
</tr>
<tr>
<td>- India</td>
<td>Low cost; technical support; back-office; analytical</td>
</tr>
<tr>
<td>- Philippines</td>
<td>Low cost customer service with increased cultural acceptance</td>
</tr>
<tr>
<td>- Onshore</td>
<td>Ability to retain, cross-sell &amp; up-sell</td>
</tr>
<tr>
<td>- Onshore WAHA</td>
<td>Graduate-level; domain-specific capability to retain, cross-sell &amp; up-sell</td>
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Key Lessons: Partnership

• Work towards common goals, not hidden client or vendor goals
• Improve strategy alignment
• Challenge one another to achieve best solution e.g. imaging paper vs. moving to Internet
• Vendor should disclose cost & profitability forecasts as well as current costs & margins
• Introduce lean sigma to improve service quality and staff motivation
• New services will emphasize partnership aspects more than cost reduction
• Formalize innovation and consider use of “innovation budgets”
Impact of Outsourcing on Application of Business-Oriented Metrics

How does outsourcing help in business-oriented metric application?

- More reliable/consistent metrics
- Easier access to metrics/improved techniques for data gathering
- Increased standardization of processes
- Improved knowledge of how to use information to drive change
- Separation of management from implementation

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<thead>
<tr>
<th>Role of Business-Oriented Metrics</th>
<th>High-effectiveness in-house (%)</th>
<th>High effectiveness outsourced (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Improving service delivery</td>
<td>47</td>
<td>84</td>
</tr>
<tr>
<td>Improving business value achievement</td>
<td>24</td>
<td>54</td>
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## Timing of Introduction of Business-Oriented Pricing

<table>
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<th>Stage</th>
<th>Proportion (%)</th>
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<tr>
<td>Initially</td>
<td>13</td>
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<tr>
<td>Once costs &amp; service levels established</td>
<td>81</td>
</tr>
<tr>
<td>Never</td>
<td>6</td>
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**Why establish initially?**
- To establish good knowledge of operations at this stage
- To reduce the time involved in setting metrics and SLAs
- To increase speed of process transformation
Conclusions

• Business value realization has three components:
  – Cost reduction and SLA compliance
  – Ongoing contribution to process improvement
  – Support for wider business objectives

• Core functions remain dependent on labor arbitrage, process improvement, channel optimization and technology tools

• Non-core functions increasingly susceptible to platform BPO

• Client needs to participate proactively
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- Executive Appointment Setting
- Intelligent Nurturing

Markets
Targets
Messages

To Discuss: Dan.Hudson@3forward.net
# Resources

| Linkedin | The Outsourcing Institute Group  
3forward – Sales Readiness |
| Facebook | OI  
3forward |
| The OI Roadshow |
| Other | 3forward Sales Leaders Blog |
| 3forward’s New Tools Directory  
OI’s Recruiting Home Page  
Outsourcing 2.0 |
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