

Predicting the Future of BPO

White Paper



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Positioning Statement

Recently, Business Process Outsourcing (BPO) has been marketed as an effective solution, employable by all types of businesses and organizations. This has generated conflicting opinions, mostly related to the future of this dynamic market, with each individual opinion being supported by varying degrees of foresight and emerging options and scenarios. The truth however is that the future of the business process outsourcing market can be predicted in a more precise manner. For this we will use another successful outsourcing market as an example. This outsourcing market has been in an accelerated growth mode for the last twenty years and since its basic dynamics are quite similar to the BPO market, it will help us decipher the future of BPO, quite clearly and accurately.

Introduction

The term 'BPO' that is used in this paper, refers to all types of outsourcing services such as back office support, outbound and inbound customer support, telemarketing, technical support and services, website promotion, content development, insurance, legal, financial and accounting services. The point to remember is that although these processes are important, it's difficult to measure and optimize them until and unless they are outsourced.

To be able to predict the future of BPO in the most precise manner, we will compare the dynamics of the BPO market with a more mature market, i.e. the Third Party Logistics (3PL) market, which as mentioned earlier is quite similar to the BPO market. This will provide accurate results because there exists a great deal of correlation between these two markets. It's evident because both these markets...

- Were created and developed because of the need to reduce costs and improve efficiency.
- Were required to concentrate on processes, conventionally considered noncore
- Hire expert services for achieving economies of scale
- Integrate outsourced operations for deriving maximum efficiency
- Enable client businesses to concentrate their core competencies
- Allow accurate measurement of outsourced tasks and operations
- Provide clients the much needed opportunity of reducing headcount
- Provide impetus to improvement project infrastructure development projects

Since the 3PL market has been in existence for around fifteen years more than the BPO market and since it is quite similar to the BPO market as described above, the current trends in the 3PL market can be used as pointers for precisely determining the future of the BPO market. In brief, it would be worth mentioning that the 3PL market emerged mainly because of the need to reduce operational costs and improve operational efficiencies. After this came a period of rapid growth and development and during this time businesses literally considered it fashionable to employ 3PL providers. In its present form, the 3PL market is witnessing a dramatic shift based on newer client needs and requirements such as the integration of all the various services made available through a single outsourcing solution. This is basically what we can consider as the most likely future of the business process outsourcing market.

What This Would Mean For Clients of Business Process Outsourcing

The recent trends in the 3PL market provide essential insights into the probable future of the business process outsourcing market. Both existing and potential clients of the BPO market can use this information to their advantages. Basically, there are plenty of important lessons to be learned, some of which have been described below. The lessons have been grouped into three separate categories for easier understanding.

Lessons Related To Client-Provider Relationships:

- Concentrating more on the commercial arrangements rather than on the quality of services offered, can lead to mistrust, even before the very first of outsourced operations are performed.
- Opting for a single point of contact for different outsourced projects will help in eliminating confusion and problems.
- Personnel dealing with primary contacts of the outsourcing services provider need to think beyond demarcated contractual lines and try to find a middle ground for resolving problems and issues.
- While selecting primary point-of-contact personnel, responsible for tracking progress of ongoing outsourced projects, it would be better to select only those individuals who might possess both the technical skills as well as the requisite diplomatic aptitude. Having such talented personnel on board will ensure a long-term, productive relationship with business process outsourcing service providers.

Lessons Related To Realization Of Outsourcing Benefits:

- It would be in the interest of clients to ask for tangible benefits, preferably results that directly affect the bottom line in a positive manner.
- For the above, outsourcing providers should be provided with clear and easily understandable performance targets.
- Opting for a performance based reward system will benefit not only the client but also the service provider.

Lessons Related To Maximizing Outsourcing Benefits:

- Cost-benefits achieved initially should not be considered as an end, but only a means to an end. This will help in deriving the maximum savings in the long run.
- Other benefits such as quality and efficiency improvements should be treated in a similar manner and not left as it is after achieving predefined and agreed-to targets.
- Enough room should be made available and systems need to be made flexible in order to accommodate an increase in customer service requirements.
- Providers should be given the freedom to innovate and implement value-added services that might help in making the most from customer-centric outsourcing projects.
- Both cost and quality should be used as benchmarks for measuring the effectiveness of ongoing projects, because without both benefits, the project is likely to fail.

How BPO Clients Can Avoid The Potential Pitfalls?

Clients of business process outsourcing, especially the ones that have just started outsourcing their noncore business process, need to undertake certain initiatives in order to avoid potential pitfalls. The first thing they need to do is identify the core business drivers, applicable for both parties, and consequently hash out sustainable agreements based on that. While doing so, it would help if the relationship between the client and provider is viewed as the initialization of a long-term partnership instead of a short-term contract between a buyer and seller. All decisions taken in this regard should be based on mutual understanding, something that will help in ensuring a long-lasting, highly-productive relationship between the client and the outsourcing services provider.

Proper implementation of all the above suggestions will not only help in avoiding pitfalls, but also allow clients to derive wide ranging benefits such as a significant reduction in the gestation period, a better return on investments, and substantial savings in terms of the overall cost of transition. However, since the process of initializing and managing partnerships with a new provider can create its own set of unique issues, clients may have to be a bit more specific in these situations. Here are some more guidelines that would help them bridge the gaps in their relationship with business process outsourcing service providers.

1. Properly Assess Outsourcing Requirements

While initializing outsourcing deals, the norm is for clients to present their problems, after which providers offer the requisite outsourcing solutions. Not that this process does not deliver the desired results; it certainly does so, but since success in today's highly competitive business environment depends a lot on achieving the extraordinary, it would be better that clients assess their outsourcing requirements on their own. This is simply because they can only understand the intricacies of their business, the problems affecting it and the solutions that will be the most beneficial. They just need to move out of their comfort zones wherein offered solutions are readily accepted without giving much thought about their consequences. Inputs and suggestions from outsourcing service providers should however be welcomed and if found appropriate, should be incorporated within the outsourcing plan.

2. Specify Desired Benefits And Most Importantly Stick To Them

The crux of business process outsourcing is the continuous transfer of derived benefits from outsourcing services providers to their respective clients. Without this, none of the outsourcing projects will be as productive as they could be. This is exactly the reason as to why BPO clients need to clearly specify the desired benefits that they would like to be made available to them through the outsourced project. Later on, these specified benefits should be used for carrying out business negotiations and arriving at other important business agreements and decisions.

3. Do Not Forget To Keep Innovating

Outsourcing service providers may suggest effective business solutions most of the times, but since there is always room for further improvement, clients per se should not forget to keep innovating. In effect, it means that even when the desired benefits are constantly flowing in, BPO clients should continue to make an effort to achieve greater milestones. When benefits start pouring in, clients often become complacent and this is exactly what creates problems. Such clients should never forget that in today's high-tech age, market dynamics keep changing with the changing season and that if these changes are not accounted for properly, it could quickly shift the balance against the interests of the business.

4. Size May Matter, But Not While Selecting Outsourcing Service Providers

During the process of selecting an appropriate outsourcing service provider, preference is generally given to large outsourcing firms, earning millions in revenues. However, BPO clients should think twice before opting for such corporate behemoths, simply because they just don't have the flexibility to offer tailor-made solutions based on specific client needs and requirements. This is especially true for Small & Medium Enterprises (SMEs) who often are in a niche business and as such require very unique business outsourcing solutions.

What This Would Mean For Outsourcing Service Providers

Outsourcing service providers too can learn useful lessons from the way the 3PL market has kept transforming itself over the years. Such learning, done in the right manner, will help providers to better understand their market dynamics and most importantly, the specific needs, requirements and expectations of their present and potential clients. Described below are some of the most important lessons to be learned from the various evolutionary stages of the 3PL market.

1. Important Lessons From The Initialization Years:

- Too many players, most of them lacking the requisite credentials as was generally required by 3PL clients.
- Offering overly ambitious business solutions just to gain an entry in the 3PL market.
- Lack of predefined quality and efficiency measurements.
- A flawed business strategy that concentrated solely on "joining the bandwagon" without any measurable intentions to make a real difference.

2. Important Lessons From The Rapid Growth Years:

- Promising the moon and delivering a lot lot less
- Failing to identify all the potential benefits that can be realized and focusing primarily on marketing traditional features, advantages and benefits.
- Making the mistake of viewing the deal as a "business to business" relationship rather than taking it up as a "person to person" relationship.
- Offering just what was ordered by 3PL clients without making an effort to provide ongoing improvements.
- Concentrating just on the derivable income rather than combining it with other essentials such as quality and efficiency

3. Important Lessons From The Current 3PL Market:

- Failure to think in terms of how more benefits can be delivered to 3PL clients, something that is necessary for building longterm business relationships
- Lack of motivation to make an effort to add value-added services that can be delivered using existing resources
- Ill-prepared for the natural transition to highly competitive markets, where it is difficult to create and sustain the uniqueness of offered outsourcing services.

Conclusion

The history of 3PL may not be as clear as can possibly be seen in a crystal ball, but whatever there is, it does provide enough clues and insights as to what can or cannot happen in the future of the BPO market. The fact that there exists a strong correlation between the existing 3PL market dynamics and the potential future of the BPO market, has already been proved convincingly in the above paragraphs. This should clear any doubts about using the existing 3PL market dynamics as a means to predict the future of the business process outsourcing market. This information can be effectively used by both BPO clients and service providers in avoiding potential pitfalls and more importantly to gain a competitive edge in the marketplace.