

View Point



Customizing BPO

Developing a strategic response to the recession

Shyam Rao

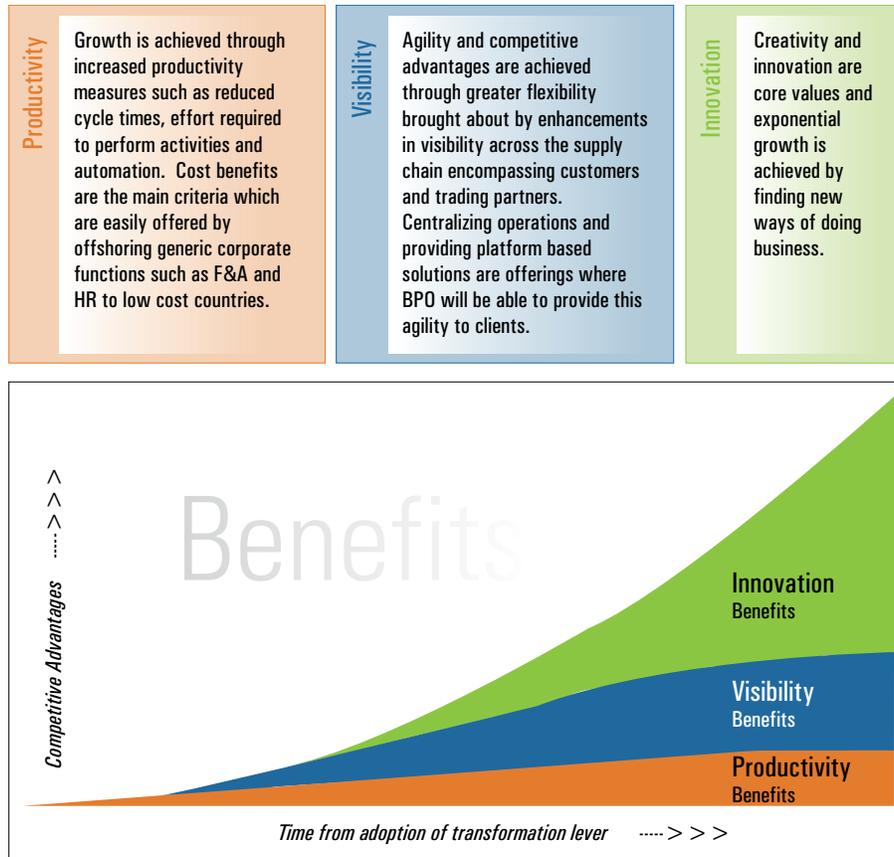
Summary

To ride out a recession and prepare for future growth, industry will have to build business agility fuelled by innovation. This would involve customizing their response to the downturn by launching initiatives which build on individual characteristics of a particular industry segment. BPO will need to support these initiatives by moving from generic BPO offerings to customized industry and client specific solutions. These initiatives and solutions would be especially effective when centered on transforming the supply chain and order management functions. We explore how Service Providers can achieve this by establishing a true partnership with the client, thus ensuring an effective strategic response to the downturn.

Introduction

When the going gets tough, the tough go cost cutting! A brief analysis of industry's response to earlier recessions (1990/91 and 2000/01) indicate the first knee jerk initiatives are budget cuts in manpower, facilities, services and a freeze on all investment plans. However this excessive focus on short term gains will lead to long term heartache in the organizations ability to recoup and exploit new opportunities that follow a recovery - as Bonoma (1991) puts it "summer follows a long and bitter winter and the wise one, is one who is prepared for both". Organizations will have to skillfully retain and develop those resources that will aid development of future growth opportunities and let go of those that do not provide long term competitive advantages.

Future growth comes from business agility to respond to new opportunities and this agility typically comes from adopting 3 transformation levers:



Most mature organizations will have achieved the incremental cost benefits from standardization and centralization by adopting the levers of *Productivity and Visibility*. Exponential benefits will now come from leveraging innovation as a lever to transform business performance. At Infosys the belief is that this innovative and creative ways of thinking extends to the organizations partners - both product and service providers.

Traditional offshoring models are focused on generic corporate functions such as FAO, HRO and Procurement functions. In recent times we have seen the emergence of newer functions such as Legal or Knowledge Services. But we see that each of these functions are different across industries and individual companies and a "one size fits all" strategy does not help the client achieve the exponential benefits of innovation that can be enabled by differentiated service offerings.

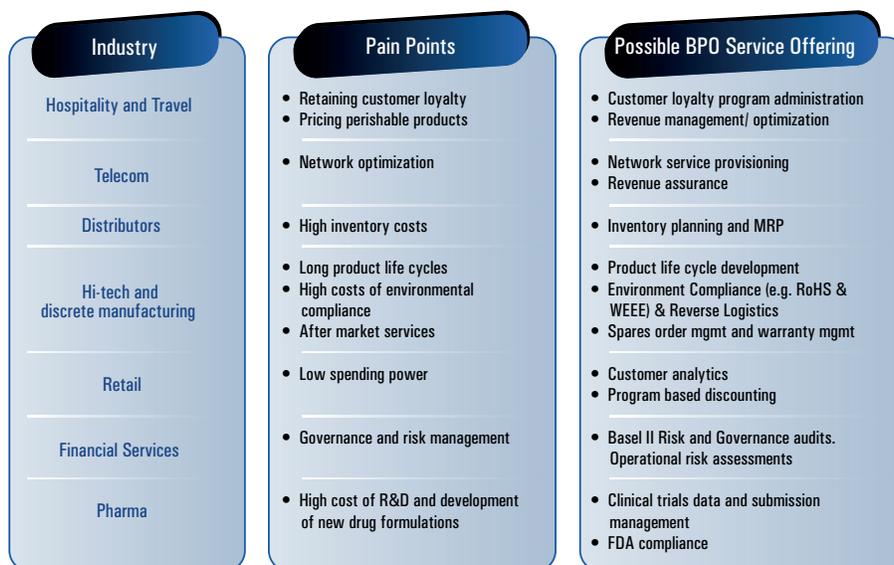
Customized Industry Offerings

The ecosystem of a particular industry is peculiar to the products it sells, the regulatory environment under which it functions, its market characteristics and its relationships with its trading partners. Though all industries are characterized by falling demand and declining margins due to price pressures, we find that an industry will respond differently to these generic problems by identifying pain points and solutions that are unique to its ecosystem.

For example, the current meltdown in the financial services industry would indicate governance and risk management as both a cause and a solution to dealing with the crisis. The consumer electronics or the CPG industry would respond to falling customer demand with initiatives to speed up their product development life cycles and bring innovative products to the market in a faster and cheaper manner.

The healthcare and pharma industry on the other hand would not have an issue with falling demand but more an issue with actualization of sales or the ability of the customer to pay for services. Hence these industries would respond to a downturn by analyzing and addressing pain points associated within their individual environment.

The BPO industry will hence have to necessarily move away from offering generic “corporate” solutions across industries like FAO, Procurement or HRO and tailor their offerings to “operational functions” within industries. These operational functions will be unique across industries and more focused on processes than on functions. Hence customizing service offerings especially around supply chain and order management processes will help BPO to better contribute to supporting industry’s initiatives in addressing individual pain points and positively impacting its strategies to survive and win in a downturn. Some examples of industry and the service offering that could be customized for it are listed below:



The BPO industry needs to develop a range of customized service offerings to industries and thus positively impact its client’s operational performance. Going beyond generic corporate functions, and focusing on customized supply chain processes, will enable BPO to provide transformational benefits which in turn will help clients weather the recession and develop competitive advantages to fuel future growth.

The software industry functions in an intensely competitive and rapidly changing environment complicated by the presence of a digital supply chain and rampant piracy. Independent software vendors (ISV's) typically generate revenue from license agreements and recent consolidation of large buyers has resulted in strong bargaining power (by customers) and lowered switching costs/customer loyalty for niche software products (e.g. security solutions). Infosys BPO understood that the absence of a physical supply chain indicated special challenges for the ISV industry and created service offerings such as Pricing & Licensing that addresses these issues and helps the software industry to compete more effectively in the marketplace.

A leading provider of security solutions software with over 99% of Fortune 500 companies using their products faced similar challenges. To address these issues Infosys BPO implemented its customized ISV industry specific Pricing & Licensing solution which involved providing license keys generated on Oracle and e2b tool, entitlement, version management and pricing support. This enabled the client to manage its digital supply chain more effectively, recognizing revenue faster and achieving the following benefits:

- Cycle time reduction by 35% across multiple processes
- Productivity improvement of 35% within 7 months of operations
- One-time cost savings of 40% through labor cost arbitrage
- Complete up to date documentation of all client processes and sub processes which was non-existent till date

These were achieved along with increased customer satisfaction, ensuring customer loyalty and lower scope for software piracy. By off shoring these services the client was also able to free up resources to focus on the highly skilled manpower required to develop and enhance their products (security and infrastructure software) and build competitive advantages to deal with a depressed market.

Customized Company Offerings

Companies within an industry strive to differentiate their businesses along core competencies to develop a set of value differentiators which enable them to build competitive advantages over other firms within the industry. The strategy for achieving growth will depend on the structure of the supply chain and the competencies of that particular company.

Organizations for instance may choose to design and function under a vertically integrated supply chain for reasons of their ability to control and align the goals of the components of the value chain with their corporate mission or may choose a more laterally (horizontally) integrated supply chain structure to enable economies of scale. Similarly the growth strategies for a firm maybe focused on inorganic growth fuelled by mergers and acquisitions or through a more staid organic expansion of existing businesses.

The BPO industry's prime responsibility will now focus on supporting their client's strategies with customized offerings for individual clients. For instance a client with visibility issues due to multiple legacy systems from a history of acquisitions will benefit from a custom built platform based solution that will sit across the various legacy systems and provide a single overarching view of the entire system. Similarly a client with a loosely coupled horizontally integrated supply chain would benefit from service offerings that enable trading partner support such as PSS (Partner Sales Support) or PMS (Product Management Support) which will help align and manage the varying goals of the different components of the value chain with the corporate mission of the nucleus firm.

Case Study

A leading global distributor of products, services and solutions to industrial and commercial users of electronic components and enterprise computing solutions operated through a supply chain consisting of over 700 suppliers and 140,000 OEMs & contract manufacturers servicing customers across 50 countries. Maintaining and optimizing this supply chain involved a Product Management team which liaised with suppliers and OEMs & contract manufacturers to ensure timely delivery of products as well as management of debits/discounts offered on products. Infosys BPO built a customized offering for the company which involved a PMS team which negotiated, renewed and maintained the debits offered on products as well as sample requests from customers. With currently over 95% of debits and vendor rebates across North America managed by Infosys BPO associates (to the tune of \$1bn), the client has established a centralized offshore debit management centre thus achieving a substantial competitive advantage vis-à-vis its competitors.

Implications of customization to the BPO industry

The move towards customization of service offerings will present the BPO industry with not only opportunities in being able to move up the value chain but also pose several challenges. Some areas of concern that the industry must first address in the path to customization are:

Building partnerships with clients

The need to custom build solutions will require BPO to build relationships with the client that goes beyond the standard buyer - seller-of-services model. Gain-sharing revenue models will gain prominence

Creation of knowledge base

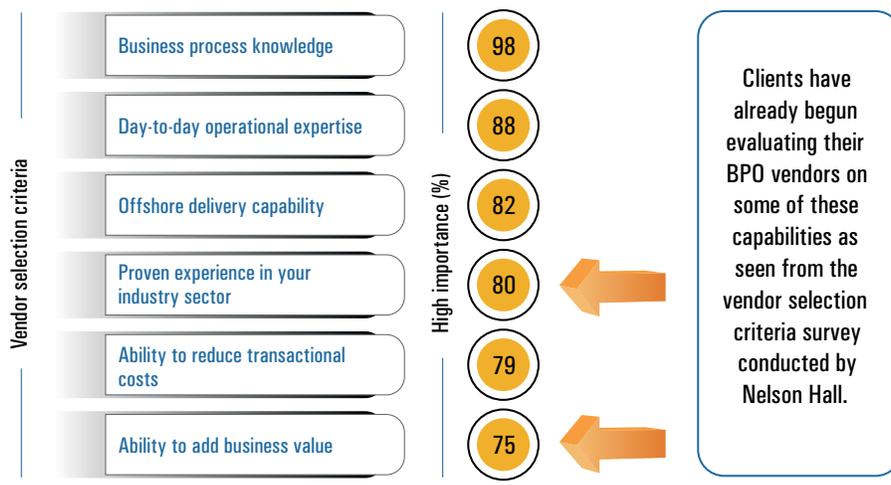
The BPO industry will be required to acquire industry specific knowledge and capabilities in order to design customized solutions

Investment and higher risks

Investments in effort and manpower will be required to move up the value chain. The creation of niche solutions will also involve increased risk in the reduced marketability of these investments across industries/customers

HR management

Higher quality of resources needed to staff these engagements will bring a renewed focus on attrition, skill management and talent retention



Source: (Nelson Hall presentation published Jan 2009: New approaches to outsourcing support functions in 2009 presented by Katharina Grimme, Rachael Stormonth and John Willmott)

Conclusion

In spite of the recession companies will continue to make strategic investments in developing capabilities to differentiate and build competitive advantages. The BPO industry will need to support these initiatives by acquiring industry and company specific knowledge and building customized service offerings to their clients that can transform their supply chain. This partnership will require higher level of investments but will enable the relationship between client and service provider to move up the value chain and develop sustainable competencies for future growth.

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About the Author



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