



The Case for Transformation

Beyond the hype about transformation – there's some real work being delivered that makes the case for business transformation outsourcing

By Imrana Khan



TELECOM EQUIPMENT PROVIDER improved inventory accuracy by 25 percent with approximately \$7.9 million worth of inventory rejects cleared. An Australian Bank improved its resolution time by 90 percent from 28 days to only two, freeing capacity by 50 percent and improving customer satisfaction. A leading auto manufacturer streamlined organization structure across affiliates, delivering \$600,000 annual savings. A leading oil and refinery company improved transport lead times and supply chain performance freeing up \$1.5 million working capital. All of these examples merit the tag of transformational outsourcing.

Even though the word 'transformation' is being used to

weave different things in different contexts and different scales, it is overused by outsourcing services providers of every ilk.

"The word 'transformation' sounds like too much of a big bang approach. So our philosophy is that often such big bang approach starts with risks and failures. And, there are many of them in the history of corporation," said Tiger Tyagarajan, Executive President, Business Development and the Americas, Genpact, a global Business Process Outsourcing (BPO) and IT-solutions provider. But "you are prepared for any transformation, if you have embarked on a globalization journey."

To achieve the maximum transformation, companies

often offshore IT and BPO functions together. With Business Transformation Outsourcing (BTO) becoming as popular as 'business-process re-engineering' used to be, corporations are now inking such deals frequently. The most recent one being the transformation deal between Bristol-Myers Squibb (BMS) and IBM. Under the terms of \$345 million BMS-IBM BTO agreement, BMS expects strategic transformation of its global HR functions.

Is global outsourcing the way to transformation? How does transformation happen? What are the conditions that allow transformation to happen? We examine some case studies to find out the answers.

The Transformation Edge

Traditionally, a re-engineered balance sheet was the ultimate goal behind outsourcing engagements. Gradually, customers' expectations have risen. They are now focusing on business transformation that creates sustainable value.

Even though BTO engagements are expected to increase the bottom line and the top line for customers, they are actually set on a broader scale in order to achieve the overall business value with improved positioning in the marketplace.

For instance, Ingenix selected Genpact to improve quality, costs savings, businesses transformation, BPO, IT Outsourcing (ITO) and Knowledge Process Outsourcing (KPO) integration, building a significant workforce globally by the end of 2008 while retaining U.S. employees, create new business models and revenue opportunities, combine service with technology, drive 24-hour process cycles. Quite a list of objectives!

"Our engagement has had several goals, with transformation being only one of them. We had to be very focused on driving the transformation agenda, especially as other near-term initiatives can easily take precedence," Melissa Tzourakis, VP, Global Operations, Ingenix Business Solutions.

Ingenix's transformation initiatives focus on three key areas: First, 'right-sourcing' for skills. In India, and through Genpact, the company aims to hire bio-statisticians and other specialized skills, which are unaffordable in the U.S. Second, transformation of processes in the U.S. and India. As an organization, Ingenix lacked the skilled resources to make desired progress on its process improvement and re-engineering initiatives. Here, Genpact is expected to provide end-to-end reviews of core processes, re-engineer them and eliminate the non-value-added steps. It has begun to change how Ingenix as an organization looked at its processes and metrics, and to have a more 'grass roots' effect on its culture. Third, driving innovation across the organization. In bringing together teams with deep healthcare domain expertise from the U.S. and with strong process, quality and analytical discipline from Genpact, the company also aspires to drive innovation within the organiza-

In the Spotlight

Transformation Outsourcing: A Sales Propaganda

HAVING BEEN an early investigator of transformation outsourcing projects, what kind of definitions did you come across during the investigation?

We looked at transformation outsourcing because it was one of those terms that sales people, or the sourcing firms, often talked about – but don't really define. And, to some extent, it was more of vendor-speak or sales-speak than it was something substantial. So we went and investigated what was really behind all those claims. We found that vendors were trying to differentiate themselves by saying that they don't really do outsourcing, they just do business transformation. In doing that, we did see a number of categories on the basis of which the project claimed to achieve business transformation:

- To some extent as the clients in the U.S. and Europe got more comfortable with the sourcing model, they were willing to go deeper and broader form of outsourcing. So instead of doing just back-office routine work, they were willing to source larger share of their day-to-day business operations. So the degree the companies were doing 'bigger and better outsourcing,' or 'deeper and broader outsourcing,' is the first category of transformation outsourcing.

- The second category is 'risk and revenue sharing' so that the service provider was willing to accept a certain amount of the gain, if the client was successful and embraces certain amount of losses, if the project was not successful. Often time, we hear the term 'outcome-based

tion through the combination of these skills. The company has several projects underway specifically in the analytics area that will contribute to its innovation initiatives.

"For processes we use strictly financial metrics: How has the change contributed to our bottom line? For right sourcing, it is productivity; and for innovation it would be successful launches of new products or initiatives which will also have a financial impact," said Tzourakis.

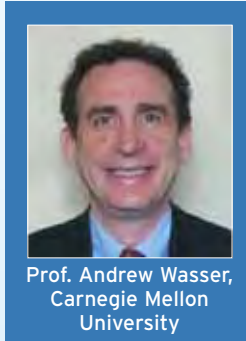
"In order to reach the transformative stage, one needs to go through the transition stage and build a team and capabilities. Some of the work we took on was very complex, and some of these pieces took over a year to transition. So we did have to be careful to ensure we were suc-

Years back Carnegie Mellon University (CMU) project team, analyzed the cases of professed transformation outsourcing and tried to look behind the claims the services providers made. The CMU team's analyses, though not statistically significant, were pragmatic. To know the team's actual findings, Imrana Khan from *Global Services* spoke to Prof. Andrew Wasser, Associate Dean, Graduate Information Systems Management, Carnegie Mellon University. Andrew also teaches Global IT Sourcing at CMU, and consults on offshore sourcing, IT communications, and IT process maturity

pricing.' When we looked into this it seemed that while the services providers were willing to share risk and revenues, only a few contracts were actually doing that because of two reasons. First, it is extremely difficult to measure the actual outcome. How do you know whether the project is truly successful? And second, we found that the clients and the services were willing to share the risks but in reality they were not willing to do it. So it is a contractual nightmare.

- The third category is the 'KPO'. Especially in financial-services area we found that some of the business analytics, R&D, and mundane BPO stuff work were called transformation outsourcing. So we can argue whether that is actually a transformation outsourcing or not.

- The last category is 'business re-engineering.' Originally, Prof. Hammer and Prof. Champy coined the terms business re-engineering. "... the fundamental rethinking and radical redesign of business processes to achieve dramatic improvements in critical contemporary measures of performance, such as cost, quality, service and speed." It's very radical. It's about starting with a clean sheet of paper and forgetting about everything done in the past. This is really far from reality. The large corporations that have invested too much, have too much infrastructure and application, and will never



Prof. Andrew Wasser,
Carnegie Mellon
University

adopt it. So it's impossible for them to start from scratch.

One of the things we found was that all the four categories realized benefits from different ownership model. For example, if they opt for captive ownership model, they reduce risks. Other options were virtual, or hybrid, models where the service providers work for a partnership with the client. But the ownership models will be equally difficult.

In the end, transformation outsourcing is a combination of all four categories and the hype that sales people create to make their product more glamorous. And, to some degree, it's re-engineering, to some degree it's joint ownership of the project.

How should customers handle such deals?

Transformation outsourcing increase complexity due to difficult establishment, metrics, management and intellectual property concerns. But just because it is more complex, doesn't mean you should not do it. They should encourage deeper interactions. And, apart from engaging into a deeper relationship and building high level of trusts, they need to consolidate vendor relationship. They need to stick to one or two vendors. With maintaining a good degree of ownership, they need to structure good governance.

successful at the transition first, providing value to the operational teams. Otherwise it is a challenge to get the attention or develop credibility to start another initiative that would require time and resources," said Ingenix's Tzourakis.

Most importantly, through this partnership, the company has implemented common metrics across many of its sourced processes. This allows Ingenix to better manage its sourced and onshore processes.

The Way to Survive

Ingenix case is just one of the several forms of transformation. For some, transformation is the way to survive.

For example, with increasing competition and fast changing life and general insurance market in the U.K., Norwich Union Life (NUL), the leader in space, recognized the fact that to sustain its leading position, the company needed to transform its business and IT services. NUL selected IBM to develop 'Assisted Transformation Program'. The program comprised two IBM teams, one working on developing capability and other on sustaining operations and pulling through the change.

In another case, Infosys helped to transform the customer's business by removing working capital inefficiency, improving productivity and saving costs by downsizing the headcount without any effect on the productivity. The cus-



“In our approach, R = G where you have to look at global resources, and the approach to leverage the global resources, we need to re-think how you outsource and what outsourcing even mean to you. We call it ‘global resource

leverage’. We say that don’t just go toward outsourcing just due to the point of resource availability and lower costs – those are primary reasons behind outsourcing. So start from your customer no matter which business, or which industry, you are in. The approach of innovation is changing and that is The New Age of Innovation. So we say, N = 1 and R = G. We say N = 1 because the business fundamentals that create value are changing. Combine the four key trends – connectivity, increasing digitization of business, convergence of technology, social networking – of the new age of innovation, and see a new approach (that is applicable to all the industries), which is about ‘co-creation’ with customers. And, focus on key questions – how do I co-create with customer? What are the skills and process required for this? Then start the leveraging resources that are available globally. And orchestrate these processes through digitized IT infrastructure. Thus, start with your customer and your process and then leverage the global resources. That’s what we call transformation outsourcing.”

– Dr. M. S. Krishnan, Michael R. and Mary Kay Hallman Fellow & Professor of Business Information Technology, and Chair of Business Information Technology, University of Michigan Business School discusses and the co-author of *The New Age of Innovation: Driving Co-created Value Through Global Networks*



tomor is a leader in the telecom equipment industry, and the deal with Infosys helped to improve its customer-satisfaction ratings.

Since the inception of the deal in 2004, the customer’s business has grown from a 20 Full-time Equivalent (FTE) pilot to 900+ FTEs over four years.

In the first year of the deal, Infosys started operations with six processes — image review, fax order entry, order management, Internet commerce, fax / IC order resolution, Internet commerce, mail support — which further increased with four more processes — maintenance and pending, order booking re-route, post ship re-route, order management route. During the third and fourth year, more processes (three each) were added to the original list of just six processes.

Infosys observed that errors in order-placing format were being executed and put on hold, which led to an increase in the order processing cycle time. This increased the company’s order to invoice cycle, which in turn was affecting working capital efficiency. In fact, the cycle time — that includes the time from order capturing, entry and management to its fulfillment and billing — subsequently reduced from 56 hours (before outsourcing) to 38 hours (by Apr. ’06). The company’s annual revenue is \$24.8 billion. The reduction in ‘days of bills outstanding’ leads to a working capital efficiency of $(22 \text{ billion} / 365) * (18 / 24) = \45 million .

Also, the cost of processing an order also reduced from \$34 per order to \$7 per order for fax orders and from \$8 per order to \$3.9 per order from EDI orders. Most interestingly, Infosys helped the customer to reduce its number of employees by 50 percent from 43 to 21 just in six months of execution after the transition stage. With effective project management and escalation resolution, customer satisfaction ratio also rocketed up.

BTO = Business Value Creation

“Effective transformation deals often incorporate creative structures, such as value-based and gain sharing that allow an organization to maximize the desired benefits and share in the risks. Even though, it increases customers’ revenues, I believe, transformation is no more just about cost savings; it’s all about creating sustainable value,” said Ritesh Idnani, VP and Global Sales Head, Infosys BPO.

Orange Business Services (OBS), a global data-network operations provider, selected Infosys BPO to set up an enterprise wide ‘Revenue Assurance’ service that would help validate and cleanse the data in all the systems, and analyze existing connections and services to correct inconsistencies and plug cost and revenue leakages across geographies and customers.

OBS selected Infosys BPO’s solution that resulted in substantial savings for the customer. Infosys BPO set up a

support team of approximately 140+ resources spread across various teams to provide Revenue Assurance services. The team developed many tools and automation procedures in-house to expedite processes, and fine-tuned business rules to increase accuracy of information

After the inception of the deal, OBS' inventory accuracy has improved by more than 25 percent with approx. \$7.9 million worth of inventory rejects cleared. OBS' cost savings on data cleanse and disconnect activities increased by over \$100 million, cost savings on access competitiveness activities of \$22 million.

"Over this period, we have seen a number of changes, which Infosys have adapted extremely well to ensure a constant high delivery in everything you do," said Steve Nash, Head, Connectivity Business Operations, OBS.

It's all About Governance

Good governance plays a significant role in BTO engagements. Good governance in outsourcing provides an agreed-upon framework that allows strategic partners to work together over the life of the partnership. It not only aligns expectations but also re-aligns customers' expectations that evolve over time. It also encourages effective change management and essential information sharing to achieve the customer's required business outcomes.

Many a time, BTO deals are structured as joint ventures or close variants thereof. That means equal collaboration is expected from both parties. "Effective governance is the key to capture maximum benefits as well as managing risks. Thus, once the objectives and measurement structures are clear, customers need to have right governance in place because it handles the whole aspect of measuring the process. And, a close collaboration between parties facilitates good governance," says Arijit Sengupta, EVP, Sales and Relationship Management, WNS BFSI practice.

It takes people, process, and technology along with money to govern and manage an outsourcing relationship. In fact, it is recommended that a company should expect to spend from 3 to 10 percent of its annual sourcing spend to manage a given contract, according to EquaTerra, a sourcing advisory firm.

Interestingly, many companies outsource their outsourcing governance to a third party. For example, Erste Bank, one of the largest financial-services providers in Central and Eastern Europe, selected EquaTerra to assist the bank officials in designing an effective governance structure for the new service provider relationship. Following an intensive market survey and tendering process supported closely by EquaTerra, Erste Bank entered into exclusive negotiation with a leading service provider and signed a 10-year outsourcing contract to strategically revamp its procurement functions. The bank retained EquaTerra to support it through effective governance design and build phase. During the term of the contract, the bank will have a fully



You are better prepared to do any transformation, if you embark on a globalization journey. Actually globalization takes you forward in your transformation journey as it forces you to the bunch of things – measure it, baseline it, define it, etc. – that anyhow you have to do.

– Tiger Tyagarajan, EVP,
Business Development & the Americas, Genpact



Process re-engineering encourages significant step change to the way an organization is working. It requires domain understanding. And, the success mantra is that things need to be placed in right positions and to move in positive directions.

– Arijit Sengupta, EVP, Sales and Relationship Management,
WNS BFSI practice



Transformation is different for different companies. Unlike small and mid-sized companies, leading companies focus on business results transformation beyond the outsourced processes, technologies and services. And, a good contract defines transformation and expectations well. However, there is no way setting expectations.

– Bob Cecil, Executive Director, Business and Financial
Processes Advisory Services, EquaTerra



Transformation is all about creating business value with improved service levels. Effective transformation outsourcing deals often incorporate creative structures, such as value-based and gain sharing that allow an organization to maximize the desired benefits and share in the risks. Even though, it increases customers' revenues, I believe, transformation is no more just about cost savings; it's all about creating sustainable value

— Ritesh Idnani,
VP and Global Sales Head, Infosys BPO

“ [Transformation outsourcing projects] require special treatments on several fronts. First and foremost, the scope of the improvement opportunity and potential benefit has to be clearly and specifically defined at the outset of the project – that is, prior to the transformation. Second, it's essential to establish a benefit-management framework that maintains a focus on the actual realization of benefits resulting from the transformation initiative. Too often, organizations lose sight of the benefits from a transformational initiative because they get too focused on completing the project and meeting deadlines.”

— Nigel Hughes, Director, Compass Management Consulting



For Ingenix, transformation outsourcing is a component of our global sourcing initiative, specifically when we use the talent, culture, and resources of our partners to drive our organization forward in ways that fundamentally change our processes or the way we do business.

— Melissa Tzourakis
VP, Global Operations, Ingenix Business Solutions

integrated procurement strategy in place that will enable it to achieve greater transparency and accountability.

Handle BTO Differently

Each BTO deal is unique in nature. BTO engagements still lack standard structure. Thus, providers such as Accenture, IBM, Genpact, HP, IBM, Infosys, TCS and Wipro treat each BTO deal in a specialized way, and are increasingly signing BTO deals.

In general, in order to measure the effect of transformation, metrics need to be described in terms of business benefit, i.e. enhanced productivity and quality, reduced cost, faster throughput. Problems occur when the benefits assumptions are built on a flawed or incomplete foundation.

Those that are successful are planned and executed effectively. The general strategy of 'lift and shift' (moving entire operations to low-cost locations as quickly and as thoroughly as possible, in the belief that this will maximize savings and benefits) is fundamentally flawed, and leads to serious consequences over the long term.

The preferable 'fix and mix' approach is characterized by investment in process and operational improvement as well as training prior to offshoring, followed by selective offshoring to leverage core competencies and comparative advantage. This is especially true when applied to high skilled, more complex operations under IT, BPO and hybrid deals.

Transformation needs careful planning with a strong focus on realizing the benefits. “In general, four big mistakes are made: Believing that low labor costs equal efficiency; allowing processes and policies to be out of alignment with requirements; an unwillingness to invest in improvement initiatives and appropriate systems; failure to develop adequate or governance mechanisms,” said Nigel Hughes, Director, Compass Management Consulting.

“Thus, they require special treatment on several fronts. First and foremost, the scope of the improvement opportunity and potential benefit has to be clearly and specifically defined at the outset of the project — that is, prior to the transformation. This requires a detailed baseline analysis of the existing operation. Second, it's essential to establish a benefit management framework that maintains a focus on the actual realization of benefits resulting from the transformation initiative. Too often, organizations lose sight of the benefits from a transformational initiative because they get too focused on completing the project and meeting deadlines. An important component of this 'benefit-management framework' is individual roles, including a 'benefit manager' who is responsible and accountable for ensuring that results are achieved and their impact measured. In an outsourced environment, this relates to basic issues of effective sourcing management, governance, and the role of the retained function,” added Compass' Hughes. **GS**