View Point

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Moving the needle in Order Management outsourcing
From Process metrics to Business metrics

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Executive Summary

The crying call for any General Manager and P&L leader in today's turbulent economic landscape is twofold:

- *Optimize SG&A cost structures as quickly and significantly as possible*
- *Open up opportunities to drive Incremental Revenues by enabling transformational business practices and partnerships*

The traditional practice of executing discrete, offshoreable components of a process through a 3rd party outsourcing provider has proven to be sufficient in order to lower costs. Process metrics tend to adequately measure and reward success in such offshored processes.

However, to create true organizational value, there is the need to enable "Transformational Business Partnerships". In other words, one integrated team needs to be created from client & partner organizations that combine and assume end-to-end responsibility for the business function and articulate its value through business metrics.

This is more so true in the case of Order Management and supply chain functions where the alignment of these processes with the core of an organization's business model is that much more intense. Any form of sourcing or global skills in these areas will not be truly successful or transformational if the Business Metric approach is not adopted.

Often sourcing initiatives do not create the expected value because the outsourcing partner, being once removed from the real business, tends to focus on operations and processes dispassionately. This leads to a significant focus on a number of intermediary metrics that in reality may not have a significant bearing on the end outcomes and thus may lead to managers 'missing the woods for the trees' - being once removed from the real business - and becoming Process Managers as compared to Business Managers.

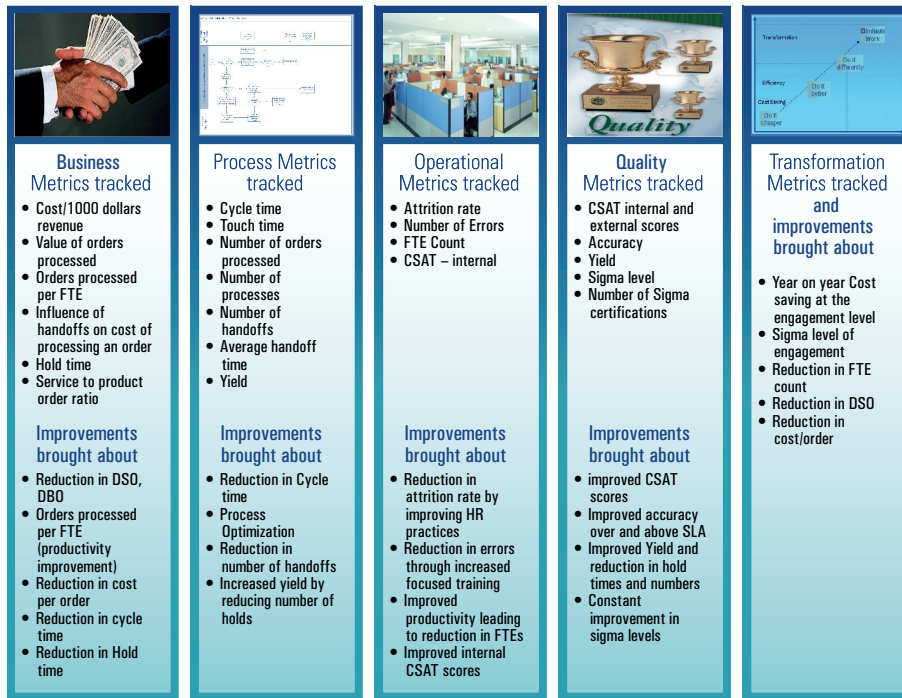## The Process Metrics Approach is not really adequate……

Traditionally, order processing operations are managed in terms of operational efficiency and effectiveness metrics, such as touch time, request TAT and transaction accuracy. This conventional approach to managing order processing operations (either in-house or outsourced) has tended to focus on and around maintaining SLA's and a "Green" status.

While these are fine operational metrics, the underlying business impact and business metrics very often betray large gaps and opportunities with operational metrics. As an example, in one of our client situations, while individual processes met their operational targets, the challenge lied in some underlying business metrics that were characterized by the following issues:

- $150 Million worth of orders on hold - impacting cycle times and revenue recognition
- Large number of high value orders not booked
- Increased processing costs - rising wage and overhead challenges
- Complexity in exception handling impacting order flow and costs
- Increased complexity due to an acquisition

……and clearly value is driven by a 'Business Metrics' Approach

Order processing and fulfillment groups need to be viewed as an end-to-end order management service that could be managed in terms of business metrics. All process, operational and quality metrics need to be aligned to these service-level business metrics. In our order management practice, we define a set of business metrics that are key outcomes and then define a set of process, operational and quality metrics that are aligned to these metrics. Using this method, we track the intermediary metrics while always keeping an eye on the business outcomes or key business metrics.

Business Metrics tracked	Process Metrics tracked	Operational Metrics tracked	Quality Metrics tracked	Transformation Metrics tracked and improvements brought about
• Cost/1000 dollars revenue • Value of orders processed • Orders processed per FTE • Influence of handoffs on cost of processing an order • Hold time • Service to product order ratio	• Cycle time • Touch time • Number of orders processed • Number of processes • Number of handoffs • Average handoff time • Yield	• Attrition rate • Number of Errors • FTE Count • CSAT – internal	• CSAT internal and external scores • Accuracy • Yield • Sigma level • Number of Sigma certifications	• Year on year Cost saving at the engagement level • Sigma level of engagement • Reduction in FTE count • Reduction in DSO • Reduction in cost/order
Improvements brought about	**Improvements brought about**	**Improvements brought about**	**Improvements brought about**	
• Reduction in DSO, DBO • Orders processed per FTE (productivity improvement) • Reduction in cost per order • Reduction in cycle time • Reduction in Hold time	• Reduction in Cycle time • Process Optimization • Reduction in number of handoffs • Increased yield by reducing number of holds	• Reduction in attrition rate by improving HR practices • Reduction in errors through increased focused training • Improved productivity leading to reduction in FTEs • Improved internal CSAT scores	• improved CSAT scores • Improved accuracy over and above SLA • Improved Yield and reduction in hold times and numbers • Constant improvement in sigma levels	

Drivers of transformation value in Order Management outsourcing: Impacting cost & driving incremental revenue

The focus on the end business metrics enables the operations' teams to focus not just on process metrics but the end business impact of each of the processes. This can result in the ability to impact underlying cost and revenue elements. Some of the possible outcomes using this approach could be:

- **Substantial reduction in cycle times and cost per order** enabled by reduction of order processing errors. A strong focus on analytics in your order management process can result in a significant amount of gains through identification of 'problem children' and systematically eliminating the drivers for the same.

- **Achieving a strong understanding of key value elements** that need to be standardized in a scenario of rapid inorganic growth. Typically an environment of inorganic growth creates duplication in processes and significant effort wastage. A business metric approach can help focus on the key elements that need to be standardized without actually waiting for a massive post-merger integration activity on process standardization.

- **Improved Revenue recognition** by creating high-value order monitoring teams that can help remove process flow bottlenecks on top accounts and orders. Business metric orientation can help eliminate the classical problem stemming from process orientation which treats all business scenarios in a similar fashion.

- **Plugging revenue leakage** in complex orders with process improvements. Typically complex orders involve non-standard situations that are not interpreted well and usually lead to 'money being left on the table'. An understanding of the underlying business and the key business controls inherent to it will help eliminate these situations and provide significantly greater revenue assurance within the Order Management process.

Enabling the drive towards business metrics

Migrating to a business metric approach in an order management function, especially in an outsourced situation, does not come naturally or automatically. Certain environmental and structural elements facilitate the institutionalization of this approach.

- **Training:** Training is a critical component in cultivating an orientation to business metrics. It encompasses providing an understanding of the overall business model, the nature of the industry, competitive forces etc. Training also comprises of soft skill training that drives greater accountability and enables ownership of end-to-end outcomes.

- **Functional rotation:** Rotation of personnel across functions such as sales, logistics and fulfillment/ order operations helps provide a better appreciation of cross-functional challenges. It helps drive greater ownership of an end-to-end business metric. In an outsourced scenario, rotation of provider personnel within your organization is an effective tool.
- **Incentive mechanisms:** Compensation structures and incentive mechanisms have to be aligned to business metrics and not merely to operational or process metrics. This is required to drive behavior that is aligned to business metrics. Often organizations underestimate the importance of scorecards and compensation structures that are aligned to business metric. In our Order Management practice, we have examples of some engagements where there is just one SLA which stands as a classic example of a partnership focused on business metrics.
- **Cultural alignment:** No amount of hard alignment will work if it is not complemented by the 'soft' cultural alignment between an outsourced provider and your organizations. This cultural alignment helps instill a sense of passion to collectively drive business goals.
- **Data driven:** A key enabler to drive business metric alignment is to have a manager and a team that is heavily data driven. Churning data to come up with meaningful trends that can be leveraged to identify patterns of customer and internal stakeholder behavior is the key to successful Order Management operations.
- **Passionate about 'problems':** Humorously enough, the last enabler we have noticed is a bit of a paradox. Successful Order Management operations require one to be passionate about 'problems'. Business managers in this space need to enjoy 'problems' (order holds, non-standard discounts, complex orders etc) instead of viewing them as situations that need to be resolved. This often is a personality trait but at one level we have seen that this can be coached to ensure that people do come in with the required expectations set.

Adopting the business metrics approach is the Holy Grail for outsourced service delivery. End-users appreciate how the whole setup of process, systems and operations start with the customer. Vendor managers in client organizations are able to demonstrate how they have built strategic relationships that deliver business value and minimize risk. Service providers and their employees love it - it gives a clear goal to design processes and measure the success of transformation. It also transforms a BPO associate's job from that of mundane processing of transactions to helping clients sell more products at lower costs, buy more products for a lower price or deliver world-class services!

About the Authors

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