

Transport and Services



Trends in BPO in the Shipping & Logistics domain

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Abstract

Outsourcing is not a new phenomenon for the Shipping and Logistics sector. Some of the biggest companies in this sector have used outsourcing in many of their key functions routinely- from Ship Management, Training & Development to I.T. Application development & maintenance. Although the core objectives which drove outsourcing haven't changed over the years viz: need to concentrate on core competencies, lack of in-house expertise and need to extract greater financial flexibility- what is new is that Shipping and logistics companies are now increasingly seeking to gain these benefits by outsourcing business processes which have been traditionally considered to be too core to be outsourced - much less offshored. This is just one amongst some of the key trends, which Infosys has researched, which are emerging from this domain. This paper seeks to make senior executives of Shipping & Logistics companies become aware of these trends which may impact the strategic outsourcing journey of their own organization.

Emerging trends in Shipping & Logistics Business Process Outsourcing:

Some of the key trends which Infosys has identified are -

A. Laggards w.r.t outsourcing are trying to play catch-up:

- Relatively smaller companies are increasingly feeling more and more confident of their ability to get business processes executed from offshore. These companies now view the cost advantage and customer service improvement gains from outsourcing as one of ways they can withstand competition from industry heavyweights, in an industry which is increasingly becoming ever more consolidated through mergers & acquisitions. Ex: Recently one of the smaller Europe based container shipping lines was acquired by an Indian Logistics company and key customer service functions, hitherto being performed from Europe have now been offshored into India.
- Companies with geographical origins in the Far East are increasingly seeking the benefits from BPO. This is significant given that traditionally it has been the companies from the USA and Europe which have taken a lead in seeking gains arising out of BPO. Ex: A Japanese shipping giant is presently in the midst of outsourcing some of its key business processes in two offshore locations in India.

B. Leaders themselves are busy moving onto the next evolutionary step in their outsourcing journey:

- Captives of Shipping and logistics majors are evolving from being a **Onshore centric** in terms of decision making and accountability to a model where process related decisions are increasingly being taken where the process is being performed- **the offshore back office**. Historically, the pioneers in shipping BPO established business process models which required the offshore teams to rely on their onshore counterparts to validate and check work output, or at the very least, assume final accountability for the output. Given the early stages where these captives found themselves on the learning curve, this model was the most logical choice at that point in time. However, while the resources in the offshore unit went up the learning curve over a period of time, the original process model stayed at its historical origins, resulting in a sub-optimal process where- the work input going into the BPO was routed via onshore after being checked onshore for completeness, checked in the offshore captive for completeness and accuracy before processing, checked offshore again after processing the data and passing through another layer of onshore checks, before being passed on to the end customer! The unstated assumption behind this process model was that the offshore process would constitute nothing more than transactional algorithmic data entry based on procedures dictated by onshore SME's, who should therefore be finally accountable for the process quality.

Infosys is now seeing this process model being turned on its head with the offshore resources increasingly being seen as the SME's of the offshored processes. The process level decisions are now being increasingly taken offshore and these resources are now being even asked to contribute their knowledge on issues like system architecture changes wrt the application modules they work on. One shipping captive that Infosys has spoken to for example directly interacts with customers on issues related to bill of lading and invoice accuracy Vis a Vis the traditional model where interactions with customers were always handled by the onshore offices.

This is a major change in both the process model as well as in perceptions.

- Transactional/Algorithmic data entry to Knowledge oriented - No longer are only transactional processes requiring little or no decision making the only ones that are being offshored. Shipping and logistics companies are increasingly feeling confident enough to outsource even complex, knowledge oriented processes which require significant levels of business process knowledge and decision making. Some of the representative processes which are being performed from offshore which fall into this category are: Approval of dangerous cargo before loading cargo on board- a process which requires master mariners with enormous business expertise, Business Process & IT application helpdesks etc. One industry major that we spoke to recently went so far ahead as to ask for our help in executing complex data analytics related to yield management, global accounting and budgetary control- processes which are currently being executed by senior resources with considerable experience, at their headquarters. In another client interaction, Infosys is discussing the set up of a helpdesk to resolve Business Process queries of its global user base- a process which is currently being supported by resources with between 15-25 years of work experience!

- Captive to Third party - Infosys has long since maintained that companies following the captive outsourcing model will incur a Total Cost of Ownership (which includes costs such as attrition, costs related to attracting and maintaining quality resources, among others) which is far higher than what they would incur in a third party model. A recent Forrester report entitled 'Shattering the Offshore Captive Myth' which shook the outsourcing world, confirms what we have been maintaining all along. Our recent conversations with industry make us believe that Shipping and Logistics companies, which have been captive heavy in terms of their outsourcing model till now, are already looking at the third party model in a more favorable light.

C. The emergence of pricing structures which enable shipping and logistics companies to variabilize customer service costs in the 'Flat World':

Infosys has identified the onset of transaction based pricing as a key development which is likely to revolutionize the cost structures in the outsourcing space. The transaction based pricing model allows clients to variabilize their Customer Service Costs/ TUE/Tonne of cargo carried- something that will likely be a competitive differentiator in the future.

The Shipping and Logistics industry has over time made a steady but sure progress towards becoming what we term 'Asset Flexible' w.r.t Capital Assets by moving towards chartering fleet and other capital assets rather than owning them. Consider this- Close to half the fleet of Maersk line, the #1 company in container shipping by revenue and capacity, is currently on charter. One of our clients- a global leader in the oil and gas exploration space, operates a \$1 billion shipping subsidiary for captive use, which also operates a fleet chartered at the same level.

The attractions of being asset flexible are not far to seek. Being 'Asset Flexible' helps these companies gain enormous financial and operational flexibilities, when the industry supplydemand balance turns adverse, by allowing them to shed capital assets. An 'Asset flexible' company is thus able to variabilize its underlying capital cost structures to the dynamic demand curve in an industry which is notoriously cyclical.

Infosys believes that Shipping and logistic companies would soon start to demand the same financial flexibility to enable them to variabilize the Customer Service costs per tonne/teu. This flexibility however can only be provided by a few third party vendors like Infosys who have an ability to price BPO deals per transaction performed and more importantly the flexibility to re-allocate people to processes of other engagements- something which a captive shared service center is not able to do. The onset of Transaction based pricing would mean that Principals of Shipping companies would no longer need to allocate a fixed budgetary support for their captive SSC that is operating as a cost center or pay per FTE employed on its processes with a third party vendor. Rather, they can now look forward to paying only for the volume of service transactions they would consume (ex: no of bills of lading processed, number of invoices paid for in an AP process etc) multiplied by the cost per service transaction. So when the volume of containers shipped decreases say, in the lean season between January to June or any other industry wide down cycle, shipping companies can now gain the flexibility by paying exactly what they consume.

In other words, CEO's and CFO's of Shipping and Logistics companies can now not only be 'Asset flexible' with respect to their capital assets but for the first time also with respect to their human assets. Improved flexibility in customer service costs per tonne/teu shipped will no doubt result in an improved leverage for improving business growth, profitability and the long term competitiveness of Shipping & Logistics companies.

What is needed to achieve these goals is partnership with a trusted partner who has the right mix of expertise in terms of processes, technology and people to deliver outsourcing solutions which go beyond cost arbitrage and which are targeted to alleviate industry specific pain points. Infosys with its breadth and depth of domain knowledge in the Shipping & Logistics domain and experience in executing technology and Business outsourcing solutions with predictability is keen to be your strategic partner in this journey.

About the Author:

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Questions? Opinions?

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