



Achieving Maturity in Outsourcing Models to Tackle the 'New Normal'

A WNS Perspective

Decades ago, business survival and crisis-state management hinged on business strategies like outsourcing, which offered low-hanging fruits in labor and cost arbitrage. Also came along operational or process efficiencies. It was the perfect solution that almost seemed like a breakthrough!

Fast-forward to present day – the breakthrough is simply the normal. It has a nice prefix though, in 'New'. It is the 'New Normal', which is giving enough room for the industry to evolve over the coming decades. Innovative, technology-enabled and flexible operating models are the DNA of the new normal – especially coded to meet the marked shift in client expectations.

A recent NelsonHall survey among European organizations reveals that 74 percent of European companies now consider Business Process Outsourcing (BPO) as a vital part of their global operating models. Accordingly, 44 percent of UK and European organizations are either seriously considering, or already implementing, BPO strategies in support of a variable cost structure, while 32 percent are doing so to enhance agility.

The survey also lists the top three priorities for BPO companies as improving organizational ability to enter new global markets, migrating to a more variable cost structure, and enhancing their agility – dramatically different and evolved from the humble start of labor and cost arbitrage.

If cost savings, quality and productivity were the key aspects of an outsourcing relationship in early 2000, specialization, process re-engineering and technology-enabled platforms have taken that place in 2012. The relationship was earlier modelled on achieving operational goals through a tightly structured Service-level Agreement (SLA). Today, we see a much more mature model through platform multi-tenancy, non-linear growth and outcome-based revenue models. Today's multi-faceted service offerings include data analytics and real-time processing, and more end-to-end services like consulting, business transformation and optimization.

Platform-based Services

Platform-based services are emerging as a compelling proposition to drive flexibility and agility. They offer a departure from traditional service models that use process inputs rather than outcome to measure performance. These outcome-based solutions, together with cloud computing and technology-enabled processes, are set to change the dynamics of the outsourcing market.

Vertical Approach to Service Delivery

Verticalization of BPO offerings is a prominent sign of the increased maturity evident in the market. The one-size-fits-all model has given way to vertical-specific solutions that are designed to address the client's unique market needs. Verticalization requires providers to possess deep domain knowledge and understanding of the client's business. It is essential for BPO companies to demonstrate a commitment in order to provide a truly strategic partnership to their clients.

Tightening Regulations

Regulatory pressures from the US and European countries, the search for a larger talent pool and steady increase in wages in emerging markets are driving the move towards a truly global delivery model, including nearshoring. Destinations in Latin America, Central and East Europe, and low-cost American cities and towns are emerging as nearshore alternatives. The global delivery model is set to grow as companies look for viability in a sensitive socio-political world.

Analytics

Companies will rely heavily on data-driven insights offered through a strong analytics capability to increase their marketing effectiveness, improve customer satisfaction and further their growth targets. Analytics capabilities will lend BPO providers a strong differentiator in the market.



Different Operating Models

The 'New Normal' has been driving BPO companies to enhance their ability to maximize revenue from their existing customers and low-growth mature markets while exploring new growth prospects in emerging markets / economies. If the new and emerging operating models are any indication, BPO companies are already moving along the change curve. Some of them are:

- Insourcing
- Domestic Outsourcing
- Offshore Outsourcing
- Nearshoring
- Captives
- Right-shoring
- Re-shoring
- Build-Operate-Transfer
- Joint Venture

Key Learnings

1. Invest in technology-enabled, platform-based services

Business Process as a Service (BPaaS) as an alternative delivery platform is fast gaining traction as it offers companies flexibility in cost and agility to adapt to market requirements. Define your market, design a differentiated model and market it extensively.

2. Make operational efficiency the top value that your company offers

Cost reduction continues to be an important aspect in outsourcing contracts, but is not the topmost priority for buyers anymore. Operational efficiency, on the other hand, is a major driver. In an uncertain market where companies are looking for stability and business viability, a provider's ability to commit to long-term positive business impact through greater efficiency is a winning proposition.

3. Win confidence with an increased global presence

The new mantra today is not offshoring but the right-shoring mix. Mature providers are offering clients a mix of offshore and nearshore destinations for service delivery. The global delivery model is gaining more acceptance as it offers regulatory compliance, enhanced risk mitigation and access to a larger talent pool.

4. Earn a market differentiator with industry-specific BPO

The ability to provide commoditized BPO services is simply a foregone conclusion as companies look towards BPO providers for industry-specific solutions to support their long-term strategy. Providers who show a commitment to understand the client's business and make investments to acquire the requisite domain capabilities will lead the market. The growth industries will be the Government and Defense / Public Sector, Healthcare and Banking and Financial Services and Insurance. Retail and Transportation sectors are also expected to grow.

5. Offer analytics as a core capability

Business decision-making is becoming more data-driven than ever before. Though organizations recognize the importance of data, they face the challenge of accessing, harmonizing and understanding how to use the data at their disposal. The need-of-the-hour is a comprehensive analytics solution that helps harness organizational data and draw insights to drive more effective marketing, operational efficiency and customer satisfaction initiatives.

Change is the only constant as we all know. We are sure that there will be many 'New Normals' that organizations and BPO companies will encounter going forward. But further maturity in outsourcing models, in combination with the right play of technology, analytics and process solutions, will likely survive every 'New Normal'.

To learn more, please write to us at marketing@wns.com