WNS
Extending Your Enterprise

Business Process Outsourcing:
A life raft for businesses striving to stay afloat

Nowhere to hide. Today's global economic crisis is creating untold challenges for businesses in all industries, in all corners of the world. Business leaders of large and small companies alike are struggling to weather the storm that is affecting the survival of many once solid companies. With no safe harbor in sight, it is time to sort out how to stay afloat.

And the life rafts are few

During severe economic dislocations, businesses almost always turn their attention to their largest expense item - people. Rapidly trimming the workforce, even in countries with strong employee rights legislation, is generally the automatic survival reflex. While pink slips, accompanied by a reserve for restructuring, provide immediate cost savings, **someone still has to do the work** - paying the bills, dealing with the customers, running the numbers, preparing the reports.

But even in the midst of an economic storm, smart companies must keep the implications of their short term actions in context. More often than not, major reductions do not position a company for growth after the skies have cleared. Because of the immediacy and pervasiveness of the layoff process, it is hard to avoid throwing the muscle, that is talent, overboard along with layers of suddenly unnecessary bureaucracy. And those who are left behind are often so demoralized that productivity dips drastically.

There is, however, an alternative to large-scale, aggressive across-the-board layoffs, one that enables businesses to rapidly lower costs and sets the stage for future growth and expansion.
For executives struggling to keep their companies afloat, Business Process Outsourcing (BPO) can prove to be a life raft for survival, and a platform to thrive after the storm is over.

Outsourcing business processes is not a new corporate strategy. Over the past decade, leading organizations have increasingly partnered with third party providers to reduce cost, increase efficiency and improve the quality of business processes ranging from the simplest of payables transactions to highly complex judgment based work. In fact, today, it is estimated that about 40 percent of Fortune 500 companies outsource at least some of their business processes to India alone.

For most companies, the decision to outsource, the determination of what's in scope, and the selection and negotiation with providers has been a multi-month or year process. More often than not, in better times, companies adopting BPO incorporate it as part of a very thoughtful change in their operating model with plenty of time to examine the minutest nuances of retaining processes and associated implications on other parts of the business. But in trying times, chartering task forces to evaluate every option and conducting detailed transformation analyses in advance of taking a decision becomes a luxury that the current economic climate just cannot afford. **If implemented properly, BPO can be a fast and simple tool to help a company survive a downturn and then to thrive when the economic climate calms down.**

Why BPO?

Rapid cost reduction is critical for companies trying to survive in the most challenging economic climate in over 60 years. But the value of BPO goes far beyond the numbers, resulting in a stream of benefits that merely reducing workforce cannot deliver to businesses struggling to survive. What does BPO also provide?

Delivers a rapid decrease in cost structure

If the scope and service levels are right, businesses can achieve a significant decrease in cost structure in as rapidly as two to three quarters by working with third-party outsourcing providers, particularly those offshore. Regardless of how bad things become, businesses will continue to need to perform basic processes such as paying bills and processing accounts payable, as well as to serve the needs of customers. The provider community is very adept at quickly transferring processes to enable clients to take advantage of relatively swift cost savings, while maintaining or improving quality. And, depending on the state of the existing processes, the savings may approximate 30 to 60 percent on the current cost base.

Rapidly reduce cost structure

When one of the world's largest online travel companies rapidly needed to reduce the cost of its customer care and finance and accounting operations, they turned to business process outsourcing, partnering with WNS.

By leveraging the right onshore and offshore model, WNS delivered $3 million in savings right to the bottom line within the first quarter of going live. After ramping up the operations to over 1,000 people in fewer than nine months, WNS delivered cost savings of over 30 percent on the base run rate. WNS today manages the entire customer care process for the client and a range of their finance and accounting processes.

Changes fixed cost to variable

In times of economic uncertainty, the ability to move swiftly to a variable cost structure as volumes change is critical to cost management. When processing costs remain fixed while volumes decline, the cost of goods or services sold quickly ratchets up. A feature of many BPO contracts is unit transfer pricing or UTP, a pricing approach whereby transactions are priced on per unit basis, assuming a floor and ceiling on scope.

Move costs from fixed to variable

A major North American airline needed to implement more transparent, efficient and standardized revenue accounting processes within 16 weeks.

By moving onto WNS's proprietary technology, in four months, the airline was able to tap into an entire suite of revenue accounting services, including sales process integration, travel usage management and reconciliation processes such as billing, coupon matching and accounting. And, as a result, the client moved from fixed FTE costs to volume based pricing, providing greater flexibility in managing costs based on business volumes, reduced operational costs by 30 percent year on year, and increased revenue potential by reducing turnaround times by 40 percent.

Retains the focus on the customer

In any corporate change, be it a merger, or a change in market focus, or a downsizing, it is the all-important customer that suffers most. Diminished employee headcounts demand customer facing or support staff do double (or even triple) duty, resulting in delayed response times, inaccuracies, drop in first call resolution and other aspects of poor customer service. And even the most focused of employees are distracted by the loss of their colleagues, or by uncertainty about the safety of their jobs. It is a vicious circle - poor morale reduces productivity and customer centricity. The cycle becomes pervasive; losing customers further compounds the survival issue problem.

BPO that aims to improve customer care, not only focuses on maintaining customer loyalty through good service, but can also be shaped to build revenues. By adding revenue enhancement processes to the customer interaction, it may be possible to get a greater share of wallet from the customer, in some cases as much as 50 percent.

Retain customers in the face of operating cost reductions

A leading UK and North American gas and electricity provider sought to fuel its growth by significantly increasing customer service levels in the face of aggressive operating cost reductions.

WNS was charged with quickly transitioning during an increase in customer interaction volumes - 100,000 to 2,300,000 in over eight months, scaling a team from 26 to over 1,500. The scope included all channels of communication including email, white mail and telephone, as well as exceptions billing, a crucial financial back office process which involves accurate billing in order to plug potential revenue leakages.

As a result of the relationship, the client was able to reduce backlogs from 15 million to just over 1 million in 18 months, reduced customer complaints by 80 percent in 12 months, realized over 12 million GBP in revenue by restructuring the debt accrual process and identifying interest leakage in supplier payments, transformed the tariff and measurement system to recover debts in excess of 8 million GBP, all the while increasing customer satisfaction scores by 15 percent in a competitive residential utility market.

Puts focus on knowledge and away from intuition

In challenging economic times, knowledge is power. Knowing the right facts - who the customer is, what and when he will buy, how much production will cost, and how to better manage a supply chain will distinguish the survivors from those who are desperately holding on.

Today, more than ever, intuition is not a sufficient basis on which to make a business decision. With every market and economic precedent about business behavior virtually thrown out the window, CXOs who make decisions based on insights - combining intuition with facts based on rigorous research and analytics, will not only survive, but thrive, when market conditions turn. These companies will understand every nuance about changes in market conditions, local market preferences, and be able to gauge the implications of risk before the fact, coming out of this economic cycle with tools and approaches that position them even more effectively.

Focus on knowledge rather than intuition to increase revenues

A leading media and entertainment company distributes more than two million DVDs to 5,000 North American stores through major retailers.

Approximately 70 percent of all in-store sales occur during the first week, therefore inventory control is a very critical component of revenue management, especially in an economic downturn when every dollar counts. However, distribution of new releases was not governed by sophisticated demand forecasting techniques, resulting in increased distribution costs due to stock-outs, over-stocking, and loss of sales.

By quickly implementing a demand planning program and forecasting model, WNS was able to deliver accurate insights into revenue estimates for each store, resulting in an increase in forecasting accuracy of over 40 percent.

Makes the cost structure transparent

Information is an extremely valuable asset. This is especially true in an economic downturn. Understanding what it actually costs to deliver business processes in aggregate and at specific service levels is built into the BPO contract, delivering vital intelligence for a CFO or business unit leader. By its very nature, contracting for services eliminates guesswork about the cost to sell, providing clarity around the components of that cost.

Can be engineered for quick return

As BPO involves a contract between the client and the service provider, the economics of the contract can be engineered to respond to the client's particular needs. For example, BPO contracts can front-load savings, incorporate the cost of technology, or defer the cost of transition, virtually acting as a financing tool. "By the drink" cost structures, or transaction-based pricing can help the company correlate consumption with cost. Creative structuring can also be designed according to risk or gain sharing principles, giving a strong incentive to both the BPO provider and company to work together collaboratively to identify deeper savings, generating an even greater stream of benefits.

Consolidate to standardize

For one of the world's largest risk management and advisory conglomerates, WNS consolidated and standardized finance and accounting processes across 30+ operating companies in 40 countries the Americas, Europe and Africa. The processes, ranging from accounts payable and receivable, T&E, general ledger and management reporting to fiduciary accounting, were delivered using 25 disparate F&A systems By setting up a dedicated finance and accounting center of excellence offshore, WNS reduced the cost of F&A operations by 40 percent annually while strengthening financial controls, and increasing productivity and efficiency by 7 percent within the first year of operations.

Engineering for quick return

A large retailer with sales of over $1 billion a year outsourced its entire finance and accounting function in order to reduce its finance & accounting and ERP costs. Because of the scale of the sourcing, the client was able to reduce its organization to key roles: the CFO, the controller, and the assistant controller.

WNS has single point of ownership for managing the F&A processes, application platform implementation and support services.

As a result of this bold change, the retailer was able to reduce its cost of finance and accounting processes to 50 percent, with a commensurate reduction in technology costs. But the savings have only been part of the picture; the company was able to migrate all functions in twelve weeks, ensuring a smooth transition.The initiative has also resulted in implementation and updating of new finance modules, process improvements including backload reductions and reconciliations, implementation of a business intelligence system, and reclassification of assets with revenue implications.

Gets even more out of shared services cost

Many companies have already re-engineered their cost base by investing in onshore or nearshore shared services centers (SSC), consolidating and standardizing finance and accounting processes, or perhaps co-locating a number of corporate functions in order to achieve scale and leverage overhead. But BPO can quickly take cost and performance to the next level. Moving processes offshore to a provider's lower cost delivery center not only provides the immediate cost benefit of labor arbitrage, but allows shared services management to do more with less, generating bandwidth and capacity to move the next generation of business processes into the SSC, in turn reducing more cost.

Leverage BPO now... Eyes on the prize

To get maximum impact - reducing cost at speed - from BPO implementation now, CXOs should be able to answer "Yes" to the majority of these questions:

Does it significantly and rapidly decrease my cost structure?
If BPO does not lead to significant (25 percent or more) and rapid (within three quarters) cost reduction, it most likely does not make sense.

Does BPO maintain or enhance my customer's experience?
If processes are customer facing, BPO must help the company with that all important stakeholder, the customer, by keeping service levels consistent or improving them altogether.

Can BPO make my fixed costs variable?
BPO must change the game by moving at least some component of fixed costs quickly to a unit transaction pricing structure, or introduce a level of variable pricing which adapts to business volumes.

Will I know more about my business?
BPO should add transparency into performance management, providing more information about revenues, customers and operations.

Does BPO quickly create a tangible and measurable business impact?
BPO is not just about cost reduction - if receivables can be collected more quickly, or customers buy more products and services, the business impact can be of more value than a reduction in the cost base.

Clearing the decks for success - Eight simple rules

In good times, the outsourcing of business processes can take a year or more to go from initial concept to implementation. However, in today's environment, time is the enemy; the process can no longer be linear. There is no time to slow a BPO implementation with task force meetings, protracted scoping and sourcing exercises, vendor selection and process mapping. In a quarter to quarter environment where survival is not a certainty, businesses just do not have infinite time to get to "yes."

1. Ensure BPO is a CEO priority

In uncertain times, sponsorship for critical initiatives such as BPO must come from the very top of the house. **Only the CEO can deliver the message** that there are no other options for survival. Otherwise, the imperative for outsourcing is not taken very seriously, and management sees implementation as optional, easily finding ways to opt out, with arguments ranging from "outsourcing never works, we've tried it," to "the process is too critical to outsource" to "I have to implement new systems first."

2. Approach outsourcing with an open mind

Merely thinking call center work, or rules based transactions limits the extent to which business process outsourcing can be used as a 'survive and thrive' tool. The BPO industry has moved well beyond volume-based voice and data work into highly complex industry and insight processes - think securities trades, claims management or marketing analytics. One picture is worth a thousand words - getting on a plane to India or The Philippines or Romania will help executives experience first hand the rapidly increasing sophistication of work that is migrating offshore.

Smart companies collaborate with providers to determine "the art of the possible." They start the outsourcing process with a question: "this is where we need to get to, how do we get there?" Being prescriptive generally means leaving a whole host of benefits off the table; BPO providers have the experience and expertise to easily identify low hanging fruit and stage opportunities that will result in greater savings.

3. Keep it simple

Speed to cost reduction with no diminution of quality should be the first and foremost objective of BPO as a survival tool. **This is not the time to radically "transform" business processes**, or implement new enterprise technology, or put in the latest bells and whistles - it's time to get the cost out - fast.

Keeping it simple also means avoiding a wholesale overhaul of the business model at once. While a "multi tower" outsourcing of HR, IT and finance & accounting may seem like a the right approach to reengineer the business over the long term, the sheer complexity of managing the amount of change - in systems, in processes, in integration - is generally a recipe for delays, cost overruns and failure. The jury is out even on concurrent functional outsourcing bundled in one deal even during good times; few large scale multi-function outsourcing programs are considered successful.

This does not mean that changes in workflow, or standardization of processes which can be accomplished during transition or shortly thereafter, should be off the table. Keeping it simple means being realistic about the aspirations for the program in times of economic uncertainty, focusing only on **obtaining the benefits that truly matter.**

4. Move fast

Companies can move fast on their outsouring program by mandating aggressive timelines across the board. Truth is, **there is no change without urgency.** If moving quickly to implement BPO is not seen as vital to the basic survival of the company, it will not produce the desired results. Imposing deadlines for the development and implementation of a roadmap, including scope, provider selection and transition will mobilize the organization. And setting the expectation that X value to be out of business line or functional budgets by Y date sends a signal that the organization is serious.

5. Empower an internal outsourcing czar, and put top talent on the case

Survival programs are always led from the top and center. As evidence of executive commitment, the appointment of an outsourcing czar cum program management leader with the right level of responsibility and authority is critical to success, This must be someone who is fully accountable and is committed full-time to the success of the program, has organizational respect, knows how to exercise authority, is not distracted by other responsibilities, is a good politician and has a personal incentive to succeed.

But appointing the right leader at the top of the house is not enough. Each area of focus should assign a key manager responsibility for results, giving him or her leeway and tools to achieve clearly delineated corporate objectives for the program. Successful implementation cannot be a part time job; this is no time to assume that the best and brightest can juggle multiple roles well.

6. Develop a realistic deployment plan

The story of the tortoise and the hare is a good analogy for outsourcing implementation. **Even when outsourcing is being implemented for cost**, a measured, tightly sequenced but rational program that meets milestones and is not disruptive to the business has a much greater chance of success than an all hands-on, sprint-to-the-finish program. In their haste to cut out more cost, companies at times, push for or buy into an unrealistic transition roadmap. When the first failure occurs because processes cannot be documented thoroughly, the network is not ready or work shadowing is insufficient, the naysayers come out in force. A deployment strategy that builds up steam over time after the success of initial phases is far more likely to meet objectives.

7. Insist on alignment

Outsourcing can mean a massive dislocation of culture, resulting in a tug of war between client and provider. When new people and processes are introduced into the equation, dissonance naturally occurs. **Partnering with an outsourcer who understands who is the client, and will align with - rather than impose - its ways of working, is critical**. First and foremost, the provider must understand what values are important to the client and adjust its working style accordingly. Second, the provider must design its deliverables to support the client's needs. And last, the provider must understand that the scope of work is out of date the day the contract is signed. Flexibility to meet ever changing business needs in this economic climate is imperative.

8. Debit budgets in advance

This little trick obtains commitment where it counts - in the budget process. **Building BPO savings into the current year's budget in advance ensures that managers have no excuse but to be committed** to the implementation of the BPO program or find some other way to get the cost out fast. Truth be told, short of cutting staff to the bone, there is rarely another way.

Getting started - Identify the right scope

Once the organization has the right sponsorship, resources and commitment to implement BPO successfully, the next hurdle is identifying the right scope with enough impact to yield results. Outsourcing success is always predicated on ring fencing enough of the right scope to show results quickly. But in a rocky economic climate, it is critical to focus either on those processes that cleanly and quickly reduce cost with impediments, or those that can create immediate revenue impact.

What processes are the best candidates? Which can be easily outsourced with the fewest complications for rapid, sustainable cost reduction?

- **Focusing on enabling processes first sends the right message to the organization.** Move those processes that are below the waterline, or those that are "part of the plumbing." Often highly transactional in nature, accounts payable or travel and entertainment can be easily moved, demonstrating proof of concept. They have the additional benefit of communicating the message "do as I do, not as I say," which is a key element of leadership in tough times.

- **Business line and/or management resistance can stop BPO in its tracks.** Seek to outsource those processes that can be transferred with minimal organizational friction and where hand to hand combat or internal evangelizing is not required to get buy-in.

- **Scoping functions or processes that are in the midst of other change programs, such as a major ERP implementation, can derail the stream of benefits.** Focus on business processes that are not dependent upon the completion or the integration with other corporate initiatives.

- **The need to radically reengineer processes preparatory to outsourcing complicates transition.** Avoid scoping processes that require significant modification to move, or do not link cleanly to both upstream / downstream processes. In sum, focus on processes that do not require the organization to make a major change in the way it works.

- **Impact on revenue is even more valuable than cost savings.** Don't restrict scope to taking 30 percent out of operating cost; a good BPO provider can help you free up cash flow, adding discipline to your collections and eliminating bad debt.

- **Local laws affect both speed and savings**. Look to move processes where there are few to no regulatory or labor issues that can slow the transfer, such as right to work, data privacy, economic development incentive structures with claw back or repayment clauses, or union issues.

After the storm

The advantage of using BPO as a life raft is the ability to make a rapid change in the cost structure, and position the company for long term growth when the economy turns around. Simply reducing the workforce by the numbers yields short-term benefit; when it is time to position for growth, a lack of talent will hinder efforts to get back in the game quickly.

BPO implementation, whether in good times or bad, is not just about cost reduction. Its greatest benefit is changing the architecture of the corporation by globalizing the workforce, making fixed costs variable, and ascribing a cost and a value to processes and services. But when survival is on the line, the imperative for change can override every argument against a new way of doing business. As Frank Blake, the CEO of Home Depot said, "A downturn is a terrible thing to waste. It's easier for everyone to understand the need for change when things are tough and the risks are lower."

When the economy does turn around, those companies who have made sustainable changes, not merely focused on a short term fix, will be best positioned to shift gears and compete in a marketplace whose fundamentals may be very different.

What are just a few of the advantages companies will gain by moving to a BPO model today?

- **Support for rapid global market entry**
  One of the major differences between this economic crisis, and past recessions, is the extent to which financial markets and economies are now integrated and globalized. Survivor companies will have to move rapidly to serve global markets, focusing much of their resources to compete. This means having the flexibility to scale back, middle and front office processes quickly.

  BPO provides that scale, expertise and flexibility. Providers can rapidly tap into talent pools globally to deliver business processes; with connectivity, savvy companies will become agnostic as to delivery location, just as easily consolidating general ledgers in Manila as in Milwaukee or Manchester.

- **Standardized business processes**
  Consolidating processes offshore in an effort to reduce cost has a positive by-product - levels of standardization that are difficult to achieve through incremental efforts such as process reengineering when times are easier. With standardization, the organization is well-positioned to take the next step to transform processes through technology and quality, taking them to the next level of efficiency.

- **Rationalized delivery model**
  The greatest challenge in moving to a shared service, or horizontal structure, is overcoming misconceptions and fears about diminution of service levels, risk and performance. By "wrenching" processes out of the business lines in the name of corporate survival, the objections which delay or derail consolidation and centralization are, in effect, overcome.

- **Commercialized approach to operations**
  Most companies cannot put a price on the cost of paying a bill, collecting a receivable, or interacting with a customer. Imposing the discipline of a BPO contract replete with unit cost, turn around times, and customer satisfaction levels makes the organization think differently about consumption and service levels, making the actual cost to sell a product or service, transparent.

No one is immune in this economic climate

Today, companies across the board - in terms of industry, geography, size, products - are fighting for sheer survival. Some of the world's most admired companies are in danger of radical downsizing or discontinuance. And the urgency to make the right changes to survive is at a fever pitch.

The adoption of business process outsourcing provides companies a life raft to weather the storm, then float into a safe harbor. In better economic times, the BPO model has demonstrated time and time again that it can reduce costs dramatically and rapidly, change fixed costs to variable, create competitive advantage by increasing the all-important focus on customers, enhance transparency, and enable companies to make better decisions through actionable insights. In our current economic climate, the ability to structure the company to respond to today's challenges while positioning for long term growth is of great value.

Charles Darwin once said "It is not the strongest of the species that survives, nor the most intelligent. It is the one that is most adaptable to change." The time to change operating models by adopting BPO is now. There may not be a better or a second chance.

WNS Global Services

North America

420 Lexington Avenue
Suite 2515
New York, NY 10170

United Kingdom

The Lodge
Harmondsworth Lane
West Drayton, Middlesex
UB7 0AB

India

Gate No. 4, Plant 10
Godrej & Boyce Complex
Pirojshanagar
Vikhroli (West)
Mumbai 400 079

About WNS

WNS is a leading global business process outsourcing company. Deep industry and business process knowledge, a partnership approach, comprehensive service offering and a proven track record enables WNS to deliver business value to some of the leading companies in the world. WNS is passionate about building a market-leading company valued by our clients, employees, business partners, investors and communities.

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

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