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Single-tower BPO deals - Quick path to cost cuts and outsourcing success

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While multi-tower outsourcing engagements – in which a range of functions such as F&A, HR, IT and contact center are bundled into one contract awarded to a single provider – may seem an effective way to quickly reduce costs due to economies of scale and presumed truncated solutioning phases, the reality is often quite the opposite. Think back to post-September 11 when cost reduction, just like today, was an outsourcing buyer's primary driver. Then consider the multi-tower deals struck during this timeframe – large utility and insurance company buyers top the list – all of which resulted in missed expectations.

History has proven that multi-tower engagements often miss the mark. Why?

1) No single provider excels in all towers.
2) Such massive outsourcing agreements are exceptionally complex, and the complexity is exponentially exacerbated by the number of included functions.
3) The needs and requirements of all client stakeholders related to each tower must be accounted for during the pursuit phase, as well as the subsequent solutioning, transition and steady-state delivery phases.
4) Larger governance teams are required, and the governance function itself becomes highly unwieldy.
5) And finally, industry-specific knowledge is necessary to achieve expected goals, and no provider has expertise in all domains.

Although today's buyers, similar to those in the early 2000s, are trying to minimize their up-front investment and build as much volume flexibility as possible into deals, all of these issues can far too easily, and more often than not do, lead to client and end-customer dissatisfaction. In some cases, multi-tower deals take five years or more just to break even, and buyers forget to be wary of providers that are willing to 'buy deals.' While the pricing may be attractive today, the provider that is making low to no margin will cut corners after the honeymoon period is over. The provider's senior management will have long forgotten why such a low price was agreed, and require the account team to add on services or look to other more fruitful accounts to make up the difference.

Accordingly, separately inked one- or two-tower BPO deals are most appropriate if the company is on a fast pace to cost reduction. Simplifying the process delivers a better-managed outcome.

There are, of course, other decisions and determinations outsourcing buyers should make before embarking on a single-tower deal to help ensure business objectives and both early – and steady-state cost reduction targets are achieved.

a) **Don't underestimate the importance of the buyer / provider partnership**

With so much at stake when transferring process delivery responsibility to a third party, the relationship between an outsourcing buyer and provider must transcend that of a typical customer / vendor. Rather, the relationship must be a true partnership with a high sense of trust. Considerations buyers must factor into the provider selection and due diligence process include

- Is the provider willing and able to work the way your organization works, embracing your culture and values while leveraging its systems, processes, performance-enhancing techniques and domain knowledge to enhance the effectiveness and efficiency of your processes delivery?
- During discussions, are you interacting directly with those who will be in the trenches managing solution design, transition, steady-state operations and continuous improvement initiatives, or just a team of mouthpiece salespeople? It is absolutely vital to have direct communications with the provider's actual

operations and delivery personnel, as this is the only way you can determine the extent to which you trust their capabilities, gauge the chemistry between your teams and evaluate the overall 'right fit' level.

- Where do you rank in the provider's portfolio of clients? Will you be a big or little fish? If you're a minnow, you can be certain you will not receive the strategic and operational attention or the 'A team' resources to achieve your desired goals. What is the provider's long-term interest in you?
- Is the provider willing to start small with a pilot project? The reality is there are bumps and missteps at the outset of every outsourcing engagement, and you must learn how your provider reacts to and rectifies these. Create a proof of concept and then move forward with additional processes.
- After the economic crisis subsides and cost reduction steps move down a few rungs on the outsourcing driver ladder, will your provider be able to move you up the value chain? For example, does the provider have proven high-end research and analytics capabilities to provide you with data that supports informed decision making, such as spend analytics and optimization within the procure-to-pay lifecycle? Will the provider's capabilities enable you to incorporate predictive analytics into your order-to-cash processes to estimate cash flow?

b) Provider selection and negotiations – Don't go It alone

A plethora of information is available to outsourcing buyers during their initial service provider vetting process. Industry conferences, providers' websites, and discussions with peers are all good preliminary data sources. The next step is to consider engaging the services of a third-party sourcing advisory firm. These consulting organizations frequently work with the providers and thus have extensive knowledge of the capabilities, strengths / weaknesses, culture and vertical industry expertise of the providers in each tower. They also have expertise in RFP and scope development, change management approaches, solution evaluation, pricing validation, retained organization design, SLA recommendation and contract negotiations. As a result, they are invaluable in helping outsourcing buyers craft an engagement that should achieve both quick-hit and long-term goals.

Further, these firms have insight into failed multi-tower deals that escaped the headlines and can explain some of the pitfalls associated with taking on too much too quickly – especially if this is the buyer's first outsourcing experience. There is such a thing as organizational readiness before going down the sourcing path. Why not leverage the knowledge of a firm that can make the outsourcing process easier on you and help create a sustainable partnership with your provider?

Conclusion

In this economic crisis, let's learn from our post-September 11 mistakes by thinking beyond the near-term to rush to achieve savings. Will a massive multi-tower engagement continue to meet expectations when the savings have narrowed over time? Does your provider or your contract allow for added business value such as implementing forecasting tools or analyzing growth and market share to enable strategic decision making?

Consider the very different needs among all the internal customers in your organization. Does your contract have so much complexity that change will be difficult for those unforeseen problems that will arise? And they will arise - regardless of size or scope. Does the provider's culture allow for the kind of flexibility needed to address these unforeseen problems, or will it be a change order environment full of nickels and dimes?

Remember that just because a provider has a wide range of capabilities doesn't make it an expert at all of them. Choose wisely. 5- and 7-year contracts aren't easily changed or terminated should one of the in-scope service towers fail. Talk to references early, and talk to sourcing advisors to learn about which clients remained happy after the pursuit process. You'll be well-served by conducting extensive due diligence.

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