

Benefiting from the recession through outsourcing



About the Author
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How partnering with the right BPO service provider can help you not just outlast the recession, but benefit from it.

Even in the best of times, business leaders face multiple challenges - expansion plans, competitor moves, investor value creation, people issues - and so much more. However, it is in a downturn that a leader faces challenges much more critical and immediate to the health of the business such as scaling down costs, boosting Associate morale, sustaining customer value, even ensuring that the business survives the downturn.

How should business leaders address these challenges? Should they be apprehensive about the future? Should they attempt quick-fix solutions that will inevitably hurt the business over the long term? Should they view the recession as an impediment that distances them from their business goals?

Or, should they attempt to leverage the recession as an opportunity that helps them emerge stronger once the economy recovers?

Prof. Colin Coulson-Thomas, an active consultant and author of *'Developing Directors, a handbook for creating an effective boardroom team'* and *'Winning Companies: Winning People'*, offers a perspective in his research programme which identifies critical success factors and successful approaches to the challenges faced by directors and boards. Prof. Coulson-Thomas states, "While less capable boards focus on survival, cutting costs and laying people off, the more effective ones look beyond economies and at ways of improving performance and building market share. The astute invest in gaining competitive advantage while interest rates and prices are relatively low. They position themselves to both weather the storm and take advantage of recovery."

It is this approach that several business leaders today seem to be adopting. Among the many options available to them during a recession, the option that has quickly gained the widest acceptance is business process outsourcing, or BPO. Adopting a strategic approach to outsourcing can help the outsourcing organization address precisely those challenges that the recession presents:

- Unsustainable cost base, leading to margin pressures
- Inability to substantially enhance productivity of existing employee base
- Creating a leaner organization without compromising on service quality
- Creating greater accountability within the system, with a focus on costs



Choosing the right BPO service provider

At a time when leaders are more focused than ever on getting critical business decisions right, how should a business leader approach an initiative as strategic as outsourcing? The most critical aspect in outsourcing is the choice of the service provider. With a cluttered service provider space, it is almost impossible to evaluate each service provider accurately. So, how does an interested outsourcer gain quick cost benefits without the risk of getting into a messy outsourcing relationship in a hurry?

Here are a few questions that the outsourcer needs to ask:

- **Leadership:** Does the prospective service provider have an experienced leadership team that can understand the customer's pain points and create a framework to address them?
- **Reputation:** Does the service provider enjoy a reputation of providing high-quality services, consistently meeting SLAs and operating above industry benchmarks?
- **Flexibility:** Is the service provider a thought leader leading the industry in terms of process portfolio and strength across the service range (from low-end, rule-based services to high-end, judgment-based services)?
- **Financials:** Is the service provider financially strong, and open to making investments to improve service quality and processes?
- **Approach:** Does the service provider display a proactive, consultative approach to the relationship, putting in place a clearly defined plan to deliver consistently better results as the engagement matures?
- **Experience:** Has the service provider displayed change management capabilities in its existing relationships?
- **Integration:** Does the service provider have the capability to be a process integrator for processes across the organization?

Maximizing benefits from outsourcing

While there is no one-size-fits-all approach to outsourcing, let us see how outsourcing can benefit most outsourcers during the recession:

- **Focus on cutting general and administrative costs:** The Hackett Group, in a recent research noted that the gap between the general and administrative (G&A) costs of world-class companies and their industry peers has increased 33%, with world-class companies spending on average \$141 million less on G&A. This number is significant, especially considering the outsource-ability of general and administrative functions.

What should hearten outsourcers is that for a mature service provider, setting up a shared services center involves a much shorter cycle than, say, for a high-end outsourcing engagement such as virtual manufacturing. In addition to G&A costs, conducting an assessment of the 'low-hanging processes' that can be outsourced quickly would yield significantly positive results.

In a 2007 study of global shared services, Hackett claims that 65% of firms implementing shared services saved more than 20% on costs, while 27% saved more than 40% on costs.



- **Consolidate processes with a single service provider:** While multi-sourcing may have had its advantages when the focus was more on rapid expansion and leveraging service provider specialization, adopting a single service provider approach can help outsourcers manage costs better and maximize the benefits from outsourcing.

More specifically, consolidation can help the outsourcer create a centralized service center with better best practice sharing and service levels, cut service provider management costs substantially, involve senior leadership of the service provider at key stages, help create a roadmap for outsourcing more high-end processes over time and, most importantly, lay the foundation for a deep-rooted partnership with the service provider that is imperative to tap the true potential of outsourcing.

- **Structure deals with an eye on the future:** A mistake many organizations will make during the recession is to outsource processes solely with the objective of cost savings, without a structured roadmap as to how the engagement with the service provider will shape up in the future. That means the benefits will be immediate, but unsustainable.

On the other hand, leading corporations that balance current concerns with future plans will be the ones that are able to truly sustain the benefits of the outsourcing engagement. For instance, Mahindra Satyam BPO began its engagement with a leading Europe-based pharma major in 2004 with 40 full-time employees (FTEs) and one process, but with a strategic intent to scale up the relationship, the engagement today serves the customer across 100 global locations, five different languages and multiple processes.

Being future-focused while deciding on the service provider also means factoring in the service provider's experience in handling processes from the most basic, cost-focused processes to the high-end, transformational ones. Inevitably, these are also the service providers who will best display the agility required to address the primary customer concern today, i.e., cost.

- **Evaluate outsource-ability across functions:** While certain processes and functions are obvious choices in terms of the benefits to be gained from outsourcing them (general and administrative functions, for instance), there are several other functions that offer tremendous outsource-ability. The way the BPO industry has grown is a perfect example of this. While BPO started off as being a low-end, inbound/outbound calling service, it has now grown in maturity to offer services that are core to the customer organization.

Who would have thought that one day BPOs will be creating geospatial maps from virtual locations? Who would have thought that BPOs will one day design artworks of medicine packs miles away from the location where they will be manufactured? This has been made possible due to the proactive approach of outsourcers to explore how deep BPO can penetrate within the organization to cut costs and add value.

This approach is more valuable today than ever before. Analytically evaluating each process from the standpoint of outsourcing them could lead to significant cost benefits that the organization had never foreseen.

Summary

Process Outsourcing presents an excellent opportunity for organizations to not just cut costs in the immediate future, but create a lean organization that will be even more profitable once the economy recovers and deliver enhanced customer value.

To know more about how Mahindra Satyam BPO can partner with you to achieve your objectives, mail Connect@mahindrasatyambpo.com with the subject, **'Benefiting from the recession'**.

(This paper has been co-authored by Abhishek Saxena, Head-Marketing and Communication, Mahindra Satyam BPO.)