HfS Research
Collaborative Sourcing Intelligence

Insight. Advice. Benchmarking.

Are you achieving...
High Performance in BPO

Meet the turbo-chargers!

HIGH PERFORMANCE BPO

Fersht — HfS Research
Sutherland — Accenture
Willcocks — LSE
Simonson — Everest Group
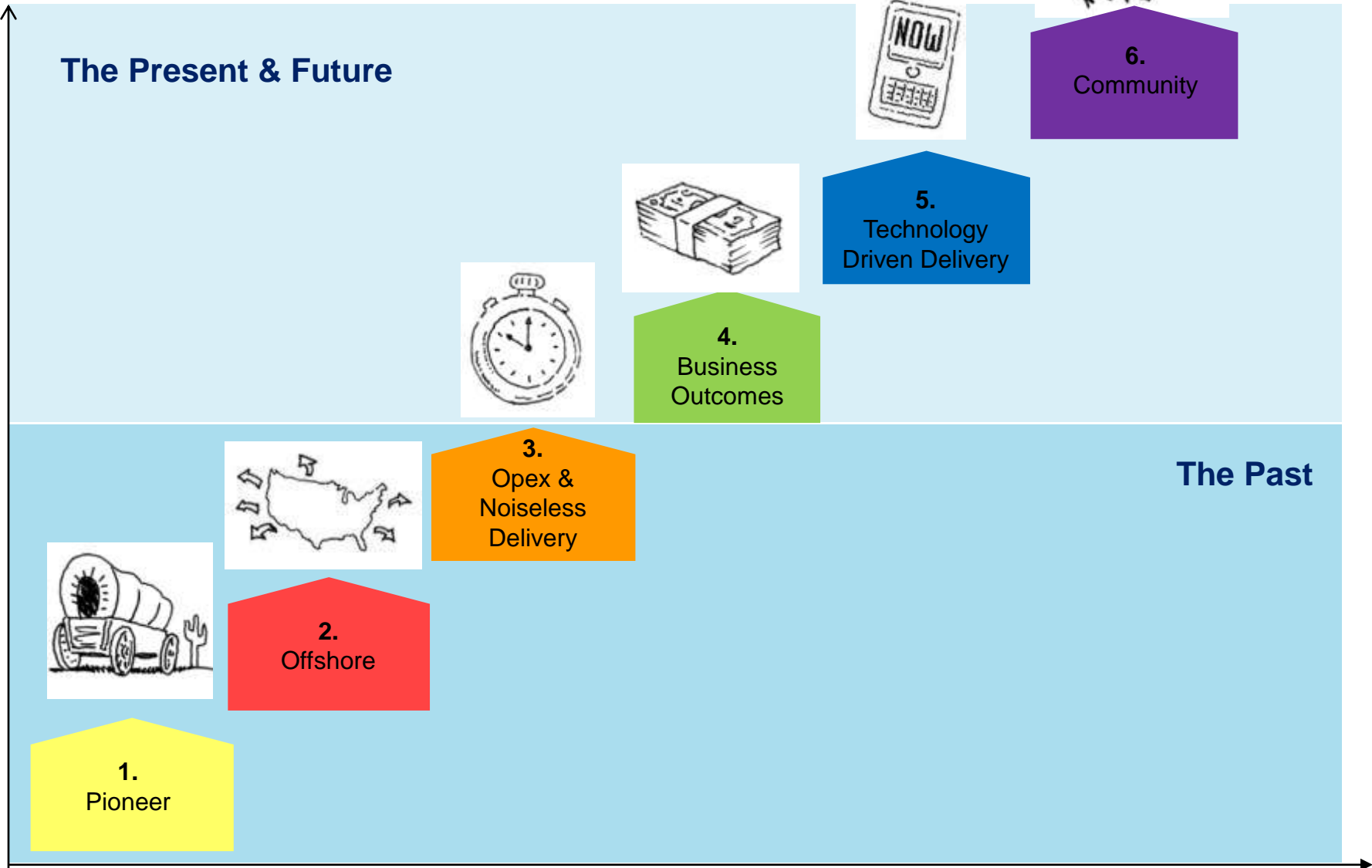Ward — Cisco

Turbo-charging tomorrow's organizations

Agenda

➢ **Welcome and opening comments**

➢ **HfS: BPO Mega Trends in 2012**

➢ **Everest: The High Performance BPO survey**

➢ **LSE Outsourcing Unit: High Performance BPO in practice**

➢ **Cisco: Living in a High Performance world**

➢ **Q & A with the panel and audience**

Accenture's View of the Evolution of the BPO Market

BPO capability evolution (y-axis)

The Present & Future

The Past

1.
Pioneer

2.
Offshore

3.
Opex & Noiseless Delivery

4.
Business Outcomes

5.
Technology Driven Delivery

6.
Community

Time (x-axis)

Accenture's view of High Performance BPO

Accenture believes that High Performance BPO results when providers and buyers exhibit eight core management behaviors and practices

1. **End to end approach** | Take a holistic approach to the scope of the BPO relationship
2. **Collaborative BPO governance** | Adopt a partnership-based approach to governance
3. **Change management a priority** | Drive strong transformational capability
4. **Balanced purchasing decision** | Focus on benefits beyond cost reduction
5. **Business outcome focus** | Target strategic business outcomes
6. **Domain expertise and analytics** | Contextualize data through domain expertise and analytics
7. **Retained organization transformation** | Align the retained organization with the outsourced processes
8. **Technology as an enabler** | Emphasize benefits of technology in the BPO relationship

Visit our High Performance in [BPO Microsite!](#)

MEGA-TRENDS

BPO

Phil Fersht
CEO, HfS Research

HfS Research is the leading analyst authority and knowledge community for the global services and BPO industry

- **20 dedicated analysts spread across US, Europe and Asia/Pac**

- **HfS educates and facilitates discussion among the world's largest knowledge community of services professionals, currently comprising 120,000 subscribers.** *18,000 LinkedIn Group members; leading blog and research portal in the services industry*

- **The largest web and social media presence in the sourcing industry:**

- **A major following from the buy-side:** *40% of readership comes from sourcing buyers*

- **We leverage our vast community of sourcing professionals to deliver rapid insights on global sourcing industry trends & developments:** *Surveyed over 15,000 organizations in 2011-12 on their sourcing intentions and dynamics*
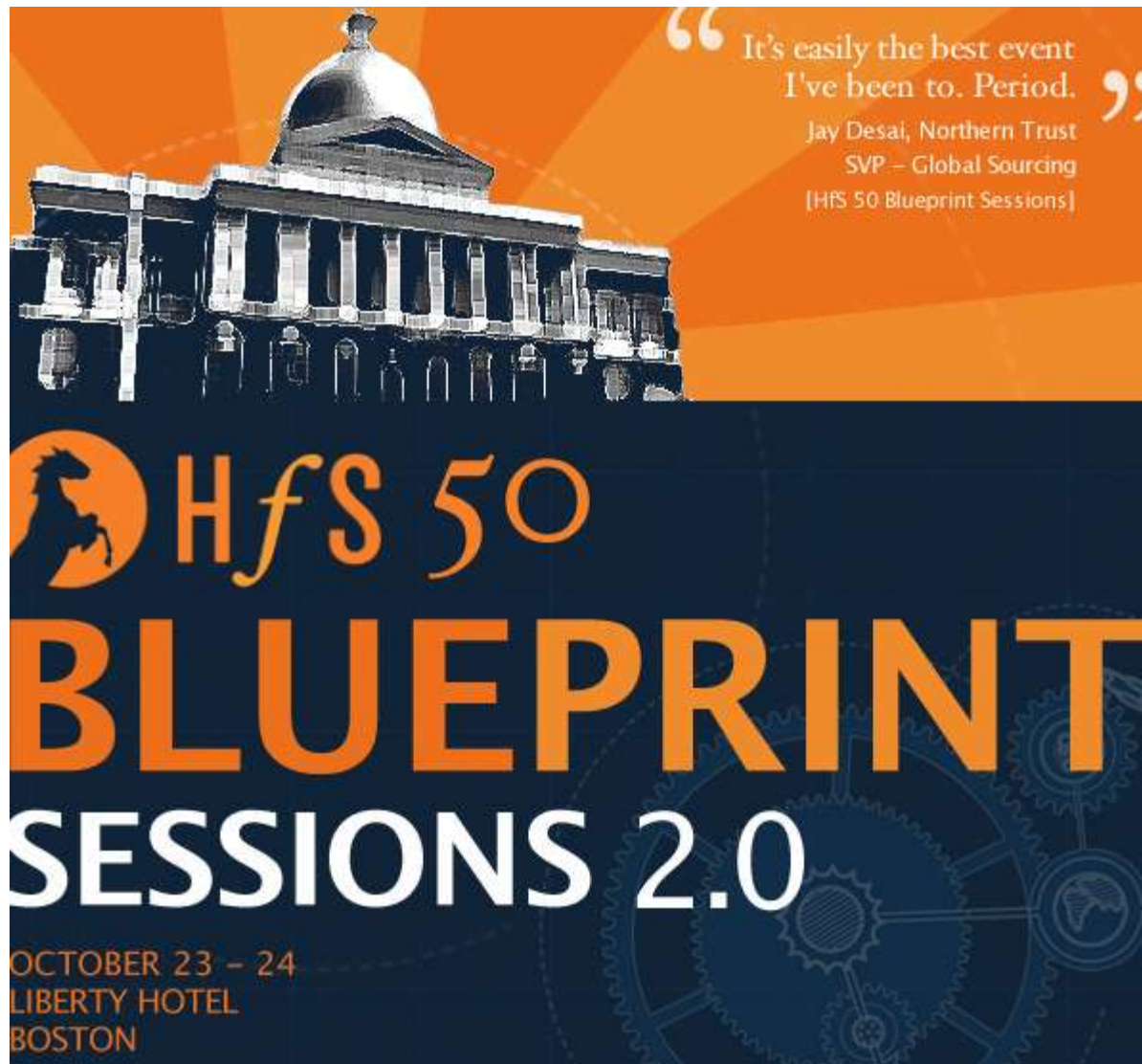
HfS Research
Collaborative sourcing intelligence

HfSResearch.com

Insight. Advice. Benchmarking.

"It's easily the best event I've been to. Period."

Jay Desai, Northern Trust
SVP – Global Sourcing
[HfS 50 Blueprint Sessions]

HfS 50
BLUEPRINT
SESSIONS 2.0

OCTOBER 23 – 24
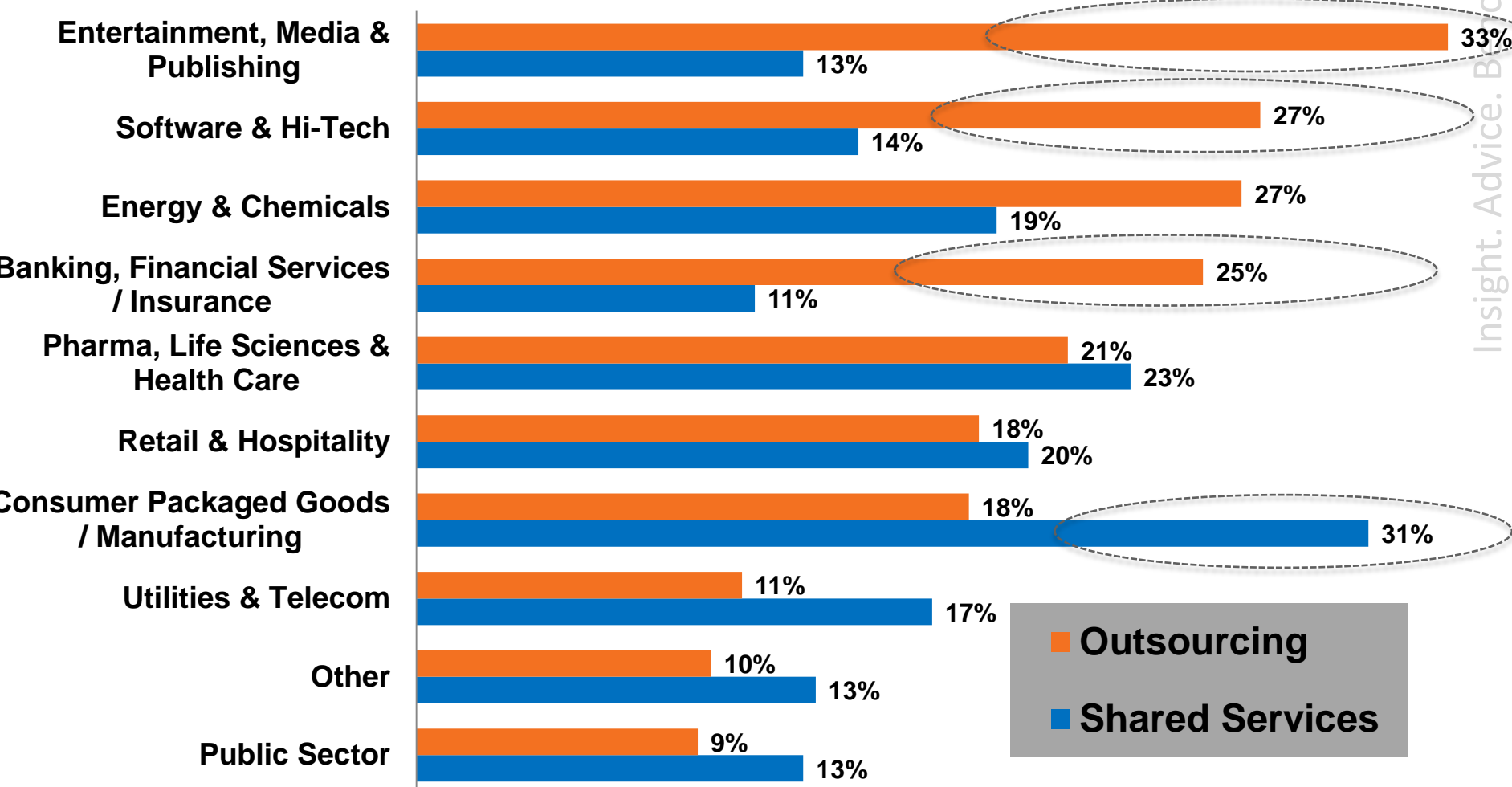LIBERTY HOTEL
BOSTON

THE END OF OUTSOURCING AS WE KNEW IT?

Industries going through *secular change* more focused on increasing outsourcing

Significantly increasing Shared Services and Outsourcing over next three years

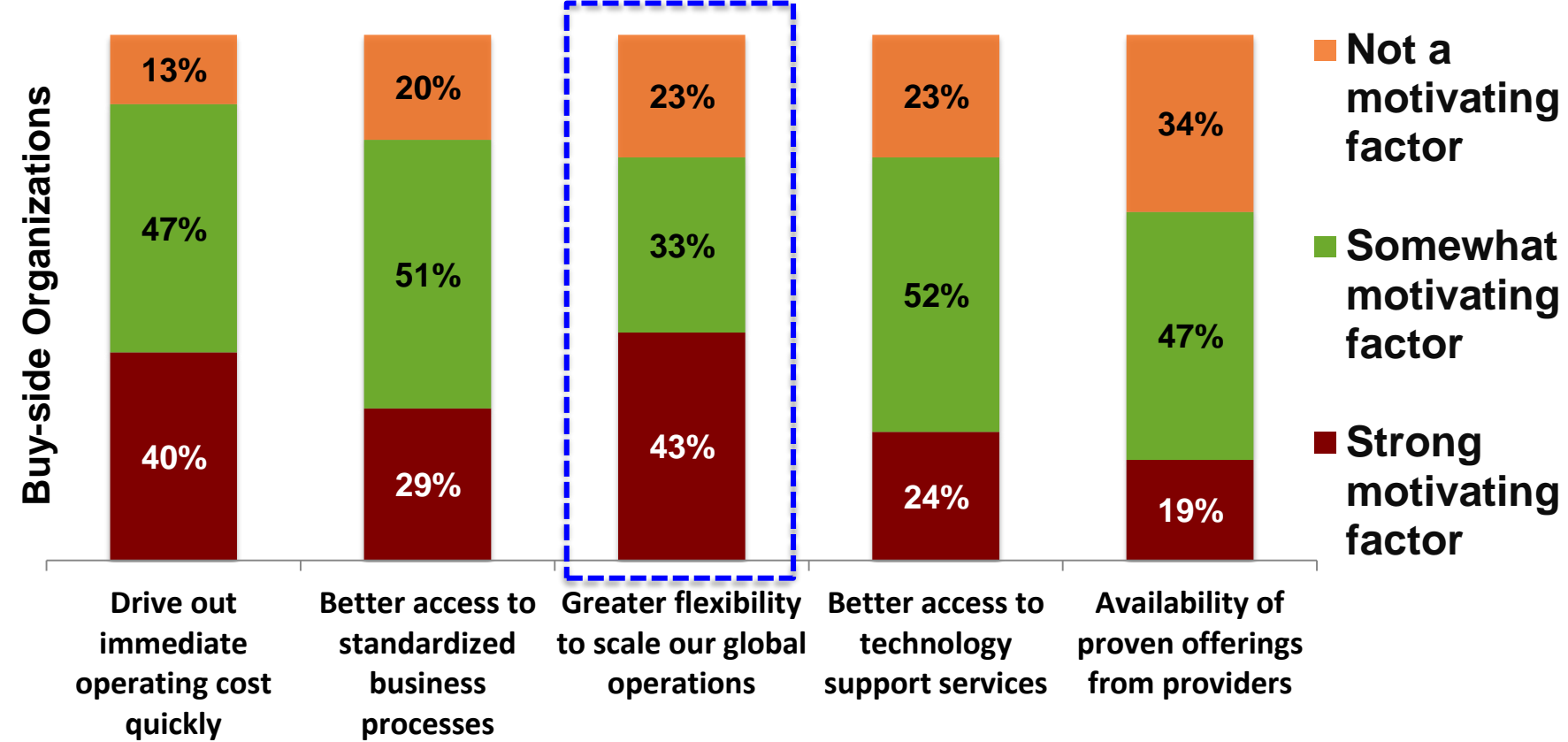| Industry	Outsourcing	Shared Services
Entertainment, Media & Publishing	33%	13%
Software & Hi-Tech	27%	14%
Energy & Chemicals	27%	19%
Banking, Financial Services / Insurance	25%	11%
Pharma, Life Sciences & Health Care	21%	23%
Retail & Hospitality	18%	20%
Consumer Packaged Goods / Manufacturing	18%	31%
Utilities & Telecom	11%	17%
Other	10%	13%
Public Sector	9%	13%

Legend: ■ Outsourcing ■ Shared Services

Source: HfS Research and the London School of Economics Outsourcing Unit, 2011
Sample: 247 Buyers of Outsourcing Services (all more than $1bn in annual revenues)

Today's motives to "outsource": Global Flexibility, Cost, Process Standardization, better Technology

To what extent are the following factors MOTIVATING your organization to outsource in this current economy?

Buy-side Organizations

	Drive out immediate operating cost quickly	Better access to standardized business processes	Greater flexibility to scale our global operations	Better access to technology support services	Availability of proven offerings from providers
Not a motivating factor	13%	20%	23%	23%	34%
Somewhat motivating factor	47%	51%	33%	52%	47%
Strong motivating factor	40%	29%	43%	24%	19%

Source: HfS Research, 2012
Sample: 157 Enterprise Buyer Organizations

Insight. Advice. Benchmarking.

First-time buyers seriously evaluating BPO

% Buy-side organizations looking to outsource <u>for the first time</u> over over the next 12 months

Category	Enterprise Buyers	Mid-Market Buyers
Procurement & Sourcing Outsourcing	22%	15%
Finance & Accounting Outsourcing	17%	17%
Analytics & Knowledge Process Outsourcing	14%	10%
Human Resources Outsourcing	14%	12%
Industry-specific Processes (i.e. life sciences/banking)	13%	2%
Document & Print Operations Outsourcing	13%	4%
Legal Process Outsourcing	12%	8%
IT Infrastructure Outsourcing	9%	7%
Application Development & Maintenance Outsourcing	7%	5%
Marketing Operations Outsourcing	6%	8%
Contact Center Outsourcing	6%	4%

■ **Enterprise Buyers: $3bn+ revenues**

■ **Mid-Market Buyers: $500m-$3bn revenues**

Source: HfS Research and the London School of Economics Outsourcing Unit, 2011
Sample: 277 Enterprise Buyers of Outsourcing Services

BPO provides an added vehicle for improving operations, as opposed to being the *dominant* model
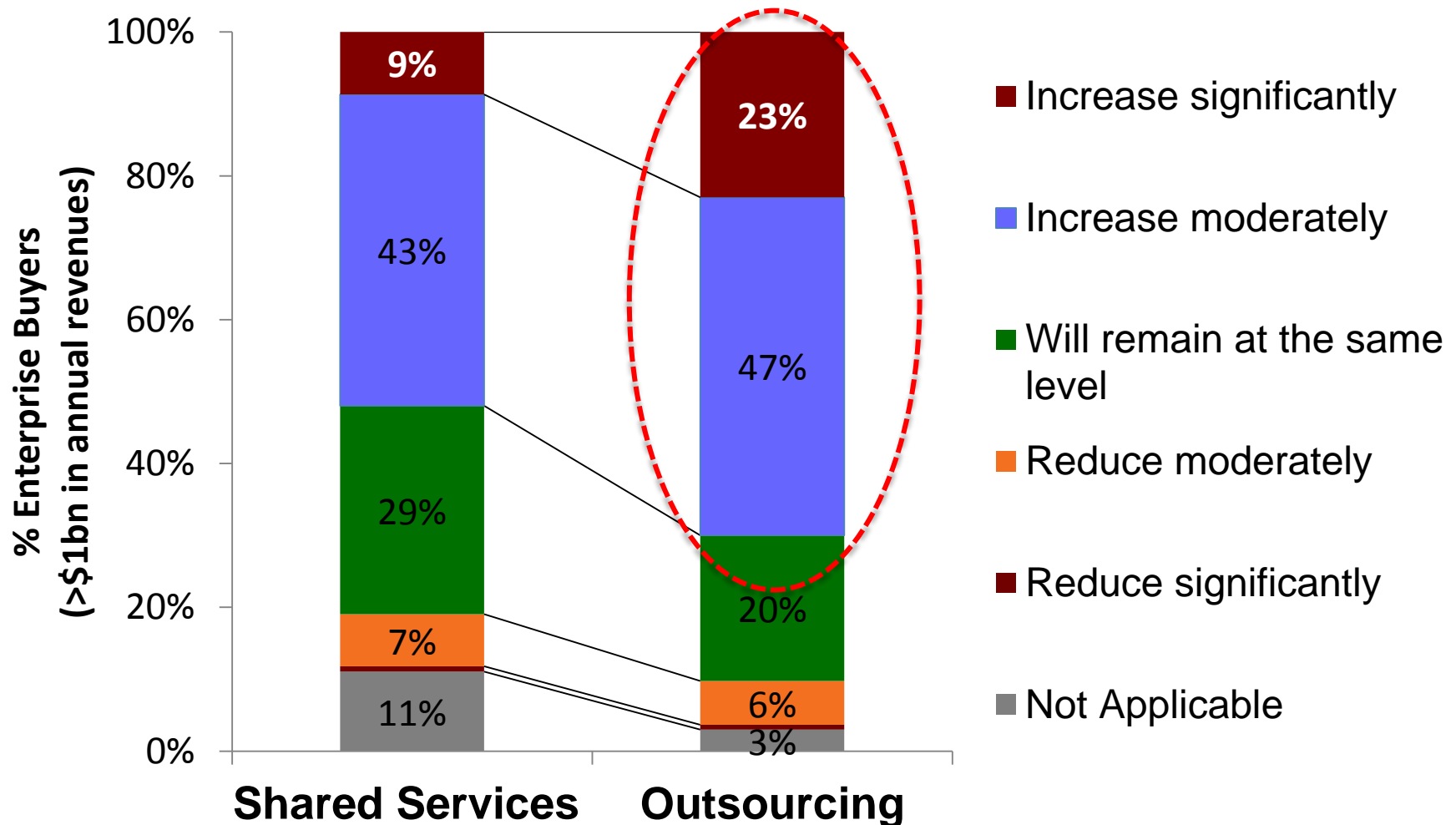

Use a Hybrid of Shared Services and Outsourcing

Use Shared Services (limited/no outsourcing)

Use Outsourcing (limited/no shared services)

No shared services or outsourcing

Q. Which of the following delivery frameworks best describes how your finance function currently operates?

However, corporate intentions are to increase outsourcing investments over next three years

Q. What are your investment intentions with regards to shared services and outsourcing over The next three years?
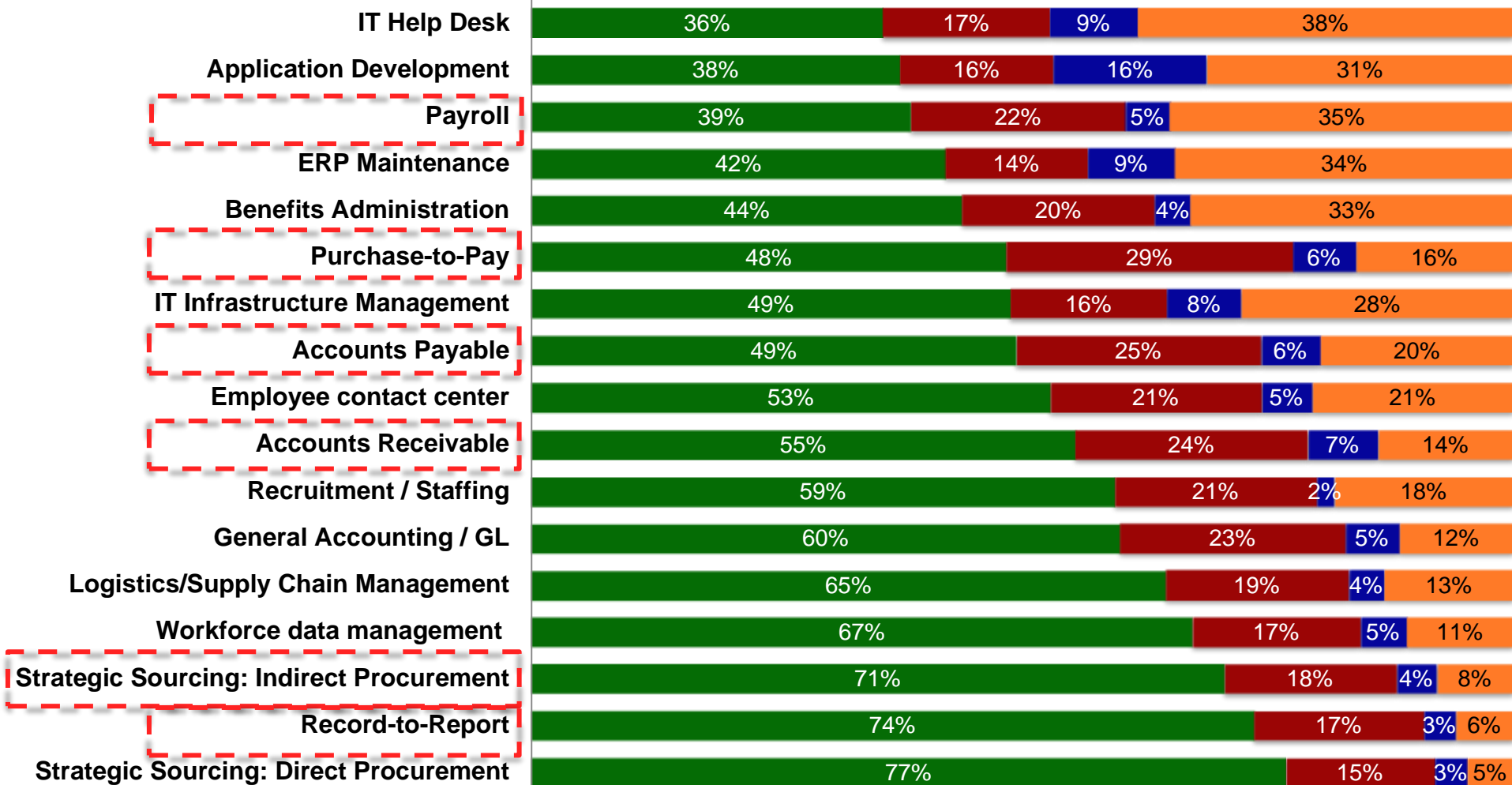

% Enterprise Buyers (>$1bn in annual revenues)

Shared Services:
- Increase significantly: 9%
- Increase moderately: 43%
- Will remain at the same level: 29%
- Reduce moderately: 7%
- Not Applicable: 11%

Outsourcing:
- Increase significantly: 23%
- Increase moderately: 47%
- Will remain at the same level: 20%
- Reduce moderately: 6%
- Not Applicable: 3%

Legend:
- Increase significantly
- Increase moderately
- Will remain at the same level
- Reduce moderately
- Reduce significantly
- Not Applicable

And there's still <u>huge</u> potential for sourcing growth

Q. What is your primary sourcing model for managing the following IT & business processes?

Legend: ■ Inhouse ■ Shared Services ■ Captive ■ Outsourced

Process	Inhouse	Shared Services	Captive	Outsourced
IT Help Desk	36%	17%	9%	38%
Application Development	38%	16%	16%	31%
Payroll	39%	22%	5%	35%
ERP Maintenance	42%	14%	9%	34%
Benefits Administration	44%	20%	4%	33%
Purchase-to-Pay	48%	29%	6%	16%
IT Infrastructure Management	49%	16%	8%	28%
Accounts Payable	49%	25%	6%	20%
Employee contact center	53%	21%	5%	21%
Accounts Receivable	55%	24%	7%	14%
Recruitment / Staffing	59%	21%	2%	18%
General Accounting / GL	60%	23%	5%	12%
Logistics/Supply Chain Management	65%	19%	4%	13%
Workforce data management	67%	17%	5%	11%
Strategic Sourcing: Indirect Procurement	71%	18%	4%	8%
Record-to-Report	74%	17%	3%	6%
Strategic Sourcing: Direct Procurement	77%	15%	3%	5%

WHAT BUYERS WANT

WHAT PROVIDERS WANT
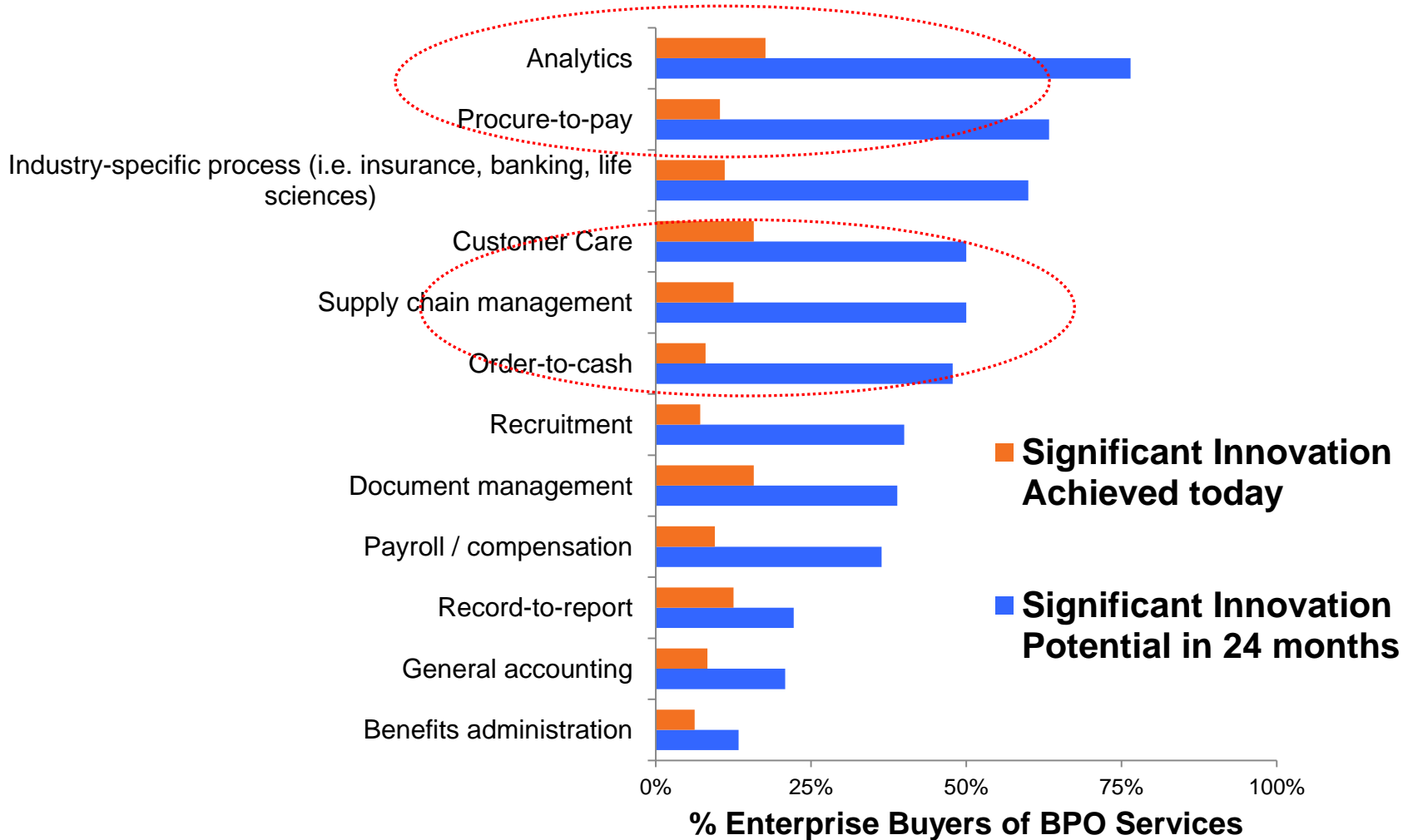
"Augmentation of existing operations"

"Instituting new practices and capabilities"

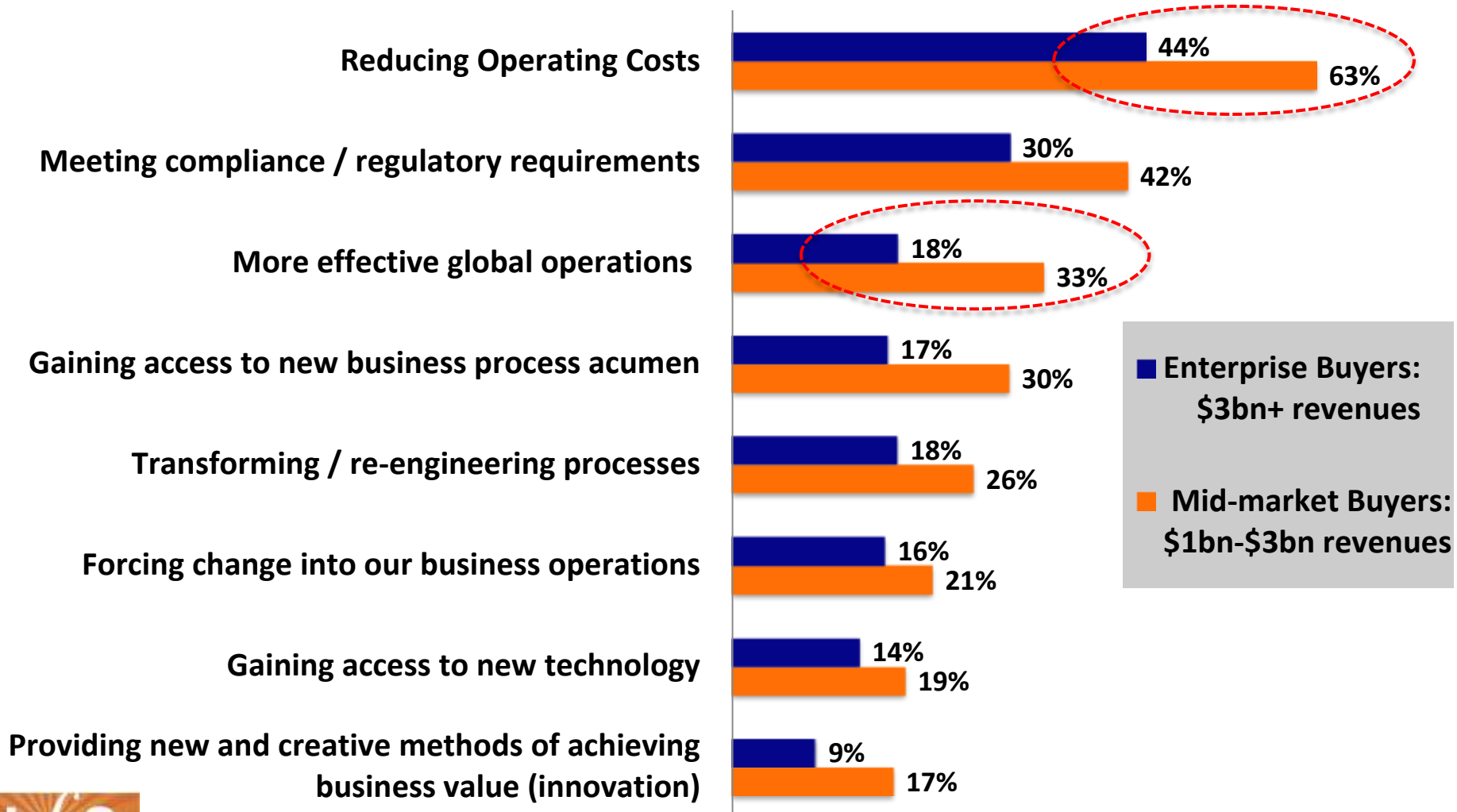# The *Innovation Gap* in BPO engagements shows huge innovation *potential* for enterprises

% Enterprise Buyers of BPO Services

- ■ **Significant Innovation Achieved today**
- ■ **Significant Innovation Potential in 24 months**

Maybe it's just best to "rip off the Band-Aid"…

Q. How effective have your current outsourcing initiatives been for achieving the following business benefits to-date? Answer = Very Effective
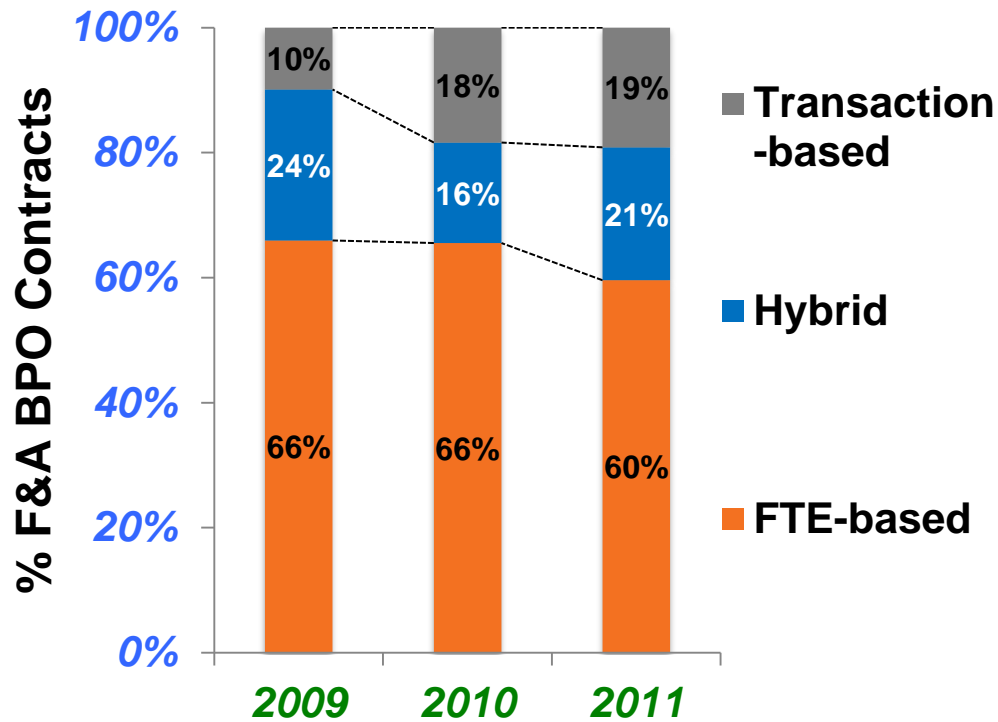
Benefit	Enterprise Buyers: $3bn+ revenues	Mid-market Buyers: $1bn-$3bn revenues
Reducing Operating Costs	44%	63%
Meeting compliance / regulatory requirements	30%	42%
More effective global operations	18%	33%
Gaining access to new business process acumen	17%	30%
Transforming / re-engineering processes	18%	26%
Forcing change into our business operations	16%	21%
Gaining access to new technology	14%	19%
Providing new and creative methods of achieving business value (innovation)	9%	17%

■ **Enterprise Buyers: $3bn+ revenues**

■ **Mid-market Buyers: $1bn-$3bn revenues**

Providers and clients with "skin in the game" are taking the lead

Type of Pricing Deployed

% F&A BPO Contracts

- Transaction-based
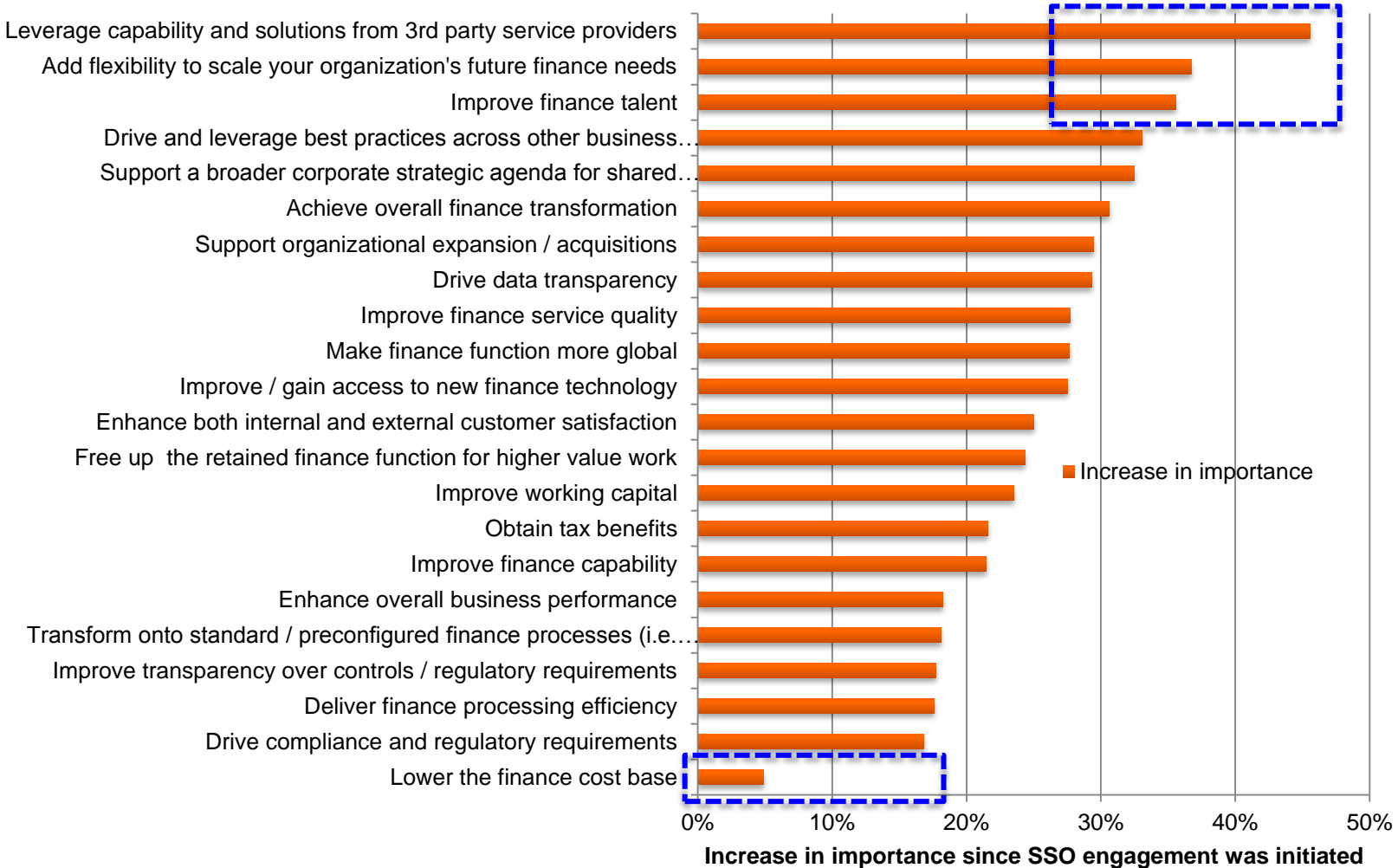- Hybrid
- FTE-based

2009: 10% / 24% / 66%
2010: 18% / 16% / 66%
2011: 19% / 21% / 60%

F&A BPO Contacts with Gainshare incentives
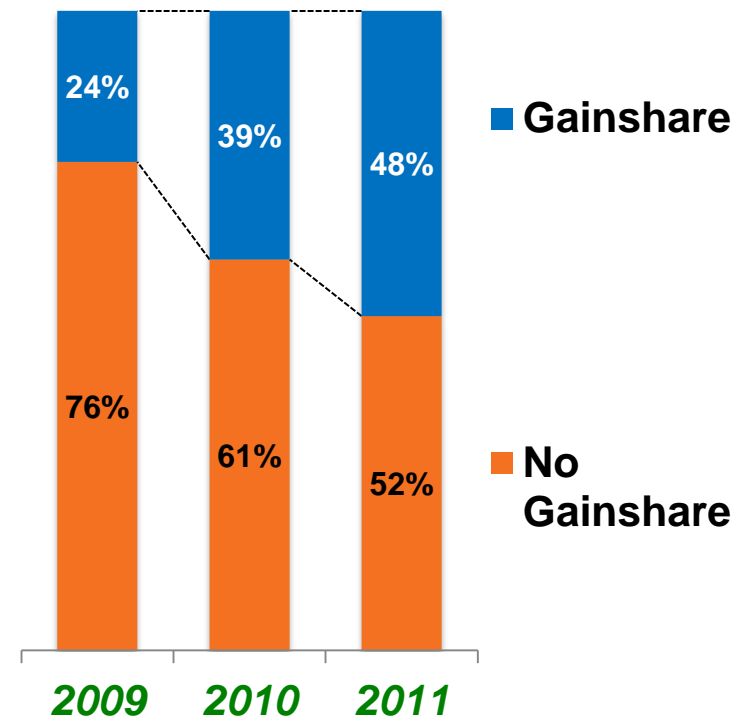
- Gainshare
- No Gainshare

2009: 24% / 76%
2010: 39% / 61%
2011: 48% / 52%

Finance leaders increasingly look to their partners to achieve their goals

Chart: Increase in importance since SSO engagement was initiated

Objective	Increase in importance
Leverage capability and solutions from 3rd party service providers	~46%
Add flexibility to scale your organization's future finance needs	~37%
Improve finance talent	~36%
Drive and leverage best practices across other business…	~33%
Support a broader corporate strategic agenda for shared…	~33%
Achieve overall finance transformation	~31%
Support organizational expansion / acquisitions	~29%
Drive data transparency	~29%
Improve finance service quality	~28%
Make finance function more global	~28%
Improve / gain access to new finance technology	~27%
Enhance both internal and external customer satisfaction	~25%
Free up the retained finance function for higher value work	~24%
Improve working capital	~24%
Obtain tax benefits	~22%
Improve finance capability	~22%
Enhance overall business performance	~18%
Transform onto standard / preconfigured finance processes (i.e.…	~18%
Improve transparency over controls / regulatory requirements	~18%
Deliver finance processing efficiency	~18%
Drive compliance and regulatory requirements	~17%
Lower the finance cost base	~5%

Q. Please rate how important the objective was at the initial deployment of finance shared services and/or outsourcing compared with how important it is today (Answers = Extremely important and important)

Source: HfS Research & ACCA, 2012
Sample: 436 Senior Finance Executives

Insight. Advice. Benchmarking.

Communicating, reorienting and training are the critical ingredients – and staying focused on the end-goals

**Q. Based on your current outsourcing experience, please rate the importance of the following change management tasks?**
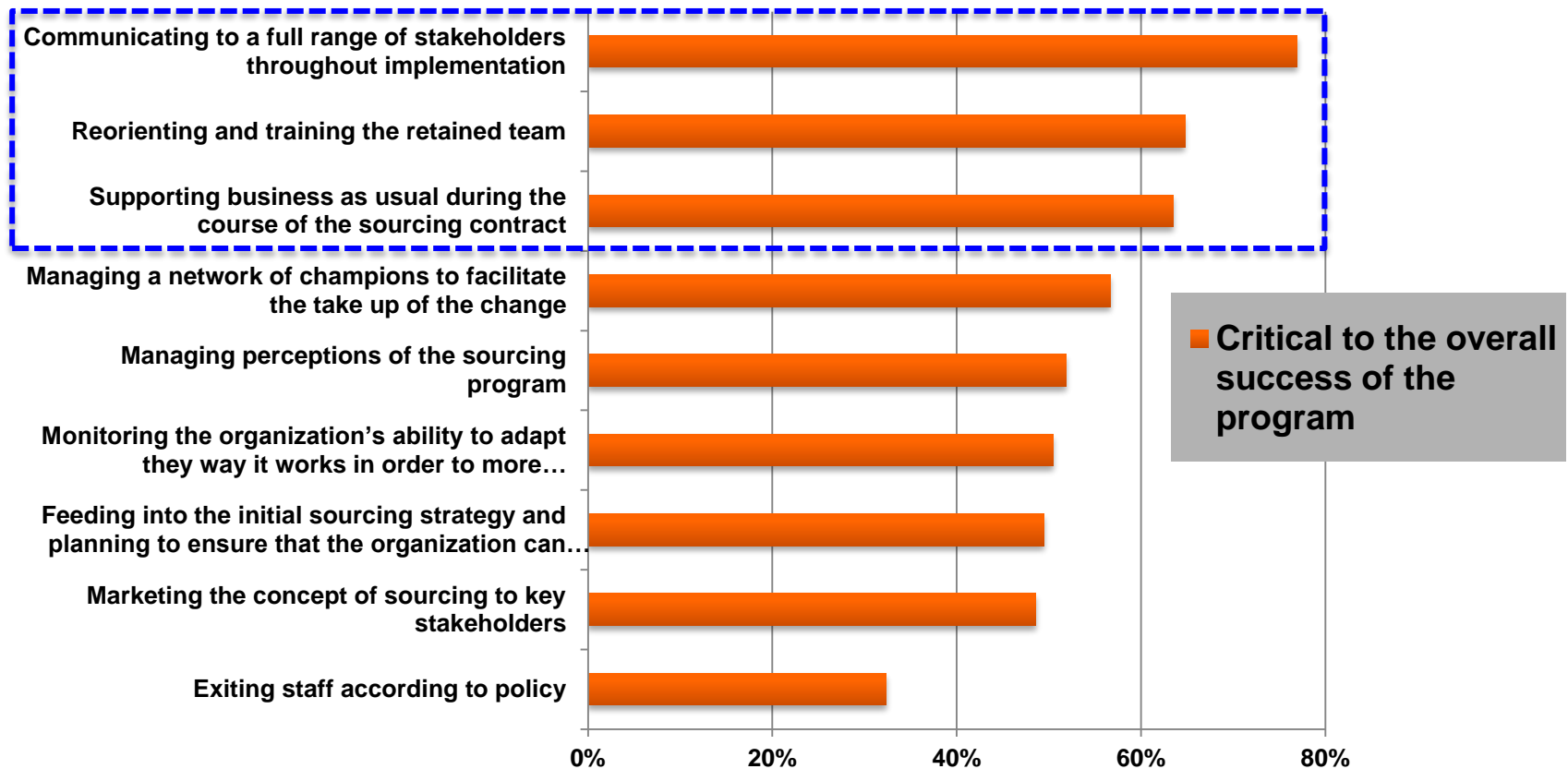
■ **Critical to the overall success of the program**

Poor stakeholder engagement and inadequate training are bigger culprits for sourcing failure than lack of budget

Q. To what extent was/is your outsourcing program negatively impacted because of the following

■ Significant negative impact   ■ Some negative impact
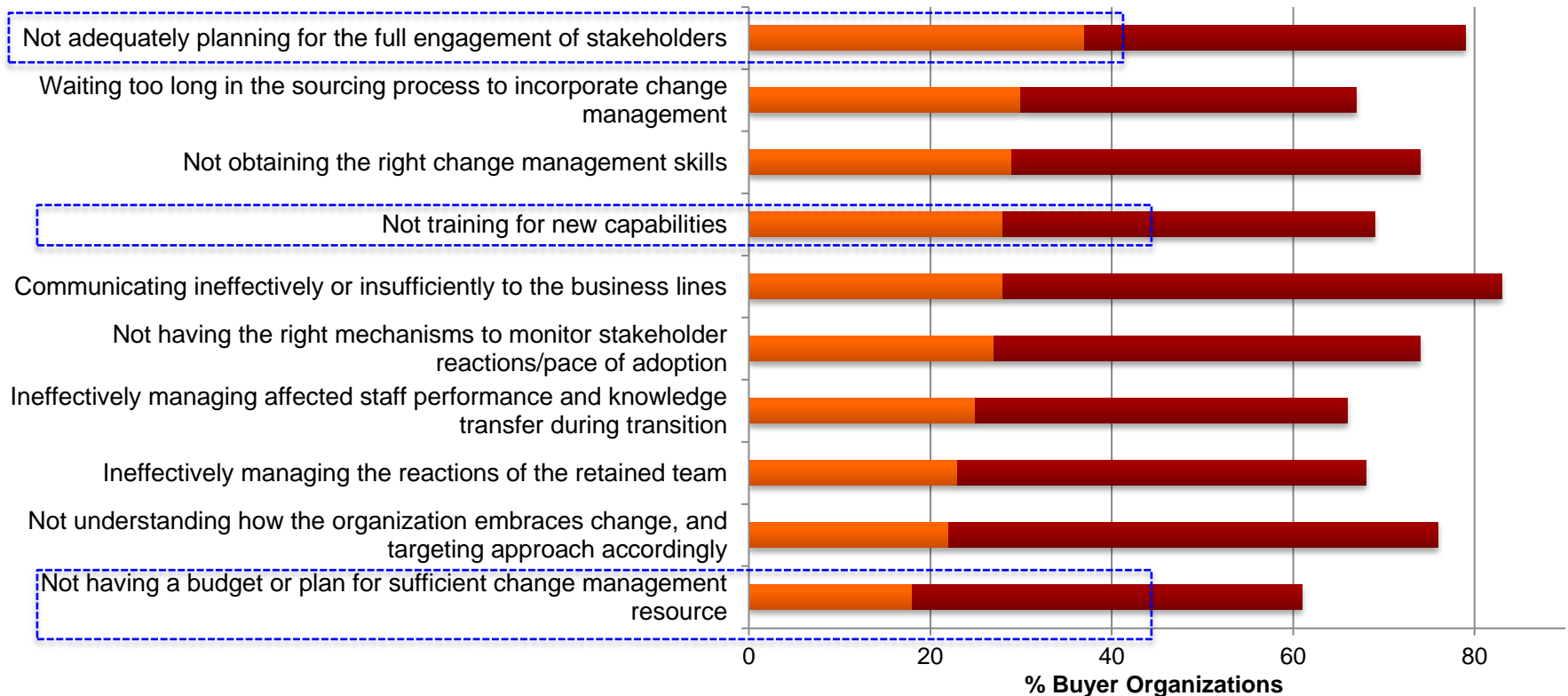
Overcoming lethargy and stagnation – be honest and clear about the mission

- Avoid "analysis paralysis"
- Avoid stagnation
- Use "real" communication
- Agree to disagree
- Stay focused on the ultimate goals

Relationships that have greater alignment with corporate strategies create better outcomes.

Alignment with Corporate Strategies Impacts Outcomes
Respondents from $3B+ Enterprises

In terms of outcomes achieved from your current shared services and outsourcing initiatives, how would you estimate the impact on the following:

Our shared services and/or outsourcing programs' goals are aligned with our corporate strategy.

- Strongly Agree or Agree
- Neutral
- Strong Disagree or Disagree

Y-axis (top to bottom):
- Strong Positive Impact (> 20%)
- Modest Positive Impact (+5 to 20%)
- Minimal Impact (+/- 5%)
- Modest Negative Impact (- 5% to -20%)

Categories: Operating Costs, Business Strategy, Quality, Productivity, Innovation

Importantly, those who <u>manage performance</u> create better outcomes

How Well Performance Management Is Executed Compared to Outcomes
Respondents from $3B+ Enterprises

In terms of outcomes achieved from your current shared services and outsourcing initiatives, how would you estimate the impact on the following:

How well do you execute performance management processes?

■ **Well or Very Well**

■ **Very Poorly or Poorly**

Y-axis labels (top to bottom):
- Strong Positive Impact (> 20%)
- Modest Positive Impact (+5 to 20%)
- Minimal Impact (+/- 5%)
- Modest Negative Impact (-5 to -20%)
- Strong Negative Impact (> -20%)

X-axis categories: Operating Costs, Productivity, Business Strategy, Quality, Innovation

Insight. Advice. Benchmarking.

All-in-all, a well designed and executed retained organization will create a higher-performance relationship

From ➞ **To**

Typical Vendor Relationship

- "This is about getting them to meet our needs"

- Assign blame and apply penalties

- Customer decides, vendor executes

- Customer defined metrics

- Adversarial - arbitrary outcomes

- Each party is often surprised and actions are reactive

High Performance Relationship

- "This is about meeting both our needs in a sustainable way"

- Diagnose and work jointly

- Joint input

- Metrics are jointly developed

- Problem-solving - good precedents

- Planning is highly integrated, and actions are proactive

High Performance BPO in Practice

Eric Simonson
Managing Partner, Everest Group

Overview of Everest Group's research practice

Subscription services – reports, inquiry, data cuts, etc.

Market Vista
Global services tracking across functions, sourcing models, locations, and service providers – industry tracking reports also available

Banking, financial services, insurance	**Healthcare**	**Finance & accounting**
Procurement	**Information technology**	**Cloud Vista**
Human resources	**Recruitment process**	**Global sourcing**
PricePoint	**Service provider Intelligence**	**Transaction Intelligence**

Custom research capabilities
- Benchmarking | Pricing, delivery model, skill portfolio
- Peer analysis | Scope, sourcing models, locations
- Locations | Cost, skills, sustainability, portfolio
- Tracking services | Service providers, locations, risk
- Other | Market intelligence, service provider capabilities, technologies

Why study BPO relationships?

- With over a decade of history with BPO, the market is increasingly showing ***different outcomes*** across efforts

- Those who live and breath BPO have a sense for what separates typical from best-in-class, but it had ***not been rigorously analyzed***

- The study aimed to ***quantitatively*** identify the most important differences in BPO efforts

Everest Group

Methodology

Survey administration

Data cleansing and filtering

695 survey respondents → 263 qualified respondents
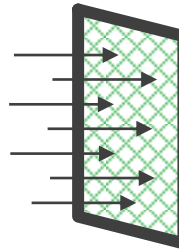
List of filters
- Organizations with annual revenue greater than US$500 million
- Organizations in an active BPO relationship
- BPO service recipient organization
- Respondent is closely involved in BPO initiative
- Respondent role in organization is manager or above

Analysis and insight generation

Cross-tab trend analysis

Statistical analysis
- Statistical significance
- Correlation analysis

Everest Group

Summary of findings

The "service"

- **Successfully standardized processes** | 64% vs. 36%
- **Business case includes value beyond cost savings** | 67% vs. 27%
- **Information from services to capture more value** | 48% vs. 25%
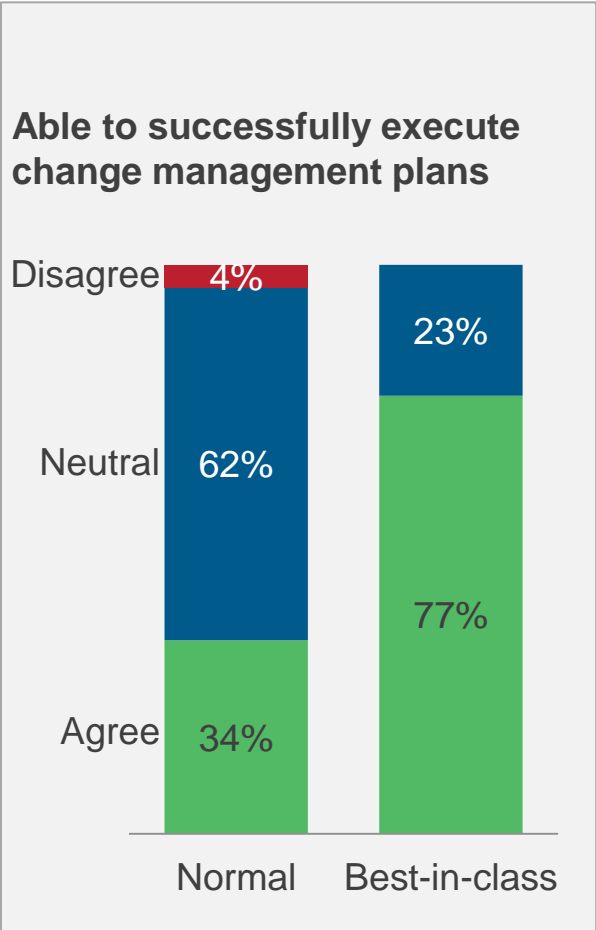
"Serving"

- **Build leading relationships** | Well beyond the contract
  - Create partnership with service provider
  - Productively resolve conflicts
- **Embrace change** | Move beyond "doing change management"
  - Successfully execute change
  - Proactively refine objectives
  - Involve those receiving the service!

Everest Group

Build leading relationships | Well beyond the contract

Consider BPO service provider as a strategic partner

Disagree — 6% (Normal), 2% (Best-in-class)

Neutral — 53% (Normal), 13% (Best-in-class)

Agree — 41% (Normal), 85% (Best-in-class)

Normal | Best-in-class

Able to productively resolve conflicts

Disagree — 2% (Normal)

Neutral — 54% (Normal), 10% (Best-in-class)

Agree — 44% (Normal), 90% (Best-in-class)

Normal | Best-in-class

Embrace change | Move beyond "doing change management"

Able to successfully execute change management plans

- Disagree: 4% (Normal)
- Neutral: 62% (Normal)
- Agree: 34% (Normal)
- Disagree / Neutral: 23% (Best-in-class)
- Agree: 77% (Best-in-class)

Proactively refine objectives as the relationship matures

- Disagree: 1% (Normal)
- Neutral: 58% (Normal)
- Agree: 41% (Normal)
- Neutral: 18% (Best-in-class)
- Agree: 82% (Best-in-class)

Business users receiving the services critically influence the direction of the BPO relationship

- Disagree: 7% (Normal)
- Neutral: 63% (Normal)
- Agree: 30% (Normal)
- Neutral: 40% (Best-in-class)
- Agree: 60% (Best-in-class)

Everest Group

The High Performance BPO Survey

Professor Leslie Willcocks
London School of Economics Outsourcing Unit

LSE Outsourcing Unit
www.outsourcingunit.org

- **Over 20 years of Research into ITO, BPO, offshore, cloud services**
- **1600 case studies, 4000 plus interviews, annual surveys**
- **Client and Supplier organizations, global, cross sector**
- **Stakeholders perspective from CXOs to delivery team**

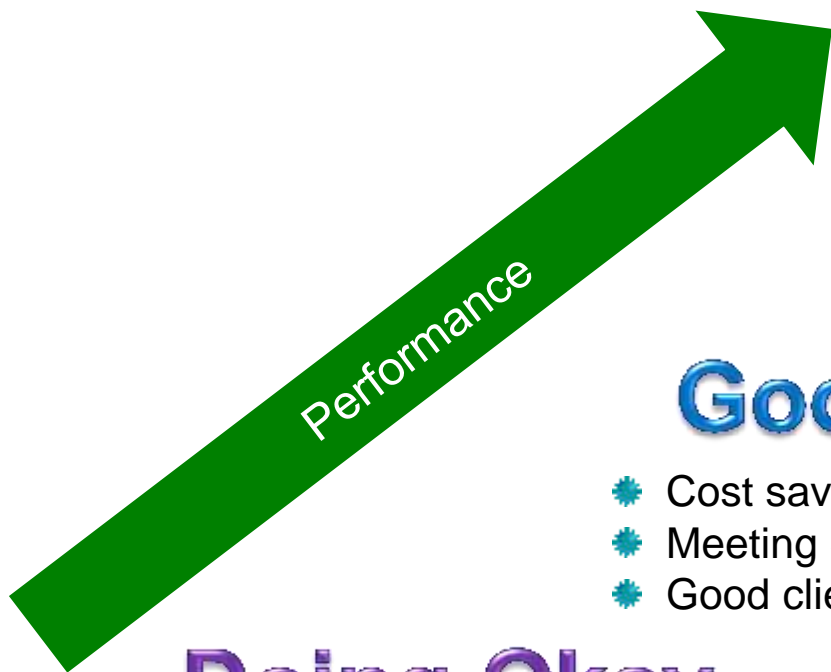|		
Anheuser-Busch	General Motors	BAE Systems (UK)
Apache Oil	Host Analytics	British Aerospace (UK)
Brown Group	Kodak	Digital Equipment Corp (Japan)
Browning-Ferris Industries	Lyondell Petroleum	Dresdner Bank (Germany)
Cassidy Turley	McDonnell Douglas	Deutsche Bank (Germany)
Continental Airlines	MEMC	Lloyd's of London (UK)
Continental Baking	Monsanto	Reuters (UK)
Coopers Industries	OAO Technologies	Royal Sun Alliance (UK)
Corio	Occidental Petroleum	Swiss Bank (Switzerland)
Cypress Minerals	Ralston Purina	*Inland Revenue (UK)*
Diamond Shamrock	Rigg's Bank	*Internal Revenue Service*
DuPont	Rochester Telephone	*Lawrence Livermore National Labs*
ABNAmro	Texaco	*South Australian Government (Australia)*
Exxon	Vista Chemicals	*State of Missouri*
First City Bank	Zland	*Westchester County*

BPO Research Base

- A *literature review* of 1,356 BPO and ITO findings from academic research studies identified as robust

- Our previous *BPO case study* research 2000 -2011

- New *in-depth interviews* with client-provider executive pairs in 20 organizations and still collecting data

- Access to the *Everest Group's 2011 survey* of 263 senior client BPO executives sponsored by Accenture

accenture — consulting | technology | outsourcing

Achieving High Performance in BPO
Research Report

High performance. Delivered.

~60% normal,
~20% potential best-in-class
~20% best-in-class

36

High

- Cost savings delivered
- Beyond SLAs to end-to-end process management
- High client satisfaction
- Innovation delivered
- Business benefits delivered

Performance

Good

- Cost savings delivered
- Meeting SLAs
- Good client satisfaction

Doing Okay

- Marginal cost savings delivered
- Acceptable service performance
- Marginal client satisfaction

Poor

- No cost savings; costs increased
- Poor service performance
- Low client satisfaction

Which practices distinguish relationships with high performance from BPO relationships with "poor", "doing okay", or "good" performance?

Our New Research Findings

that create and sustain GREAT performance

to enact transformational practices

partner

Transformational leaders from client and provider organizations

Delivering Innovations

- Acculturating
- Inspiring: generating ideas
- Funding
- Injecting: change management

Requires a Pair of Transformational Leaders

Focus on the future —the leaders focus on where they want to be, not where they are

Spirit of togetherness —the leaders present a united front ; provider deeply and meaningfully embedded

Transparency —the leaders are open and honest

Problem solving —the leaders diagnosis and fix problems rather than assign blame

Outcomes first —the leaders do what is best for the client organization and then settle a commercially equitable agreement

Action-oriented —leaders act swiftly to remove or workaround obstructions stemming from people, processes, or contracts

Trust—the leaders feel secure and confident in the other partner's good will and intentions

Political stature and clout

Partnership View

Partnership View

Great
Performance

"I'm not interested in being a recipient of service. I want us to be strategic partners. It is a word that is tossed around in a clichéd way. But for me, strategic partner means: let's talk about my five most important objectives and how that overlaps with the things that the provider does." -- Commercial Director, Energy Company

"Accepting the provider as part of our infrastructure and not treating them as a vendor but more of a partner -- has been very successful for us." -- VP Global Shared Services, Pharmaceutical Company

40

Transformational Practices

🌐 **Our new case research indentified over 20 practices that we think distinguish great from poor, doing ok, and good performance - further testing in progress…**

🌐 **We confirm the 8 practices from Everest Group/LSE/Accenture survey**

🌐 **2 robust practices we will highlight today:**
    *Managing end-to-end processes
    *Delivering innovation

transformational practices

41

Managing End-to-end Process

Performance

Great: End-to-end process
- Report end-to-end process performance to client business users
- Use KPIs and analytics as key drivers of performance
- Partners collaborate to improve KPI, which may or may not involve SLA
- Revisit if SLAs make sense to end client

OK/Good: Clearly defined SLAs & roles
- Well defined SLAs with clearly defined roles
- Transparency into SLAs with drill downs
- Report SLAs to client business users
- Tend to start relationship with too many SLAs

Poor: Still struggling
- Poor definition of processes
- Poor allocation of responsibilities
- Limited, misdirected measurement

42

Delivering Innovation

Performance

Great: Transformational Innovation

- Delivered through transformation projects
- Gain-share benefits
- Exploit innovation clauses
- Create governance for innovation

Okay/Good: Incremental Improvements

- Contractual productivity improvements require provider to innovate
- Mixed effectiveness on innovation clauses like invest days & innovation funds

Poor: None

- Innovation not in the business case or contract
- Client focused on costs only
- Provider pocketed any benefits from innovation

43

Access to Research

High-Performance BPO Research:

http://www.accenture.com/Microsites/highperfbpo/Pages/home.aspx
http://www.outsourcingunit.org/

MASTER REPORT:
•Mindrum, C., Hindle, J., Lacity, M., Simonson, E., Sutherland, C., and Willcocks, L. (2012), "Achieving High Performance in BPO: Research Report"

PRACTICE PAPERS:
•Lacity, M., and Willcocks, L. (2012), "Mastering High-Performance: Domain Expertise and Analytics"
•Lacity, M., and Willcocks, L. (2012), "Mastering High-Performance: Collaborative BPO Governance"
•Lacity, M., and Willcocks, L. (2012), "Mastering High-Performance: Transformation of the Client's Retained Organization"
•Lacity, M., and Willcocks, L. (2012), "Mastering High-Performance: Technology as Enabler" forthcoming
•Lacity, M., and Willcocks, L. (2012), "Mastering High-Performance: A holistic, end-to-end approach" forthcoming
•Willcocks, L. and Lacity, M. (2012), "Mastering High Performance: Change Management" forthcoming
•Willcocks, L. and Lacity, M. (2012), "Mastering High Performance: Target Strategic Business Outcomes" forthcoming
•Willcocks, L. and Lacity, M. (2012), "Mastering High Performance: Value Beyond Cost" forthcoming

CASE STUDY PAPERS:
•Lacity, M., and Willcocks, L. (2012), "Mastering High-Performance: The Case of Microsoft's OneFinance"
•Willcocks, L. and Lacity, M. (2012), "Mastering High-Performance: Strategic F&A Partnering at BP"

THEMES PAPERS:
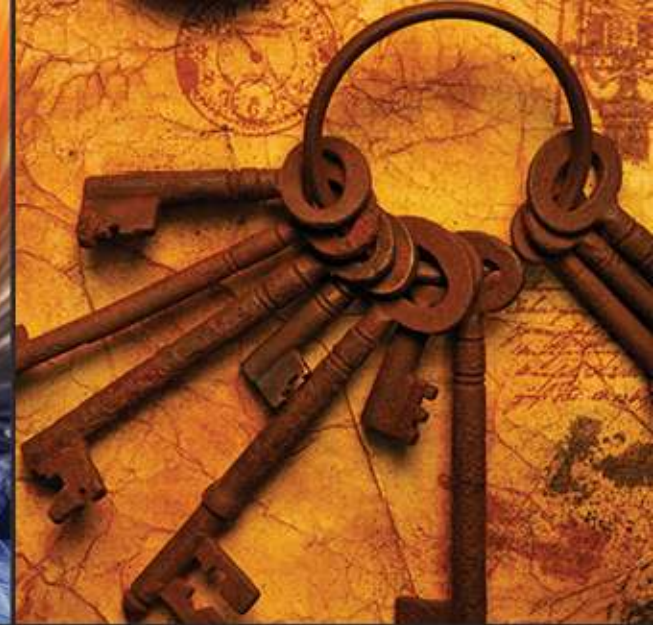•Lacity, M., and Willcocks, L. (2012), "Mastering High-Performance: Dynamic Innovation" (forthcoming)
•Lacity, M., and Willcocks, L. (2012), "Mastering High-Performance: Transformational Leadership (forthcoming)
•Lacity, M., and Willcocks, L. (2012), "Mastering High-Performance: Resolving Conflicts in Business Process Outsourcing Relationships (forthcoming)

Any questions?

HfS Research
Collaborative Sourcing Intelligence

Insight. Advice. Benchmarking.

Are you achieving...
High Performance BPO