



**White Paper on  
Framework to assess Feasibility of Offshore BPO**

**Expertise ► Collaboration ► Innovation ► Results**

## Summary

The global size of Business Process Outsourcing (BPO) is projected to grow to \$1200 Billion in 2006<sup>1</sup>. These numbers are huge by any reckoning and not surprisingly they have got service providers in the BPO space excited. In this paper, we focus on the feasibility of Offshore BPO which is a rapidly growing segment of the overall BPO market.

The driving force behind Offshore BPO is the belief that the rapid growth of Offshore IT can be duplicated in the domain of BPO. Sending a part of the business to an offshore location, to be delivered by an often unknown vendor, is a major decision for most companies, irrespective of size. The talk and the hype around BPO should not take away from this basic fact – it is a major and disruptive decision, to be taken only with due care and diligence.

The framework for assessing the feasibility of Offshore BPO that we propose in this paper will provide a simple and scalable way of applying rigour to the Offshore BPO decision. The framework is essentially a three-step filter process:

### 'The 3-Step Offshore BPO Feasibility Framework'

<b>Step 1</b> <b>Is the Business Process a Candidate for Outsourcing?</b>
<b>Step 2</b> <b>Is the Offshore Model Possible for the Business Process?</b>
<b>Step 3</b> <b>Does the Offshore Model Enhance the Value Proposition?</b>

The paper describes in detail the analysis that needs to be conducted in each Step, illustrating the framework with examples and lists.

In Step 1, the first question to consider is whether a group of activities or a department constitutes a business process. The importance of this question lies in the characteristics of a business process, defined in the paper as " *a combination of activities performed for a defined outcome in fixed cycles by designated individuals in a business organisation* ". These characteristics facilitate outsourcing and hence should be analysed right at the outset. The paper presents a number of generic business processes, common across industries, which are currently targeted and are feasible for outsourcing. The value proposition for outsourcing the business process should also be assessed at this stage. Since BPO is a major decision for most companies, it stands to reason that the benefits targeted need to be substantial and significant.

In Step 2, the analysis focuses on evaluating the Offshore model as an option. The intent is to take a dispassionate decision independent of strategic concerns to evaluate the feasibility of the Offshore model with respect to the business process. A good understanding of the Offshore model, the technological requirements of the business process and the capabilities of various Offshore vendors is critical to the analysis. We illustrate the possible output of such an analysis for the whole range of generic business processes discussed in Step 1 as an appendix to the paper.

In Step 3, the analysis checks if the Offshore model can enhance the value proposition described in Step 1. Of the many reasons that companies have for outsourcing, two are critical – the outsourcing arrangement must deliver either substantial cost savings or significantly better outputs. As a result, the analysis at this stage focuses on these two aspects: cost of Offshore delivery and the quality of the output of Offshore delivery.

## Introduction

Anecdotal evidence points to Business Process Outsourcing (BPO) being a huge and growing industry. However, estimation of the BPO industry size is inherently constrained by the definition of BPO. Many new processes have been added to the scope of BPO in the last decade – developments in technology making possible today what would have been inconceivable only a few years ago. However, BPO is not a new business practice: facilities management and processes, e.g. catering and security, and other administrative processes such as mail handling, have been outsourced to service providers for many decades. As such, the basic principles of BPO are well-established and well understood.

The impetus to 'new age' BPO comes from the rapid developments in technology, especially information technology (IT). IT infrastructure and applications management have spawned many service providers who clearly understand IT better than incumbent businesses and can bring in cost efficiencies through implementation scale. There are clear reasons for outsourcing IT processes to these service providers. The phenomenon of IT outsourcing has also brought BPO back into the limelight and put it back on the management agenda. It is logical to ask that if IT can be outsourced then why not HR or Accounting. The IT service providers, in search of revenue growth, have aided and abetted this thinking by aggressively pushing outsourcing of a range of business processes -- Finance & Accounting, HR, Procurement, etc. -- into management consideration. Lastly, the developments in technology have enabled BPO by making outsourcing possible in many new areas. These days any process which is characterised by virtual (email/ telephone) interactions, supported by data transfer on IT networks, can technically be outsourced to a third-party, with little loss of efficiency.

Most estimations of BPO market size are of this 'new age' BPO – sometimes called IT-enabled BPO -- treating it as one segment of the outsourcing market, with IT outsourcing being the other segment. According to figures published by NASSCOM<sup>1</sup>, based on an IDC report, the sub-segments within BPO include Human Resources, Logistics, Purchasing/ Procurement, Engineering, Marketing, Sales, Facility Operations & Management, Administration, Legal and Finance and Accounting. This estimate puts the global size of BPO at US \$712 Billion in 2001 and projects that the market, growing at double digits per annum, will be \$1200 Billion in 2006.

### Exhibit 1: Worldwide BPO Spending by Segment, 2001 – 2006

Worldwide ITES-BPO Spending by Segment, 2001 – 2006			
	(Figures in US \$ Millions)		
	2001	2006	CAGR(%)
Human Resources	7,373	25,555	28.2
Logistics	140,700	308,651	17.0
Purchasing	5,288	12,185	18.2
Engineering/ R&D	69,798	123,882	12.2
Marketing	76,666	108,340	7.2
Sales	107,412	165,736	9.1
FOM	120,635	172,329	7.4
Administration	36,644	53,396	7.8
Legal	111,273	163,962	8.1
Finance/ Accounting	36,356	64,872	12.3
<b>TOTAL</b>	<b>712,145</b>	<b>1,198,908</b>	<b>11.0</b>

Source: IDC

These numbers are huge by any reckoning and not surprisingly they have got service providers in the BPO space excited about the future. To put things in context, the IT outsourcing market is estimated at around one-tenth of the BPO market -- the current

revenues of the largest IT service providers would be less than 2% each of the projected total market size for BPO in 2006.

A look at the sizes of the sub-segments provides further evidence of the opportunities in this space. Currently, the biggest segments are Logistics (20% of the total), Facilities Management (17%), Legal (16%), Sales (15%) and Marketing (11%). The highest forecast growth rates are, however, in HR, Purchasing, Logistics, Finance/ Accounting and Engineering/ R&D. If these estimates come to pass, then each of these sub-segments will be a sizeable global industry, capable of supporting many large service providers.

In this paper, we will focus on the feasibility of Offshore BPO which is a growing, albeit small, segment of the overall BPO market.

The Offshore model took shape and came of age in the IT outsourcing segment due to the urgency and necessity of fixing Y2K. IT departments were forced to find quick and cost-effective ways to fix the bug -- the low-cost and well-qualified IT personnel in Offshore locations, mainly India, provided the solution through the Offshore delivery model. The phenomenon has been growing at a rapid rate ever since." <sup>2</sup>

The key benefits of the Offshore delivery model, as seen in the IT domain, are:

- **Significant cost savings on labour:** The reason for the continued growth of the Offshore model is undoubtedly the significant cost savings on labour. In the IT domain the cost savings have been widely quoted as up to 70%, though in practice they range from 30-50%. It is reasonable to expect that the cost savings would be of a similar scale in BPO, though the range is likely to be wider because of the many different labour types which sit within the scope of BPO.
- **Higher productivity:** While the business case for the move Offshore is based on the cost savings, the practice is sustained by the high quality and productivity that the Offshore model provides. This is primarily due to the fact that the outsourced processes attract a more qualified profile of personnel in these developing countries. While the salaries are low when converted to US Dollars or the Pound, in domestic cost of living terms, they are very attractive and well above the local salary levels. In fact, for experienced IT personnel, the salaries in India, on purchasing power terms, are significantly higher compared to the US and UK (see paper by the author on Offshore Outsourcing <sup>3</sup>). These better salaries also translate into better retention rates, which can be, as in the case of call centres where attrition rates can be as high as 50%, a very useful side benefit.
- **Abundance of skilled manpower:** Another factor which has stimulated Offshore is the abundant availability of the 'right' type of personnel in the Offshore locations. India, the main Offshore destination, has a large supply of well-qualified personnel coming out of its many colleges, most with reasonable fluency in the English language.

The driving force behind Offshore BPO is the belief that the rapid growth of Offshore IT can be duplicated in the domain of BPO. In this paper, we will set out a logical framework to test the validity of this belief which can be applied to specific business processes individually or to prioritise among many.

## Definitions

Business Process Outsourcing (BPO) is the outsourcing of a business process from a company to an external service provider. In this paper, we will be looking at the feasibility of Offshore BPO, which is outsourcing of a business process to an Offshore location, more often than not, in a developing country.

Three terms, underlined above, will be used extensively in this paper and need to be defined to ensure consistent usage and understanding.

1. **Business process:** A number of research papers, especially in the domain of business process re-engineering, have provided working definitions for a "Business Process" <sup>4</sup>. For example, Davenport & Short (1990) <sup>5</sup> defines business process as "a set of logically related tasks performed to achieve a defined business outcome." Or, a process is "a structured, measured set of activities designed to produce a specified output for a particular customer or

market. It implies a strong emphasis on how work is done within an organization" (Davenport 1993)<sup>6</sup>. Processes, in these definitions, have a few key characteristics: they are a combination of activities; they have a defined output for internal or external customers; and they cut across internal organizational departments and functions. Examples of business processes include developing a new product; ordering supplies, setting a fiscal year budget, managing accounts receivables; etc. In addition, business processes also have the characteristic of being performed repeatedly, often in fixed cycles, in the life span of the business. This distinguishes business processes from one-off events such as projects.

Combining these characteristics, we use the following definition in this paper: *A business process is a combination of activities performed for a defined outcome in fixed cycles by designated individuals in a business organisation.*

**2. Outsourcing:** Dragonetti, Dalsace and Cool (2003)<sup>7</sup> defines outsourcing as the "act of transferring to another firm an activity that used to be conducted in-house, and by extension, the resulting state of not conducting that activity in-house anymore".

Outsourcing, by this definition, is an act of change which alters the way an organisation does business. Of the many definitions of outsourcing, this is probably the simplest and most practical as it focuses on the key characteristic of outsourcing -- the act of transfer and the resultant change.

Top 10 Reasons Why Companies Outsource	
1.	Reduce and control operating costs
2.	Improve company focus
3.	Gain access to world-class capabilities
4.	Free internal resources for other purposes
5.	Resources are not available internally
6.	Accelerate reengineering benefits
7.	Function difficult to manage/out of control
8.	Make capital funds available
9.	Share risks
10.	Cash infusion

Source: Survey of Current and Potential Outsourcing End-Users, The Outsourcing Institute Membership, 1998 Outsourcing Institute

Once an activity is outsourced, the 'outsourcer' settles into a new state or paradigm of doing business. The outsourced activity is delivered to it by a vendor under negotiated contract terms. Over a period of time, and especially after the outsourcing contract expires, it is natural to expect that the outsourced activity would become similar to the many other services that the organisation sources from vendors/ suppliers.

The definition also rightly steers clear for the reasons behind the change. The reasons for outsourcing are many, as listed in the table, guided to a large extent by the requirements of the prevailing business environment. Thus, the reasons for outsourcing have ranged from the strategy to stick to core competencies to the need for cost efficiencies, from leveraging 'virtual' organisations to releasing capital. All these are weighty and real reasons – not surprising, since outsourcing involves a basic change in the way of doing business for the organisation and is not undertaken lightly.

**3. Offshore:** Offshore, in the context of business services, is *a form of service delivery where the service provider is located in a country different from the recipient of the service*. In the white paper mentioned earlier<sup>3</sup>, the author has presented the case that while Offshore and Outsourcing are used together, not all Offshore services are outsourcing.

### A framework for assessing Offshore BPO feasibility

The framework for assessing the feasibility of Offshore BPO that we propose in this paper will provide a simple and scaleable way of applying rigour to the Offshore BPO decision.

The framework is essentially a three-step filter process – hence, we call it the, '**The 3-Step Offshore BPO Feasibility Framework**'.

## Exhibit 2: 'The 3-Step Offshore BPO Feasibility Framework'

<b>Step 1</b> <b>Is the Business Process a Candidate for Outsourcing?</b>
<b>Step 2</b> <b>Is the Offshore Model Possible for the Business Process?</b>
<b>Step 3</b> <b>Does the Offshore Model Enhance the Value Proposition?</b>

Each step is built around a key question, with the question structured to facilitate a Go -- No Go decision. The filter process can be applied to a single business process, e.g. payroll processing, as a stand-alone decision or to a number of business processes collectively for prioritising among them. It stands to reason that detailed analysis will be required in each step to be able to arrive at a Go -- No Go decision. In the rest of this paper, we will explore the considerations and analysis that need to go into each step of the framework.

The strength of the framework is in its logical construct and its ability to adapt to changing economic, technological and regulatory paradigms. The construct forces the decision-makers to ask the right questions in the analysis at the right stage. If a business process is not suitable for outsourcing, the cost savings that the Offshore model can provide are not relevant. It can be argued that when the cost savings are as substantial as in some cases of Offshore delivery, then business process should be considered suitable for outsourcing irrespective of other business considerations. There are a few risks inherent in this line of thinking – the cost savings would probably materialise with some downside, probably in delivery quality. The analysis in the first step needs to factor this in.

The analyses within each Step also allows for industry, country and technology limitations to be considered. Customer contact is a good example – developments in telecommunications technology now allow a customer contact centre, especially a customer response or service centre, to be set up in any location in the world. The feasibility of the Offshore model, however, is restricted by the language of the customers – French speaking customers can be serviced only by French speaking agents which narrows considerably the potential Offshore locations.

### 'The 3-Step Offshore BPO Feasibility Framework'

#### Step 1: Is the Business Process a Candidate for Outsourcing?

In Step 1, the first question that the executive will need to consider is whether a group of activities or a department constitutes a business process. The importance of this question lies in the characteristics of a business process put forward earlier in the paper – a combination of related activities; a defined outcome; conducted in regular cycles, etc. These are pre-requisites for a successful execution of outsourcing and hence should be analysed right at the outset.

The value proposition for outsourcing the business process should also be assessed at this stage. We have seen that there are many reasons behind outsourcing – these need to be clearly articulated at this stage. Is the reason for outsourcing the HR function cost savings or performance? If the reason is cost, what is the minimum cost saving targeted over current baseline? How is performance measured currently and how will it be measured once the process is outsourced? These may seem obvious questions, but it is surprising how often they are left for a later stage of analysis.

Bearing in mind the definitions of business process and outsourcing, it is not surprising that the scope of BPO is vast. The search for more efficient ways of doing business that has characterised big business in the last two decades has set the stage for and facilitates BPO. To make business processes cost-efficient, companies have attempted to set specific outputs for the processes and organise them within well-defined boundaries, with interfaces or touch points to other parts of the organisation. As a by-product, many of these processes are ripe candidates for outsourcing.

Business processes can be split into two categories:

- **Generic business processes**, such as employee payroll processing or receivables processing & accounting, likely to be found in most large companies, irrespective of which industry they operate in.
- **Industry-specific business processes**, such as credit (background) checks in Financial Services, domestic meter readings in Utilities, specific to a particular industry

Generic processes such as customer billing, vendor payments accounting/ processing, receivables accounting/ processing, cash accounting, employee payroll processing, financial reporting, financial analysis – grouped under Finance & Accounting -- are part of most large businesses. The outputs are well-established, the activity cycles are fixed and there is normally a dedicated department or sub-department responsible for the process. Such business processes have been the prime targets for BPO in recent years.

Exhibit 3 lists the generic business processes which are currently targeted and are feasible for outsourcing. There is obvious need to tailor the analysis to the profile and requirements of the outsourcing company, but the list provides a starting point for the analysis.

The business processes are grouped under the following categories:

- Finance & Accounting
- Human Resources
- Marketing, Sales & Service
- Manufacturing & Distribution
- Business Support
- Facilities & Administration

**Exhibit 3: Generic Business Processes Targeted for Outsourcing**

Business Process Outsourcing: Generic		
<p><b>Finance &amp; Accounting</b></p> <ul style="list-style-type: none"> <li>• Customer billing</li> <li>• Vendor payments accounting/ processing</li> <li>• Receivables accounting/ processing</li> <li>• Inventory accounting</li> <li>• General accounting</li> <li>• Financial reporting</li> <li>• Financial analysis</li> </ul>	<p><b>Human Resources</b></p> <ul style="list-style-type: none"> <li>• Recruitment</li> <li>• Performance review administration</li> <li>• Policies &amp; procedures documentation</li> <li>• Training: programme, courses and delivery</li> <li>• Employee payroll processing</li> <li>• Benefits management</li> <li>• Employee records</li> </ul>	<p><b>Marketing, Sales &amp; Service</b></p> <ul style="list-style-type: none"> <li>• Telemarketing</li> <li>• Direct mail/ email campaigns</li> <li>• Promotional events</li> <li>• Customer service</li> <li>• Customer data management</li> <li>• Market research</li> <li>• Sales force support</li> <li>• Sales force training</li> </ul>
<p><b>Manufacturing &amp; Distribution</b></p> <ul style="list-style-type: none"> <li>• Purchasing</li> <li>• Machine maintenance and repair</li> <li>• Warehouse management</li> <li>• Packing</li> <li>• Transportation</li> <li>• Goods returns</li> <li>• Waste disposals</li> </ul>	<p><b>Business Support</b></p> <ul style="list-style-type: none"> <li>• Business research</li> <li>• Library and document management</li> <li>• Desk-top publishing</li> <li>• Investor relations</li> <li>• PR</li> <li>• Legal</li> <li>• Travel services</li> </ul>	<p><b>Facilities and Administration</b></p> <ul style="list-style-type: none"> <li>• Facilities management and maintenance</li> <li>• Security</li> <li>• Food and cafeteria</li> <li>• Office supplies</li> <li>• Meeting services</li> <li>• Reprographics</li> <li>• Mail handling</li> <li>• Local services</li> </ul>
<p><b>IT Infrastructure</b></p> <ul style="list-style-type: none"> <li>• Information/ Applications hosting</li> <li>• Network management and maintenance</li> <li>• Hardware maintenance</li> <li>• Phone and voice messaging maintenance</li> <li>• Communication services</li> <li>• IT hardware help desk</li> </ul>		<p><b>IT Applications</b></p> <ul style="list-style-type: none"> <li>• Applications maintenance</li> <li>• Applications upgrades</li> <li>• Build of customised applications</li> <li>• Maintenance of external and internal web sites</li> <li>• Maintenance of data bases</li> <li>• IT Training</li> <li>• IT software help desk</li> </ul>

Examples of outsourcing of generic business processes abound in the business press and can range from deals of a few million dollars to those of hundreds of millions. For example, Exult, a leading player in the BPO services segment, signed an agreement with Vivendi, the Global Media and Communications Company, to take over payroll, accounts payable and other related processes of two business units. Exult assumed responsibility for managing core administrative and transactional financial services for approximately 26,000 US-based

employees. In Europe, Accenture provides finance, account processing and technology services to all divisions of Gruppo Rinascente through a company that includes the employees, operations and infrastructure of the retail group's previous service centre operations. As part of the agreement, Accenture manages the shared services company, providing payroll processing and other administrative services, as well as technology support for these areas.

IT Infrastructure and Applications processes are included in Exhibit 3 for sake of completeness. IT outsourcing has conventionally been treated as a market segment different from BPO. This has been due to the seismic changes in technology and the explosive growth in IT spending in the 90s. In the last decade, IT has become the "backbone of commerce", with IT expenditure accounting for as much as 50% of total capital expenditures<sup>8</sup>. The rapid advances in business IT has meant that most businesses have needed to rely on specialist vendors to design and build their IT systems and applications. In many cases, there has been a natural progression from projects to outsourcing arrangements. The sheer scale of IT expenditures has meant that IT outsourcing has merited separate treatment by analysts.

It would be possible to fit most IT infrastructure and application processes into the definition of a business process, albeit as enablers of other business processes. IT outsourcing, in that case, would be a subset of BPO – we could then label the entire phenomenon 'Business Outsourcing' or simply Outsourcing, thus doing away with the need for the rather tenuous distinction between BPO and IT outsourcing.

The business case for BPO in these generic processes has been based on two factors: one, there are significant economies of scale when the vendor provides the service to multiple clients, allowing for overall lower costs and two, the generally accepted belief that these processes are part of the cost of doing business and do not contribute to competitive advantage.

The scope of BPO is, however, not restricted to these generic business processes. Many of the BPO deals of past years have been of specialist processes very specific to an industry. For example, 7-Eleven outsourced the scanning and auditing of manufacturers' coupons for all its stores in the US to ACS. As part of the outsourcing deal, ACS processes more than 7 million coupons annually. Coupon data from 7-Eleven's stores are electronically captured and transmitted to storage servers provided by ACS, where images are hosted for retrieval by 7-Eleven as needed.

Each industry has some primary targets for BPO – often due to an early pioneer establishing the feasibility and the business case. It would be a mammoth task to list these processes for all industries and, hence, only an illustrative list is shown in Exhibit 4 for three randomly chosen industries:

**Exhibit 4: Industry-specific Business Processes Targeted for Outsourcing (Illustrative)**

<b>Business Process Outsourcing: Industry-Specific (Illustrative)</b>		
<p><b>Financial Services</b></p> <ul style="list-style-type: none"> <li>• New applications processing</li> <li>• Credit checks</li> <li>• Cheque processing</li> <li>• Credit card processing</li> <li>• Mortgage origination</li> <li>• Loan processing and servicing</li> <li>• Insurance policy renewal notices</li> <li>• Insurance claims processing</li> <li>• Customer data management</li> </ul>	<p><b>Utilities</b></p> <ul style="list-style-type: none"> <li>• New applications processing</li> <li>• Customer billing &amp; collections</li> <li>• Customer service</li> <li>• Meter installations and readings</li> <li>• Domestic servicing</li> </ul>	<p><b>Pharmaceuticals</b></p> <ul style="list-style-type: none"> <li>• Data management of clinical trials</li> <li>• Clinical trials processes: patient recruitment, investigator recruitment</li> <li>• Clinical trials supplies</li> <li>• Adverse event monitoring of marketed products</li> <li>• Event-specific detailing</li> <li>• Product support to healthcare professionals</li> </ul>

**'The 3 Step Offshore BPO Feasibility Framework'**

**Step 2: Is the Offshore Model Possible for the Business Process?**

A good example of an Offshore BPO arrangement is the one between Thames Water and Xansa. This is claimed to be "the world's first Offshore outsourcing of an end-to-end back-office process by a Utility" and involves metered billing exceptions and customer correspondence, amounting to over 700,000 transactions each year. Xansa is delivering this

service from India, accessing Thames Water systems in the UK remotely. Maintaining and enhancing the quality of customer service in the UK and Ireland, where Thames Water serves a population of some 13 million, means that Xansa processes around 270,000 items of correspondence each year. Xansa also processes around half a million metered billing exceptions each year.

Not all the business processes covered in the earlier section can be moved Offshore. In many cases, e.g. facilities services, the service provider has to be in the same physical location; in others, there are significant control or confidentiality concerns. The most common reason, however, is that Offshore outsourcing is limited by the complexity of conducting and delivering business processes from Offshore locations. The logistics are too complex, and the technology either not capable or not reliable enough to allow a seamless delivery and integration with other business processes.

At this stage, the analysis focuses on what is possible. The intent is to take a dispassionate decision independent of strategic concerns to evaluate the feasibility of the Offshore model with respect to the business process. A good understanding of the Offshore model, the technological requirements of the business process and the capabilities of various Offshore vendors is critical to the analysis. In most cases, an independent assessment is recommended.

Some of the areas of analysis in this step are:

- How many and what types of interfaces does the business process have with the rest of the business, its customers and its suppliers? Clearly where there are many and frequent interfaces, the task of Offshore outsourcing is more complex. Similarly, if the interface is mainly in the form of a physical interaction, then again Offshore may have limitations. If the interface is virtual, e.g. mainly by telephone, then it would really not matter if the voice at the other end of the phone was in the next building or the next continent.
- What are the technology requirements of the Offshore model of delivery for the business process? In the case of telephone calls, as in customer contact centres for example, telecommunications technology has been a key enabler, first for onshore outsourcing and now for Offshore. The technology itself is reasonably mature, but is dependent on telecommunications infrastructure of the Offshore location.
- What kind of onshore or on-site support would make Offshore outsourcing possible? Rarely would an Offshore BPO arrangement work if everything was moved Offshore. An Onshore + Offshore model has been developed in IT services which works well and is likely to be the preferred model for Offshore BPO as well. Thus, many processes which at first sight seem unsuitable for the Offshore model may still be in the realms of the possible, if some of the interfaces and components were to remain onshore or indeed on-site.

In Appendix 1, we illustrate the possible output of such an analysis for the generic business processes discussed in Step 1. The results are not based on rigorous analysis – but they illustrate the point that an assessment of the feasibility of the Offshore model for the business process can provide an early decision on the need to consider Offshore as an option.

### **'The 3 Step Offshore BPO Feasibility Framework'**

#### **Step 3: Does the Offshore Model Enhance the Value Proposition?**

In Step 3, we assess if the Offshore model can enhance the value proposition as described in Step 1.

Of the many reasons that companies have for outsourcing, two are critical – the outsourcing arrangement must deliver either substantial cost savings or significantly better outputs. We have made the case earlier that business process outsourcing is a major decision for most companies, as it entails a fundamental change in the way of doing business. It stands to reason then that the benefits desired from the decision need to be substantial/ significant. This is the reason why it is important to quantify the value proposition early on in the assessment. The feasibility assessment of the Offshore model is then based on the same

value proposition that underpinned the feasibility of outsourcing the business process in the first place.

Based on the premise that the value proposition is based on either cost savings or better outputs, the analysis at this stage focuses at these two aspects:

- Cost of Offshore delivery
- Quality of the output of Offshore delivery

Cost of Offshore delivery, more often than not, is a reasonably straight-forward quantitative analysis. Since the key cost saving of the Offshore model is in labour costs, wherever the business process has more than 50% of the costs from labour, the Offshore model will offer substantial cost savings. Salaries in India, for example, range from 10% to 30% of US costs in the customer contact domain. As salaries constitute around 50% of the costs in this domain, back-of-the-envelope calculations would suggest that there is likelihood of 35 – 45% cost savings overall in moving customer contacts Offshore.

A paper on call centres by Dr. Mike Thomas of the Datapulse Professional Services<sup>9</sup>, quoting US data from Frost and Sullivan, illustrates this analysis required to assess the cost of Offshore delivery. The cost of an agent call, i.e. a call serviced by a call centre agent and not completed through an interactive response system, is approximately \$1.50 per minute if the agent is based in a US location. The labour cost, including salary and benefits, is \$0.68 or 45% of the total cost. Utilities, Facilities & Other Administration at \$0.28 (19%) and Telecommunications at \$0.14 (10%) are the other two main cost components. The paper estimates that 'offshoring' the service to India would result in savings mainly in labour and facilities -- the cost of servicing a call per minute could come down to \$0.90 – a saving of 40% overall.

In the above case, if the majority of the calls were agent calls, then the Offshore model would provide a substantial cost saving. The paper also analyses, the cost savings for customer calls which can be completely automated and do not require an agent (IVR – Interactive Voice Response) and rightly demonstrates that the Offshore model can add very little by way of cost savings to the process. Thus, if the majority of the calls received by the business could be handled by IVR, then there would very limited value from the Offshore model to the BPO arrangement.

Assessing the enhancement to the quality of the output poses a little more of a problem for the analysis.

Few companies measure the performance of internal business processes. An article assessing the keys to successful BPO relationships<sup>10</sup> quotes "What constitutes running a process well, and what constitutes running it better, are key criteria requiring evaluation before undertaking BPO. If you can't understand process performance in-house, you can't understand it outsourced. You must measure your own performance first and then benchmark it to others to understand where that stands — good, better, or worse."

Rarely are the outputs of a business process easily quantifiable. At the best companies can use surrogate measures for the outputs. The problem is not specific to Offshore – it is a problem that all BPO arrangements face. The practice of using surrogate measures to mark the quality of specific business processes is getting slowly and steadily established, and indeed getting more and more formal as they are locked in to legal documents as part of the outsourcing arrangement.

The [www.cfo.com](http://www.cfo.com)<sup>10</sup> article mentioned above cites the example of a Blue Cross Blue Shield BPO arrangement with Perot Health Systems to illustrate this point. "Blue Cross Blue Shield is Rhode Island's largest provider of health insurance, covering some 650,000 individuals, or 65 percent of the Ocean's State's population. The 10-year, \$600 million BPO agreement it signed with outsourcing service provider Perot Health Systems calls for the "Blues" to outsource information technology, insurance claims, and cash disbursements to Perot, and to shift significant technology and intellectual capital — the 600 employees who performed these functions — to the provider." To ensure that the objectives of the BPO arrangement are met, the contract has clear service-level benchmarks. For example, "if Perot fails to process a

certain volume of claims within a specified time horizon, the contract holds them accountable." A governance team comprised of individuals from both the companies meets regularly to review performance against the benchmarks.

For the 3-Step Framework, we recommend that the value proposition laid out in Step 1 is re-validated in Step 3. This ensures that the Offshore delivery model is being assessed on the same criteria as the original intent behind driving the outsourcing decision. Further analysis at this stage also allows for a clearer articulation of the measures of performance of the business process, which may not have been clear in the initial stages of the assessment. In the above example, if a key measure of performance was the number of claims handled in a time period, the assessment of the Offshore model would be based on its ability to increase the volume of claims handled in the same time period.

## **Conclusion**

**'The 3 Step Offshore BPO Feasibility Framework'** is a logical construct of analytical steps that facilitate the decision to use the Offshore model for a BPO arrangement. It starts by first evaluating the feasibility of outsourcing a business process from the incumbent business entity and establishing the value proposition of doing so. In the next Step, it assesses the possibility of using the Offshore delivery model for the BPO arrangement, focusing on the basic question – is it possible? The last Step of the analytics assesses if the Offshore delivery model enhances the value proposition, linking the Offshore delivery model to the original value proposition on which the outsourcing decision was based.

### *About the Author*

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## Appendix 1: Is the Offshore Model Feasible for the Business Process?

Business Process	Offshore BPO Feasibility	Commentary
<b>Finance &amp; Accounting</b>		
Customer billing	Yes	<ul style="list-style-type: none"> <li>Limited face-to-face or direct contact</li> <li>Data transfer in electronic format</li> <li>Customer mailings need onshore support, if physical mailings required</li> <li>Key requirement is data transfer network</li> </ul>
Vendor payments accounting/ processing	Yes	<ul style="list-style-type: none"> <li>Limited face-to-face or direct contact</li> <li>Data transfer in electronic format</li> <li>Key requirement is data transfer network</li> </ul>
Receivables accounting/ processing	Yes	<ul style="list-style-type: none"> <li>Limited face-to-face or direct contact</li> <li>Data transfer in electronic format</li> <li>Receipts require onshore support</li> <li>Key requirement is data transfer network</li> </ul>
Inventory accounting	Yes/ No	<ul style="list-style-type: none"> <li>Data transfer in electronic format</li> <li>Physical inspections require onshore support</li> </ul>
General accounting	Yes	<ul style="list-style-type: none"> <li>Periodic transfer of documents to Offshore location or conversion to electronic format required</li> <li>Key requirement is data transfer network</li> </ul>
Financial reporting	Yes	<ul style="list-style-type: none"> <li>Data transfer in electronic format</li> <li>Onshore – Offshore mix in execution required</li> </ul>
Financial analysis	Yes	<ul style="list-style-type: none"> <li>Data transfer in electronic format</li> </ul>
<b>Human Resources</b>		
Recruitment	No	<ul style="list-style-type: none"> <li>Requires extensive local knowledge</li> <li>Generally requires face to face interviewing</li> <li>Preliminary sorting of CVs, where large scale responses are routine, can potentially be carried out in Offshore locations</li> </ul>
Performance review administration	No	<ul style="list-style-type: none"> <li>Requires coordination with local offices</li> <li>Requires extensive face to face discussions</li> </ul>
Policies & procedures documentation	Yes	<ul style="list-style-type: none"> <li>Data transfer in electronic format</li> <li>Key requirement is data transfer network</li> </ul>
Training: programme, courses and delivery	Yes/ No	<ul style="list-style-type: none"> <li>Programme design and maintenance in electronic format</li> <li>Course design in electronic format</li> <li>Course delivery generally requires co-location</li> </ul>
Employee payroll processing		<ul style="list-style-type: none"> <li>Limited face-to-face or direct contact</li> <li>Data transfer in electronic format</li> <li>Employee mailings need onshore support</li> <li>Key requirement is data transfer network</li> </ul>
Benefits management	Yes	<ul style="list-style-type: none"> <li>Data transfer in electronic format</li> <li>Key requirement is data transfer network</li> </ul>
Employee records	Yes	<ul style="list-style-type: none"> <li>Legal constraints in some countries</li> <li>Data transfer in electronic format</li> <li>Key requirement is data transfer network</li> </ul>
Handling of employee enquiries	Yes	<ul style="list-style-type: none"> <li>Data transfer in electronic format</li> <li>Key requirements are voice transfer set-up and data transfer network</li> <li>Language considerations</li> </ul>
<b>Marketing, Sales &amp; Service</b>		
Telemarketing/ Telesales	Yes	<ul style="list-style-type: none"> <li>Data transfer in electronic format</li> <li>Key requirements are voice transfer set-up and data transfer network</li> <li>Language considerations</li> </ul>
Direct mail/ email campaigns	Yes	<ul style="list-style-type: none"> <li>Limited face-to-face or direct contact</li> <li>Customer mailings need onshore support</li> </ul>
Promotional events	No	<ul style="list-style-type: none"> <li>Extensive on-shore coordination required</li> </ul>
Production of marketing collaterals	Yes	<ul style="list-style-type: none"> <li>Data transfer in electronic format</li> <li>Key requirement is data transfer network</li> <li>Requires onshore briefs and review</li> </ul>
Customer service	Yes	<ul style="list-style-type: none"> <li>Data transfer in electronic format</li> <li>Key requirements are voice transfer set-up and data transfer network</li> <li>Language considerations</li> </ul>
Customer data management	Yes	<ul style="list-style-type: none"> <li>Data transfer in electronic format</li> </ul>
Market research	Yes	<ul style="list-style-type: none"> <li>Only if data collection is through virtual channels -- phone, mail, email</li> </ul>
Sales force support	Yes	<ul style="list-style-type: none"> <li>Data transfer in electronic format</li> <li>Key requirements are voice transfer set-up and data</li> </ul>

		transfer network
Sales force training	Yes/ No	<ul style="list-style-type: none"> <li>• Language considerations</li> <li>• Course design in electronic format</li> <li>• Course delivery requires co-location</li> </ul>
<b>Manufacturing &amp; Distribution</b>		
Purchasing	Yes/ No	<ul style="list-style-type: none"> <li>• Processing of purchases possible</li> <li>• Receipt and inspection at manufacturing sites</li> </ul>
Machine maintenance and repair	No	<ul style="list-style-type: none"> <li>• At manufacturing site</li> </ul>
Warehouse management	No	<ul style="list-style-type: none"> <li>• At manufacturing site</li> </ul>
Packing	No	<ul style="list-style-type: none"> <li>• At manufacturing site</li> </ul>
Transportation	No	<ul style="list-style-type: none"> <li>• At manufacturing site</li> </ul>
Goods returns	No	<ul style="list-style-type: none"> <li>• At manufacturing site</li> </ul>
Waste disposals	No	<ul style="list-style-type: none"> <li>• At manufacturing site</li> </ul>
<b>Business Support</b>		
Business research	Yes	<ul style="list-style-type: none"> <li>• Data transfer in electronic format</li> </ul>
Library and document management	Yes	<ul style="list-style-type: none"> <li>• Data transfer in electronic format</li> </ul>
Desk-top publishing	Yes	<ul style="list-style-type: none"> <li>• Data transfer in electronic format</li> <li>• Publishing may require local/ onshore printing support</li> </ul>
Investor relations	No	<ul style="list-style-type: none"> <li>• Local regulations</li> </ul>
PR	No	<ul style="list-style-type: none"> <li>• Requires face to face contacts</li> </ul>
Legal	No	<ul style="list-style-type: none"> <li>• Varying legal structures</li> </ul>
Travel services	Yes	<ul style="list-style-type: none"> <li>• Data transfer in electronic format</li> <li>• Requires voice transfer set-up</li> </ul>
<b>Facilities Services &amp; Admin</b>		
Facilities management & maintenance	No	<ul style="list-style-type: none"> <li>• Requires co-location to facility</li> </ul>
Security	No	<ul style="list-style-type: none"> <li>• Requires co-location to facility</li> </ul>
Food and cafeteria	No	<ul style="list-style-type: none"> <li>• Requires co-location to facility</li> </ul>
Office supplies	No	<ul style="list-style-type: none"> <li>• Requires co-location to facility</li> </ul>
Meeting services	No	<ul style="list-style-type: none"> <li>• Requires co-location to facility</li> </ul>
Reprographics	No	<ul style="list-style-type: none"> <li>• Requires co-location to facility</li> </ul>
Mail handling	No	<ul style="list-style-type: none"> <li>• Requires co-location to facility</li> </ul>
Local concierge services	No	<ul style="list-style-type: none"> <li>• Requires co-location to facility</li> </ul>

## Appendix 2

### Definitions of business process on the Web:

(Search for 'definition: business process' at [www.google.com](http://www.google.com))

A group of business activities undertaken by an organisation in pursuit of a common goal. Typical business processes include receiving orders, marketing services, selling products, delivering services, distributing products, invoicing for services, accounting for money received. A business process usually depends upon several business functions for support, e.g. IT, personnel, accommodation. A business process rarely operates in isolation, i.e. other business processes will depend on it and it will depend on other processes.  
[www.itil.co.uk/online\\_ordering/itil\\_glossary.htm](http://www.itil.co.uk/online_ordering/itil_glossary.htm)

A collection of related, structured activities—a chain of events -- that produce a specific service or product for a particular customer or customers. [GAO] Business process reengineering (BPR), in government, is a systematic disciplined improvement approach that critically examines, rethinks, and redesigns mission-delivery processes and sub-processes within a process management approach. In a political environment, the approach achieves radical mission performance gains in meeting customer and stakeholder needs and expectations. [GAO]  
[www.ichnet.org/glossary.htm](http://www.ichnet.org/glossary.htm)

A series of business functions within defined boundaries (e.g. sales process, invoicing process, marketing process, etc.).  
[www.microsoft.com/business/solutions/value/valglossary.asp](http://www.microsoft.com/business/solutions/value/valglossary.asp)

A business process is the execution of a series of activities which leads to the achievement of a measurable business result. The result may be the creation of a product or service, or an intermediate component which contributes to the creation and delivery of products or services, either directly or indirectly.  
[www.seanet.com/~daveq/glossary.htm](http://www.seanet.com/~daveq/glossary.htm)

Defined business activity, executions of which may be identified in terms of the input and/or output of entities of specific types or of data about entities of specific types—a process can be executed; a function cannot.  
[www.ch.doe.gov/programs/iap/glossary.html](http://www.ch.doe.gov/programs/iap/glossary.html)

A prescribed sequence of work steps that is intended to be completed in order to produce a specific result. A business process is initiated by a particular kind of event, has a well-defined beginning and end, and is usually completed in a relatively short period of time.  
[www.ackley.com/2\\_integrated\\_modeling/2\\_im\\_tutorial/tg\\_glossary/glossary.htm](http://www.ackley.com/2_integrated_modeling/2_im_tutorial/tg_glossary/glossary.htm)

A collection of activities that work together to produce a defined set of products and services. All business processes in an enterprise exist to fulfil the mission of the enterprise. Business processes must be related in some way to mission objectives.  
[deskbook.dau.mil/software/gen/Tools%5CAPPENDIX%5C77\\_Enterprise%20Integration%20Glossary.htm](http://deskbook.dau.mil/software/gen/Tools%5CAPPENDIX%5C77_Enterprise%20Integration%20Glossary.htm)

At its most generic, any set of activities performed by a business that is initiated by an event, transforms information, materials or business commitments, and produces an output. Value chains and large-scale business processes produce outputs that are valued by customers. Other processes generate outputs that are valued by other processes.  
[www.bptrends.com/resources\\_glossary.cfm](http://www.bptrends.com/resources_glossary.cfm)

A series of activities completed to create a product or offer a service to our customers. For example, the loan application process involves a series of steps completed to provide our customers with financial aid.  
[extranet.sfa.ed.gov/sfa\\_university/training/f2botw/dictionary\\_b.html](http://extranet.sfa.ed.gov/sfa_university/training/f2botw/dictionary_b.html)

A group of related activities that provide value to the customer.  
[www.dep.state.pa.us/dep/deputate/oit/ec/information/plans/def/ecql.htm](http://www.dep.state.pa.us/dep/deputate/oit/ec/information/plans/def/ecql.htm)

A group of logically related activities that use the resources of the organization to provide defined results in support of the organization's objectives. In the UPEDU, we define business processes using business use cases, which show the expected behavior of the business, and business use-case realizations, which show how that behavior is realized by business workers and business entities. See also process. [www.yoopeedoo.com/upedu/process/glossary.htm](http://www.yoopeedoo.com/upedu/process/glossary.htm)

A component of a business that models a process performed by the business.  
[www.donald-firesmith.com/Glossary/GlossaryB.html](http://www.donald-firesmith.com/Glossary/GlossaryB.html)

A business process is a set of procedures that coordinate the activities of a group of people. These people may or not be in the same company department or location, and in fact business processes usually cut across the various functions of a company. [www.a-bar.com/glossary.html](http://www.a-bar.com/glossary.html)

A series of interrelated activities which convert inputs into results (outputs). Processes consume resources and have a limited capacity and capability. Benchmarking requires a standard set of process classifications which are understood by both parties in a benchmarking project. The Best Practice Club has defined these in a Business Process Classification Scheme. [creativeideas.org.uk/glossary.htm](http://creativeideas.org.uk/glossary.htm)

A business process is a certain activity or set of activities with a specified output, carried out by people and resources in a company. By business process we specifically mean the activity in progress, meaning the control and execution of the activity. Typical business processes are selling a car and fitting a dashboard in a car.  
[home.hetnet.nl/~daanrijsenbrij/vision/eng/begrip1.htm](http://home.hetnet.nl/~daanrijsenbrij/vision/eng/begrip1.htm)

A value-adding, value-creating activity such as product development or order fulfillment.  
[highered.mcgraw-hill.com/sites/0256252564/student\\_view0/glossary.html](http://highered.mcgraw-hill.com/sites/0256252564/student_view0/glossary.html)

A set of one or more linked procedures or activities which collectively realise a business objective or policy goal, normally within the context of an organisational structure defining functional roles and relationships.  
[www.cba.edu.kw/krouibah/glossary%20for\\_simnet.htm](http://www.cba.edu.kw/krouibah/glossary%20for_simnet.htm)

## Sources

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- <sup>1</sup> IDC, quoted in NASSCOM, [www.nasscom.org](http://www.nasscom.org)
- <sup>2</sup> Quote from 'The Expanding Territory of Offshore Outsourcing' by Kathleen Goolsby and Steve Perrino (Outsourcing Journal)
- <sup>3</sup> Kumar, S. 2003. *How Sustainable is the Cost Advantage of Offshore Outsourcing* . NASSCOM, [www.nasscom.org](http://www.nasscom.org)
- <sup>4</sup> See attached Appendix for results of search for "definition: business process" at [www.google.com](http://www.google.com)
- <sup>5</sup> Davenport, TH and Short, JE 1990. *The New Industrial Engineering: Information Technology and Business Process Redesign*. Sloan Management Review
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## Summary of Kinapse services

Kinapse provides specialist services to life sciences R&D organisations, with specific expertise in:

- R&D process and organisation design
- Resource planning and management
- Performance management including performance scorecards and benchmarking
- Change and programme management
- Product, Market and Company research and analysis.



Our business consulting professionals blend extensive consulting experience with senior R&D management experience.

Our onshore-offshore operating model allows us to bring together the very best people in virtual teams, who are passionately committed to the success of their clients. Our lean operations in Europe, and staff located in the Kinapse Offshore Delivery Centre in Delhi enable us to deliver highest value services at unbeatable blended fee rates for R&D consulting.

In addition, Kinapse provides a suite of specialist information processing services including, clinical trial publishing, clinical data analysis, regulatory licence maintenance and scientific communications.

The Kinapse team has worked for the following major Pharmaceutical R&D Companies and related organisations: Amgen, AstraZeneca, Bayer, Bristol-Myers Squibb, CMR International, EMEA, Genentech, GlaxoWellcome, GlaxoSmithKline, Johnson & Johnson, MHRA, Novartis, Pfizer, Roche, Schering AG, SmithKline Beecham and Wyeth.

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