

Business process outsourcing (BPO)

IVEY

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Audience

- IVEY Faculty
- EMBA Toronto Section -2004
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- Team

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Agenda

- Overview of BPO
 - Global Trends
 - Porter 5 Forces, BPO Providers
 - Key Statistics
 - Key Savings
 - Study & Interviewee Selection
- Key decisions and factors
- Lessons learned
- Future Roadmap
- Conclusion
- Appendices



Overview

- Global trend to outsource services to countries with cheap workforce (East. Europe, India, China).
- Initially objective to save cost in the airline industry (ticket processing in Bombay); over 10 years introduced to industry and financial services.
- Besides cost savings, advantage of multinational interaction and process harmonization.
- Study on effects of outsourcing from a user perspective (Canada, Hong Kong) and a provider perspective (India), based on facts and interviews.



Porter 5 Forces BPO providers India, China, Eastern Europe

Potential Entrants

Threat of new entrants (captives, external providers) medium

BPO in large corporate business

Suppliers

Many, difficult to achieve quality and culture match

cost efficiency and process harmonization are key deliverables

Industry Competitors

Captives: Global Banks and Insurance companies

providers and consultants:

(Indian) software houses, global consultancies

Buyers

Medium and large mature financial service companies in developed countries

Substitutes

IT enabled processes and internet applications that cut out the manual work piece



Key Statistics

- BPO Industry growth > 30%
- 142 to 157 billion US\$ worldwide
- 2006 > 1 million jobs in India in BPO
- 3.3 million jobs in the USA will be lost
- Financial services as an industry, accounts for close to 50% of outsourcing volume:
 - Finance & accounting (15 billion US\$)
 - HR services (5 billion US\$)
 - Customer Interaction (33 billion US \$)



Study and Interviewee selection

- 12 major insurance companies were interviewed:
 - Asia : AXA, AIA, CMG, HSBC, Mass Mutual, PCI, Ping An, Sun Life and Zurich
 - Canada : The Dominion of Canada, Empire Life, ING, Lombard and JDF Insurance Brokers
- Our findings: All 12 companies have outsourcing activities, supported by senior management
- Decision making is mainly based on a cost/benefit analysis, risk assessment, and it must be compatible with corporate strategy
- Decisions are made on case by case bases



Key decisions and factors

Asia	Canada
Cost savings (min.30% to be justified)	Focus on core competence for better product & service
Increased productivity and efficiency	Increased productivity & efficiency
Focus on core activities for better quality	Cost savings
<p>Major difference: Cost reduction is higher concern for Asian operations as long as same quality & services are being delivered compared to Canada.</p>	



Lessons learned

- To lower risk, prefer to start from a pilot on a small scale or on short term contract basis to ensure vendors could meet the requirements.
- In addition to outsource, larger players prefer offshore (shared services) and joint venture to have more direct control.
- Prefer outsource to China, India and Eastern Europe.
- Some management prefer Indian to China. Their experience was that Indian has better education (accounting), is easier to communicate plus shows higher productivity.
- Companies having operations in China would do offshore and JV in China to prepare for the future business expansion with more direct control (suitable Chinese character environment)



Lessons learned: Vendor Selection

- Develop the relationship specification ... your selection criteria
- Evaluate candidate providers against the criteria and select the best one
- Design the relationship structure (including clear definitions of scope, service level metrics tied to business objectives, and effective agreement)
- Manage the relationship on an on-going basis through formal and informal business reviews and information exchange



Lessons learned: IP Protection

- Data Security & Privacy
 - Get your vendor familiar with privacy and compliance legislation e.g. Sarbanes-Oxley, UK Data Protection Act, HIPAA etc.
 - Have complete understanding of vendor's information security plan i.e. administrative policies, as well as technical and physical environment to safeguard data.
 - Ensure vendor does thorough background checks of their employees before hiring



Lessons learned- Scope and Issue Management

- Define clearly issue reporting and escalation procedures
- Define and agree to procedures to be used for handling problems
- Roles and responsibilities clearly defined
- Develop and agree to Service Level Agreements (SLAs)

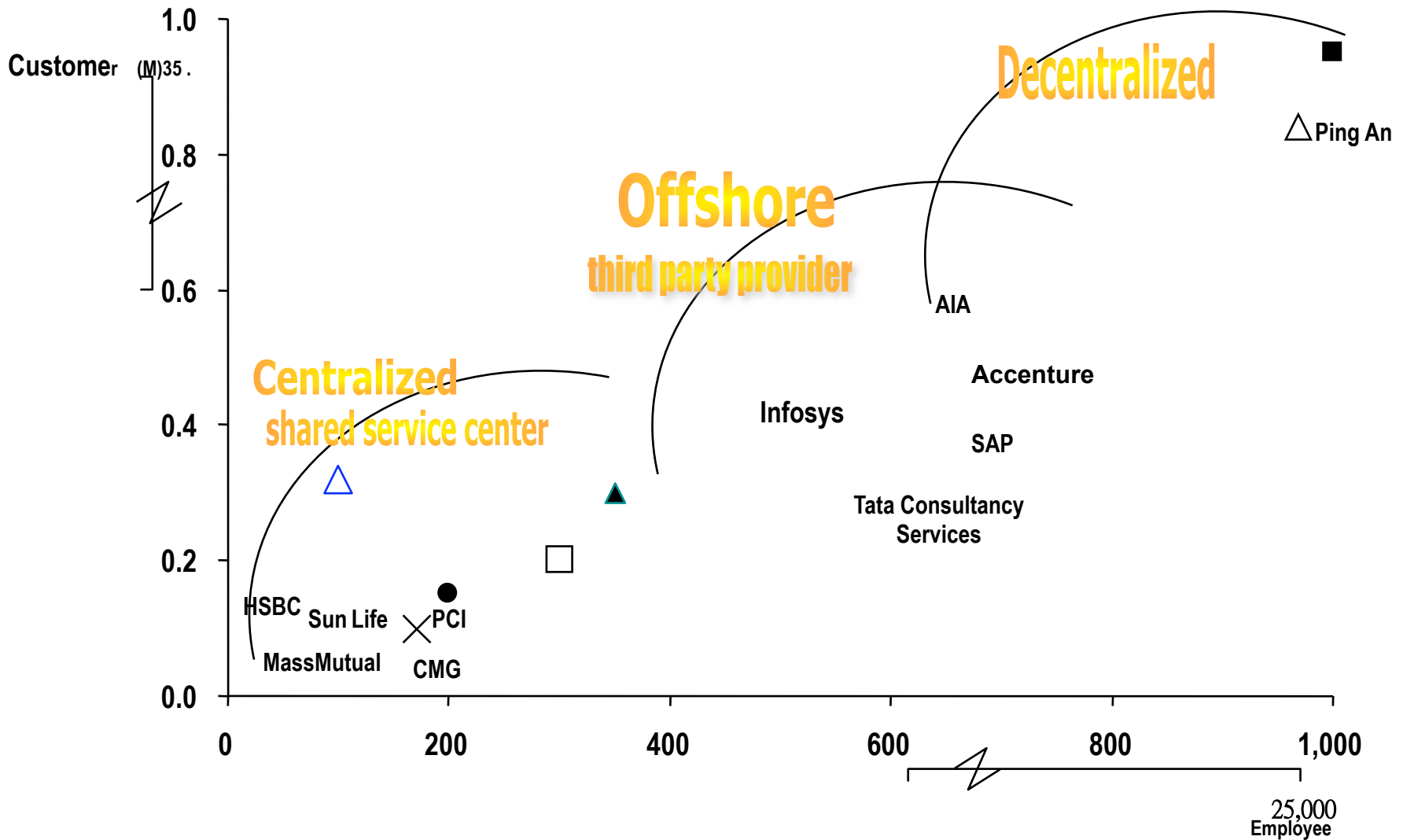


Risk

- Selecting the wrong partner can lead to:
 - higher costs
 - reduced quality
 - And other significant business detriments including intellectual property leakage



Outsourcing / Offshore Roadmap





Conclusion

- Cost reduction & competitive advantages are the main rationale for outsourcing
- Definition of “core” operations varies from company to company. Companies indicated that the following levels will NOT be outsourced in order of priority:
 - 1st level: Sales force (i.e. except telemarketing & tied -agency & customer service as core competencies (i.e. underwriting & claims except most of outbound calls))
 - 2nd level: Product
 - 3rd level: Human resources & Finance
- China is an emerging outsource country being currently selected & considered by insurance companies
- Partnership selection for outsourcer & outsourcee plays an important role in outsourcing.

Appendixes

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Companies Interviewed

- PCI
- JDF Insurance Brokers
- Ping An
- ING
- CMG
- MassMutual
- HSBC
- AIA
- SunLife
- Zurich
- Dominion of Canada



Links of Outsourcing Companies

- <http://www.clearingo.com/outsource.shtml>
- <http://www.lattis.comhk/whyoutsource.html>
- <http://www.supplymanagementsolutions.com/Outsourcing.htm>
- http://www.bdo.com.hk/frame_serv_bus.htm
- <http://www.kodakeprinting.com/kodakinews/mar/outourcing.php>
- <http://www.accenture.com/xd/xd.asp?it=enweb&xd=index.xml>
- <http://www.inf.com>
- <http://www.outsourcing-best-practices.com>



Outsource/Not Outsource

- 90% of the interviewees outsource their IT, back office administration and call centre.
- On average:
 - 70 -100% in telemarketing
 - Over 50% of their call centre or customer services (mainly outbound calls and after office hour customer services)
 - 50% of their back office or administration
 - 40% of IT
- Most interviewees do not yet outsource core activities and areas related to confidential information such as company strategy, finance, underwriting (u/w) and claims. There are however trendsetters that are outsourcing u/w & claims (Axa)



Services (external providers)

- Application development, business transformation, strategic delivery and technology infrastructure outsourcing
- Accounting and reconciliation services (on client servers)
- Reformatting, platforming and procurement
- Vendor contracts and consolidation
- Treasury related operations
- Shared services management for: underwriting, human resources, IT, claims etc.
- Strategic relationships with IT – providers (e.g. SAP, Oracle, People Soft, IBM, WIPRO, Infosys, Tata Consulting Services and others)



HR Implications

- **Understanding the effects on:**
 - * HR systems
 - * Pay scales
 - * Local labor practices
 - * Legislative compliance
 - * Industry/geographic specific certification
- **Management will be required to:**
 - * Reinforce HR practices
 - * Maintain partnerships
 - * Review regularly HR, Operations, Organization Structure
 - * Invest periodically in people & skills