THOUGHT SPOT

BPO as a Revenue Enabler

Issue #2

Editor’s Note

Welcome to the new year edition of BPO Thought Spot, and thank you for your outstanding response to our inaugural issue. We’re proud to provide you with meaningful thought leadership on the latest trends, innovations and practices in the outsourcing space.

The world of outsourcing is evolving to meet the changing needs of today’s business. What began as a method of achieving labor arbitrage is transforming into a dynamic way for companies to gain agility, enter new markets quickly and compete more effectively. Outsourcing saves money, that’s true, but with the right partner, it can deliver so much more.

This issue is packed full of articles that illustrate this point. Here are just a few examples of the emerging trends you’ll read about in this publication:

- The concept of Vertical BPO, and how this growing trend enables companies to deal with everything from regulatory compliance and reporting to rapid geographic expansion
- How the objectives for BPO are changing – moving from a single focus to something more inclusive, where multiple objectives can be met
- The use of BPO as a revenue generator
- New pricing models, like transaction-based pricing and where these bring the greatest benefit
- Front office transformation through analytics, and how this adds value
- Back office transformation through the application of Wipro’s Base)))™ technology

These are just a handful of the insights and perspectives you’ll find in this edition. We hope you enjoy reading them, and we look forward to your feedback. This is your publication. Through your feedback, we can work to make it as valuable to you as possible. Tell us what subjects you’d like to see covered and what trends you’d like to explore. Our goal is to be a great resource, as well as a great partner in your success.

Happy reading!

Regards,
Manish Dugar
Head, Wipro BPO

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"Do Business Better" Using BPO as a Revenue Enabler

- Manish Dugar, Head, Wipro BPO

Historically, companies outsourced business processes to save money or gain process efficiency. But as service provider offerings and buyers matured, BPO can now become a revenue enabler, according to Manish Dugar, Head, BPO. In some cases, old, outdated technology and antiquated processes in the back office can "handcuff" the front office, points out Dugar. For example, today enterprises need real-time analysis, not end-of-the quarter reporting. But this kind of research and analysis is not possible without the newest technology.

BPO becomes an enabler if the service provider:

- Can control the process from end-to-end
- Has deep industry domain knowledge, including keeping up with ever-changing government regulations
- Has developed the requisite IT to enable the process changes

"Examples of BPO as a revenue enabler -

Expanding into new geographies. Dugar cites a bank that may have become well-known in its home geography. Now it wants to expand but doesn't have the processes or the local knowledge necessary. Wipro, however, has other clients in the proposed new geography and is very familiar with the banking regulations there."

"We can provide a ready-made platform to support this bank's expansion into the new geography because we have done it before," explains Dugar.

"Expanding into new areas of business -

Stock traders are another example. Service providers with the proper technology and understanding of markets can enable traders to enter new markets and do different kinds of transactions they couldn't do before."

"Launching new product -

Today's service providers can also cut the time for a new product launch, Dugar continues. "If you open up a new market five months earlier than planned, it creates a business opportunity," says the Head, Wipro BPO . "It's possible that the opportunity could vanish if you waited."

"Keeping current customers -

Social media is particularly helpful here. Say a manufacturer discovers it has a problem with its new printer. It can employ social media to let its customers know they can call a toll-free number to swap out their misbehaving printer with a new one." "This way the customer doesn't have to call and complain," he says. Nipping the problem in the bud will translate into customer goodwill and ultimately retains a hard-earned customer.

Using analytics as a revenue generator

Analysis is more important than ever, given today's economy. "We believe that analytics-driven experimentation and performance improvement will be a key driver for businesses to be future-ready. It's hard to find trends manually," points out Dugar. "Technology can point out trends that the naked eye can't see." Spotting these trends early is critical because then companies can make business decisions "based on the trends currently shaping the market."

The Wipro executive recalls one client asking the service provider to help increase its cross selling and up selling opportunities. The Wipro team decided the best way to do this was to figure up which customers were the most likely to be amenable to a selling opportunity. Combing through the data, the Wipro team discovered that six percent of this company's customers called, emailed or tweeted about issues they had with the company's product. It removed their names from the cross-selling list, figuring it would be difficult to sell more products to unhappy customers. Then they used the statistics to prioritize the remaining 94 percent. "These insights created a revenue opportunity for the company," Dugar says.

In another case, the Wipro buyer sold surface cleaners (equipment to power wash buildings and windows.) An analysis showed the average surface cleaner purchase was $150,000. But the Wipro buyer's average sale was just $100,000. Knowing this, the company's sales force worked to bring up their sale to the industry average. "We helped them increase their wallet share with this knowledge," Dugar says.

Why Now

A number of events coalesced to bring about BPO's new role as a revenue enabler. Outsourcing buyers have matured. They have already picked the low-hanging fruits of process consolidation and improvement. They have already reengineered their processes and employed tools. Going through these evolutions generated the confidence buyers needed to get to the stage where they could feel comfortable outsourcing a process end-to-end.

One the supplier side, providers have gained vertical capabilities. "Collection for a telco is different from collection for a manufacturer. Each is unique," says Dugar. Providers now have the experience and the expertise to understand the nuances of the industries they specialize in. Service providers also have developed the technology needed to automate and transform BPO processes. They have analytics in place.

Put all three together and BPO steps up a notch. "Today, the service provider has to own the business outcomes using technology and analytics and thereby help its customers do business better," says Dugar.

Next Generation Shared Services through BPO

- Jim Matthews, Managing Consultant, Alsbridge

Today's executives are all asking similar questions of their shared service organizations, "How do I get to the next generation of Shared Services?" Executives want to know how to realize more value, how to expand services and how to drive continuous process improvement initiatives.

Process improvement efforts have used technology as an enabler, with shared services and outsourcing as a vehicle to meet cost drivers. In many instances, the transition efforts met short-term budgetary goals of FTE reductions or a reduction of specific operating costs. Once a shared services center was implemented, the initial processes migrated/transformed and the operation was stabilized (after a few years), the Shared Services Organization (SSO) was considered mature.

In today's business environment, executives are now aligning the Shared Services goals with overall long-term corporate goals and the SSO's vision is expanding to a broader strategic role in sourcing. With demands and opportunities of globalization, new sourcing models are being developed with a focus on value-added processes.

Shared service organizations are moving to the next generation by implementing the following processes and capabilities:

Standardize and Re-Engineer

The project approach to implementing shared services was to standardize, re-engineer and consolidate business processes. Depending on timelines, costs or politics, many sourcing initiatives started out with business processes being just centralized, with few process improvements. This approach had mixed returns. To move to the next generation, Shared Services must assess the maturity level of their processes and determine the best path to achieve standardization and process re-engineering. This make/buy decision is leading many SSOs to include outsourcing as an enabler of standardization and process reengineering and to drive an ongoing continuous improvement strategy across all functions and geographies.

Develop Service Management

In order to move to the next generation, the SSO should establish a service management framework and processes for those services associated with supporting the shared services organization. Service management includes the front-office activities, such as service level management and design. New generation SSOs are managing both the internally-provided functions and the BPO relationships of sourced functions. The SSO must drive optimization and management of their mixed services portfolio by developing a strong governance organization. The commitment must be to best practices and benchmarking KPIs that have a direct business impact. The focus should also be on innovation, not just cost and quality.

Focus on Relationship Management

The key to relationship management is building stakeholder consensus. The SSO director should continuously leverage key stakeholders to understand customer requirements. Then, clearly align the SSO operating model and the BPO provider with corporate goals and strategies to present the value side of the equation to the stakeholders. On-going measurement and management of the SSO's customer relations will drive continuous improvement as well as on-going expansion of services.

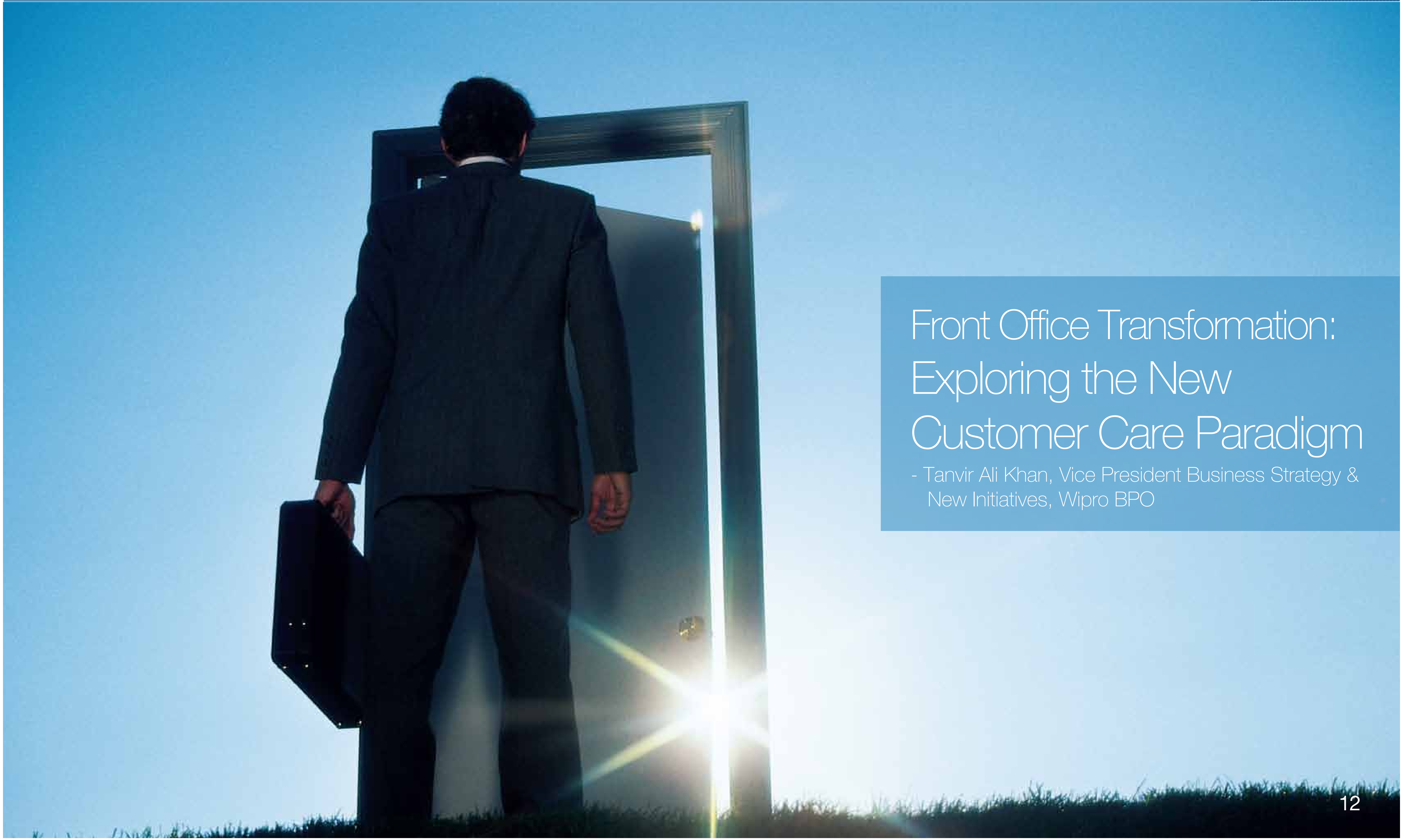
Leverage Technology Innovations

Research shows that technology changes every 18 to 24 months. New generation SSOs are leveraging their BPO provider to take advantage of their investment in new technology, automating processes to reduce costs and improve service levels. Many SSOs are adopting cloud-based BPO services to consolidate on common platforms. They are developing global knowledge strategies in which data management is a value-added process and where the SSO can use their BPO provider platform to organize, control, update and increase company knowledge.

Implement New Operating Models

SSOs are shifting to global, integrated service delivery models with regional hubs and centers of excellence. Many multi-national companies are moving to regional service centers (Americas, EMEA, and Asia Pac). Other SSOs are blending their offerings into hybrid models (Shared Services and BPO), with back-office transactional services, such as payroll and travel, provided by third parties. The types of services are expanding to include not only the typical transactional F&A processes but true end-to-end services, such as procure-to-pay. Services now include customer-facing and competency-based processes such as vendor management.

For those organizations that have implemented Shared Services, one of the next steps in the maturity level continuum is to evaluate BPO to determine how to gain further value. SSOs are in a perfect position to manage these third-party providers for their companies as they typically have already developed a strong governance organization. With an internal relationship to the customer and on-going collaboration with the stakeholders, they are able to proactively manage the mixed service portfolio and provide continuous improvement and ongoing productivity savings.



Front Office Transformation: Exploring the New Customer Care Paradigm

- Tanvir Ali Khan, Vice President Business Strategy & New Initiatives, Wipro BPO

The front office is the lifeline between your company and your customer. Every interaction, through the contact center, social media or a kiosk in the mall, brings the opportunity to strengthen your customer relationship and build your brand. These interactions also provide a rich source of data that, until recently, wasn't effectively analyzed and used.

Today, all of that is changing. The front office is transforming from the traditional contact center for customer support into a multi-channel hub for customer retention, revenue generation and a resource for up-to-the-minute market insight.

This transformation is focused in three key areas: communications channels, analytics and self-service automation. Everything works together to improve service levels and give companies a competitive advantage.

Expanding Communications Channels

In the past, companies interacted with their customers through phone, email and chat. Now, those are only the basics. Text messaging, social media posts, tweets and online games connect individuals to their friends, their communities and people with common interests anywhere in the world. Your customers want these same options when they communicate with you.

The question becomes, how can you talk to your customers in their channels of choice without disrupting the contact center infrastructure that's already in place? Just adding telephony for text messaging alone is an expensive proposition, particularly in an economic climate where everyone is operating lean.

A smarter approach involves creating a web-based customer interaction portal with widgets—small applications embedded on the website. You can create a widget for each channel, like Facebook, Twitter and text, delivered in the languages of choice, and leave your existing customer care infrastructure untouched. You also gain the flexibility to add new channels quickly as new forms of communication emerge in the coming years, so you "futureproof" your operation.

Applying Analytics to Gain Customer Insight and Decrease Attrition

In addition to adding channels, companies are now applying analytics to front-office interactions to gain valuable customer insight. An average 5,000-seat contact center takes between 40 million and 50 million calls a year, with each conversation producing a huge amount of rich data. However, few companies have the resources to physically monitor more than five or 10 calls a month – most often focused on resolution speed instead of missed opportunities.For example, a caller explains that his daughter, who is leaving for college, is taking his old laptop.

He wants to know how to move the virus protection software to the new device. The agent walks him through the process and the call ends. In an old contact center environment, this would be considered a "good" call. The agent successfully helped the customer in a short period of time.

However, when you apply analytics, it's easy to see that the representative missed out on an opportunity for an additional sale. The caller already revealed that he owns two laptops, which means he's a good customer. He also said that he has a daughter who is leaving home. That makes this caller an ideal candidate for a $5.00 per month online data backup service.

By employing speech analytics and natural language processing, companies can automate the process of 100,000 humans "listening in" on calls. Speech analytics, which function at 11 times the speed of sound, extract not only words but actual call meaning, including whether the call is positive or negative. Now, instead of missing an opportunity, this technology can extract the real-time call data, apply logic and push out the appropriate information, like "offer customer an online backup service," to the agent while the call is still taking place.

Analytics can even help companies reduce attrition.

Consider the cable TV subscriber, credit card holder, security monitoring customer or any other type of subscriber-based customer who calls to cancel a service. Although all customer care centers have "win back" offers in place, by the time that customer calls to cancel, it's probably too late.

Using Predictive Churn Management, companies can reduce attrition by recognizing the signs. For example, statistics show that, if a broadband customer calls three times within 16 weeks for the same problem, he or she has a 67 percent likelihood to cancel that service within 30 days. Using analytics, companies can route that third call to a specialist who can begin the win-back process before the customer has decided to leave.

Analytics can also be applied to help companies do a better job of upselling the 90 percent of the customers who don't call in to the contact center. Using Trigger Point Analysis, companies can identify users with a propensity to buy certain products and services, and push out targeted offers to those segmented groups. Your customers get a service they need, which increases loyalty. You increase the lifetime value of your customers because you're no longer limiting your marketing efforts to the 10 percent of customers who make contact with you.

Automating Self-Service Channels to Reduce Costs

While increasing revenue and providing a higher level of service is critical in any operation, another truth remains: no company can afford to approach customer care exactly like they did in the past or the expense will be too great.

The fact is, the computer that sold for $2,000 a few years back is now half that price today. The flat screen TV that brought $1,200 is now $700. However, the cost of customer service to support these items is not going down. The same people doing the same job are generating the same expense. To compete, companies must embrace new customer care models.

A traditional customer care environment is one-to-one and reactive. One customer calls, emails or logs on to chat, and the agent reacts. While that's been a good model, it's not cost efficient in today's world.

Now, customer care is transforming to a one-to-many model. If 20 customers call with the same question, is there a way for one agent to address all of these needs at the same time? Through proactive outbound communications, companies can also reduce costs.

For example, if a broadband company knows it has an outage in a particular zip code, by sending out a voicemail broadcast to the impacted customers, companies can significantly reduce those incoming calls.

Today, the way people communicate is dramatically changing, and that has triggered a front-office transformation like none other we've seen before.

By working with a trusted outsourcing provider, companies can take advantage of the opportunities that come with the application of analytics and automated self-service channels to increase revenue, reduce costs and keep customer loyalty high.

Your front office has the potential to become your company's greatest asset. A good service provider can help you realize its potential.

The Next Big Trend in BPO: Vertical Specialization

- Keyur Maniar, Vice President, Wipro BPO

Companies have long benefitted from the scalability and cost savings delivered by business process outsourcing (BPO), offloading non-core tasks to a qualified service provider. Until now, these services were aligned horizontally, by specific function. A call center was a call center. Data entry was data entry. The whole "sell" centered around labor arbitrage, centralization and economies of scale.

While this front office and back office BPO is still beneficial, progressive outsourcers are now investing time, training and resources into what Wipro believes is the next big industry trend: Vertical BPO.

"Although most companies entered BPO agreements for cost savings, they've now recognized the true value, quality delivery and scalability their partners can bring," explained Keyur Maniar, vice president of Wipro. "We believe there is a huge opportunity to help these same clients with more complex, industry-specific work that goes beyond the traditional front- or back-office engagement. That is why we're proactively positioning for the next layer of outsourcing one that requires deep domain expertise and industry specific technology. We're laying the groundwork ahead of the market demand."

This approach makes sense for today's global economy and the new needs of business.

"We provide trade execution and trade settlement support to a slew of investment banks-and this requires a high degree of domain and ability to deal with process complexity that varies from geographical market to market." Maniar said. when an investment bank decides to enter a new geo, Wipro can provide this process platform as compared to the bank setting up its own.

According to Maniar, Vertical BPO is also ideal to help companies deal with new product rollouts, servicing operations branded as core, hitherto, and managing and adhering to regulatory compliance. The opportunities are near endless, if the provider is willing to make the investment in specialization.

Let's explore a few examples.

Financial Services

Ask any banker what's keeping him or her up at night and you'll get the same answer: regulations.

The Dodd-Frank Act alone is an 800-page piece of legislation that amends nearly every financial statute in the United States, requiring financial institutions to collect more data, create more reports, eliminate certain types of fee income and in many ways, change the way they've done business. For banks that are already operating lean and using legacy core systems, regulatory compliance has the potential to bring them to the breaking point. European banks are facing similar challenges.

The number of banks in operation is decreasing every year. Although it has long been believed that the root cause of this decline is consolidation, data shows that the number one driver is actually legislation," Maniar said. "Any time new regulations are implemented, a number of banks fold up or get consolidated. Vertical BPO can play a significant role in helping institutions deal with these new compliance needs." With industry-specific, integrated systems in place.

Wipro can seamlessly extract the needed data and create the appropriate compliance reports at a fraction of the bank's costs.

With increasing concerns on asset quality, higher cost of capital, and increasingly stringent regulatory requirements, investment banks are also under tremendous cost pressures. Wipro is in the process of developing an industry utility in the trade settlements and clearing processes that will encapsulate best-of-breed processes on a state-of-the-art multi-tenancy platform this will serve to reduce total cost of operations while improving accuracy and turn-around times.

Other areas that Wipro has developed Vertical BPO offerings on include mortgage origination and servicing, insurance/annuities servicing, managing credit card analytics, etc.

Healthcare and Life Science

In the U.S., the Baby Boomers are aging, soon to place a massive burden on the current Medicare system. "Agencies will face an influx of 46 to 52 million enrollees, all of whom need to be verified for eligibility, processed and enrolled in a timely manner," Maniar said. "Not only do these cash-strapped agencies not have the manpower to keep up with this volume, many are working with non-compliant, legacy systems that slow the process even further." By engaging a Vertical BPO provider, like Wipro, agencies can gain not only the scalability to accurately verify the influx of enrollees, but have the opportunity to benefit from new technology without making a capital investment.

"Wipro uses Member 360, an advanced Medicare platform that provides a significantly better alternative to our clients' legacy systems, Maniar explained. "We can deliver a more seamless, compliant, specialized solution – by providing both the technology platform and the processing expertise. We invest in the technology, processes and people, so our clients no longer have to. "

Another area of growth for Vertical BPO centers around medical device manufacturers, who, by law, have to track and report complaints to the U.S. Food and Drug Administration. Wipro offers a specialized solution for logging in complaints and creating these reports. This area represents a $700 million opportunity.

In addition to specialized support, outsourcing also provides medical device manufacturers a new source of income by providing a value-added service -- namely, Remote Patient Monitoring. "Currently, 60 percent of Americans have some sort of chronic condition, like diabetes or heart disease. Proactively monitoring these individuals, ensuring they're staying up with tests and helping them make lifestyle choices that reduce the impact of these conditions drives down emergency room visits and ultimately reduces the cost of healthcare.-" Maniar said. "A strong outsourcing partner, with nurses on staff, can monitor these patients and load this information directly into the health care information system. Medical devices manufacturers can offer this as a value-added service to hospitals and healthcare organizations."

Utilities

The Utilities market is transitioning to "smart" technology–replacing traditional meters with smart meters that instead of being read once a month, feed usage data to a centralized system every few minutes.

"Smart technology supplies huge volumes of data that utility companies never had access to before," Maniar explained. "By applying analytics, utility companies can better understand demand, customer behavior and peak consumption periods so they can allocate resources appropriately."

Using these analytics, utilities can design programs to incent customers to change their consumption patterns, and more efficiently design their individual pricing structures.

"A vertically-aligned outsourcing provider can also be a great asset in customer satisfaction as well as in optimizing demand-supply alignment. With specialized and industry-trained staff, it can be a pillar to both the utility and the utility's customer. Assistance can be provided right from the deployment stage until the sustenance phase. For example, the provider can educate end-customers on how smart meter works as well as educate end-customers on different pricing models. By leveraging analytics on consumption patterns, the provider can advise utility companies on pricing structures to align demand to supply," Maniar said.

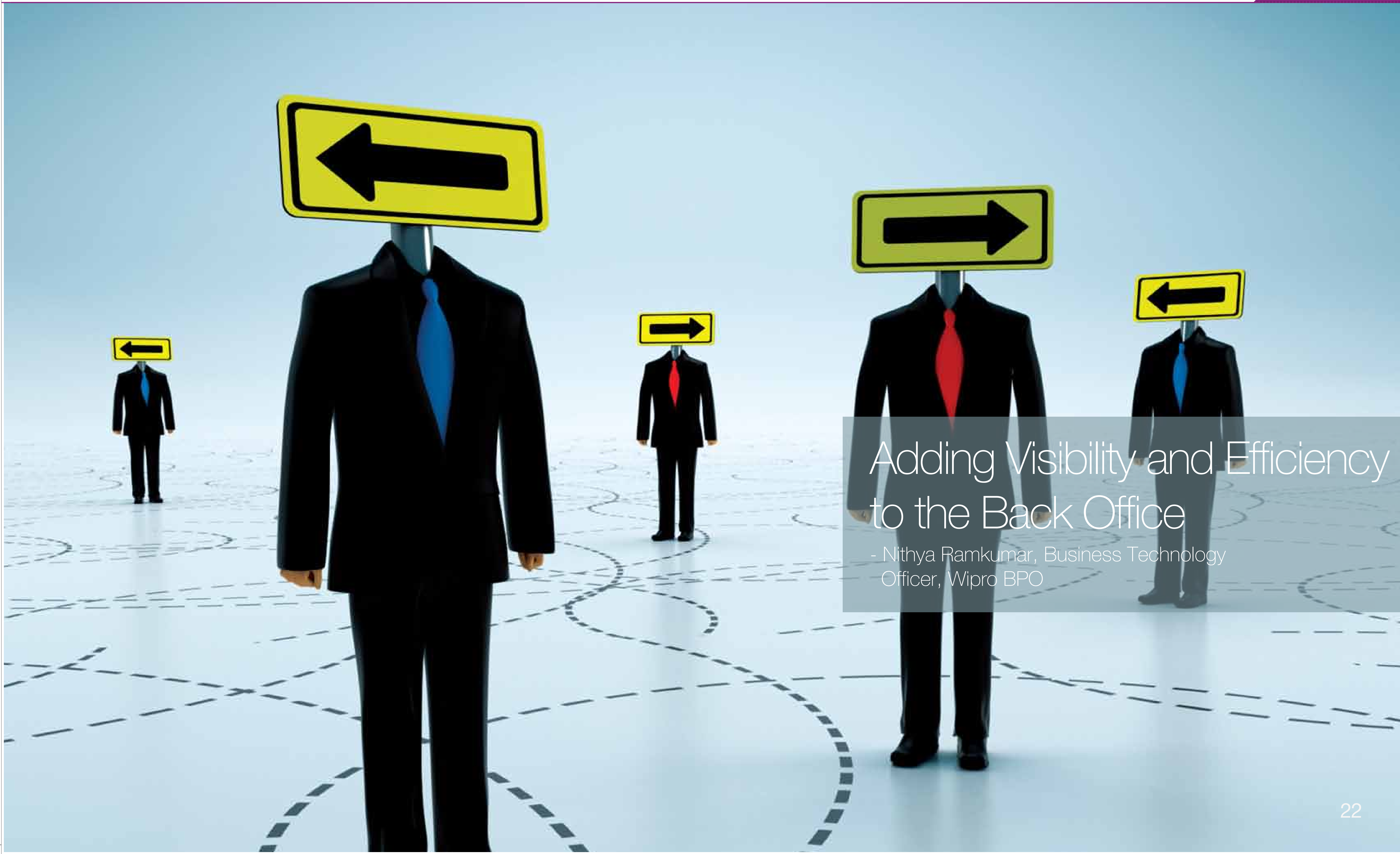
Another key area that vertical BPO addresses for Utilities is Asset Lifecycle Management - offering solutions in Asset Data Management, GIS etc. These offerings help in optimizing planned and preventive maintenance that thereby leads to reduced OPEX and CAPEX and a reduction in health and safety incidents.

The Future of BPO

The concept of Vertical BPO is an innovation, not a response to an existing demand. But, as companies worldwide face increasing economic challenges, it is the future of outsourcing.

Entering this specialized market takes commitment, in terms of time, training and financial investment. It requires specialized IT systems/platforms, certified personnel and subject matter experts with deep expertise in the specific industries served. This is not a strategy that can be bootstrapped. One needs to have a proactive mindset and demonstrate thought leadership to make inroads into the vertical BPO space.

"Wipro is heavily investing in Vertical BPO offerings now before these types of engagements make it to many RFPs," Maniar said. "We believe that this new outsourcing frontier represents a significant growth opportunity. The providers, who go to market first with a credible value proposition, will emerge as the winners in the space. We are positioning to be a winner by making our customers winners. "



Adding Visibility and Efficiency to the Back Office

- Nithya Ramkumar, Business Technology Officer, Wipro BPO

Consider a typical accounting back-office scenario: a company wants to start offering early payment discounts to key customers. Sounds simple enough, right? Not so much.

Chances are that small change requires multiple steps. First, someone has to extract specific contact information. Then, all of this data has to be pulled into one, comprehensive Excel spreadsheet-so everyone knows who gets the discount. Using this spreadsheet as a guide, someone else has to make these term changes across multiple systems.

What if that same company wants to increase efficiency by reducing the number of exceptions? Finding out what's causing the exceptions becomes a long, arduous task. Eventually, the whole project is put on the back burner.

The question becomes: why is making a few changes to a back office process or managing exceptions so difficult?

"In a typical back office, the customer is probably running a number of systems and applications, so the environment is app centric, not process centric. This makes change difficult," explained Nithya Ramkumar, business technology officer for Wipro BPO. "In an in-house environment, holding payments for a day to manage cash flow requires a call to a person in accounts payable. In an outsourced environment, things work much differently. That inability to walk down to the accounting department and "see" what is going on can cause concern for some customers, because it is such a change from how they are used to operating."

The simple fact: companies want to feel in control of their finance and accounting processes, even when these are outsourced. However, few companies have the means or time for a complete system overhaul to make this happen.

What the Perfect World of F&A Back Office Looks Like

Today's outsourcing providers must do more than deliver world-class processes and operational excellence. They also must apply innovation to give their customers the control they desire and deserve.

"To effectively manage exceptions and increase efficiency and control, clients need an integrated way to see all of the required data at one time, in one place," Nithya said. "Without that transparency-that visibility into everything that's happening with a specific customer or supplier-they cannot clearly see what is causing the exceptions."

For example, in a traditional outsourced back office, if a company wanted to gain efficiencies by reducing the number of exceptions, there was really no way to quickly identify the vendors who were consistently causing these exceptions. That made it difficult to find the root cause and determine what action was needed. Did the company need to educate the vendor to ensure invoices were received on time? Or did it need to educate the processor to ensure all data was properly validated? This seemingly simple analysis was complicated to complete.

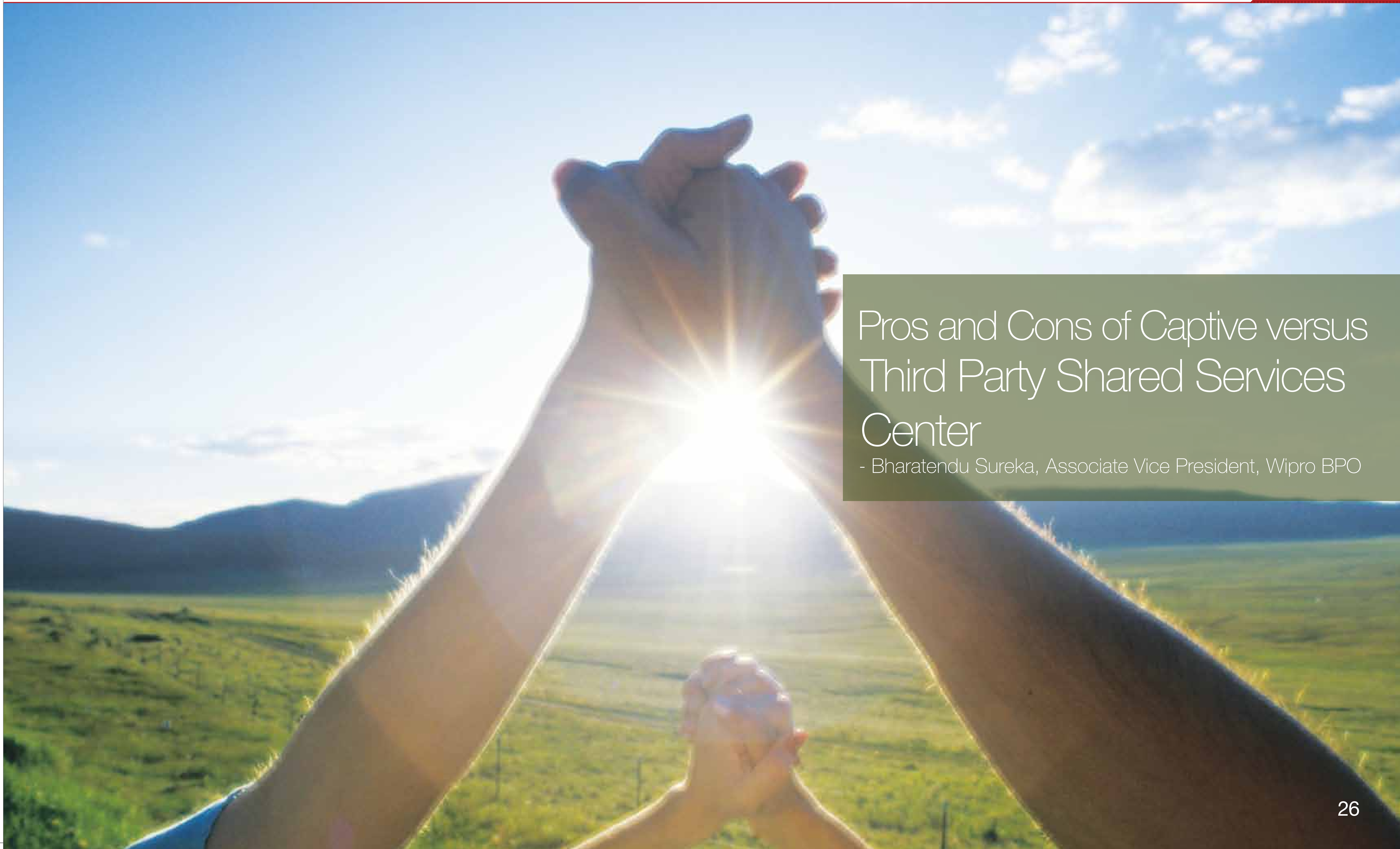
"The smartest way to mitigate this issue is to put process intelligence on top of existing back office systems-so the technology augments the customer's existing core system, rather than altering it," Nithya explained. "If done correctly, an independent, standalone add-on technology could provide the back office visibility and enable efficient business process management without system reconfiguration."

By adding a standalone technology "layer," companies could gain the agility to make process changes as business needs demanded. For example, if a company wanted to increase its early payment discount spread, it could view the vendors, negotiate the spread and then add a code into the add-on technology layer to make sure the allocation is done by the due date.

"In addition to providing visibility into outsourced processes, this technology should be configurable to suggest optimum rather than standard solutions to solve each customer's specific business problems. " Nithya said. "Today's companies require transformation to happen more quickly so they can see the benefits of that transformation more quickly. We believe that solution is a common intelligence that enables companies to add efficiency and eliminate whatever issue is causing them pain."

Those pain points differ from company to company. For a retailer, it could be mitigating the credit/debit mismatches that cause commission leakage. For a wholesale telecom, it could be better managing collections to improve cash flow. No matter what the specific need, companies are looking to their outsourcing provider to create the innovation to get the job done.

"Today, companies are relying on their outsourcing partners to find innovative ways to help them solve business problems and gain a competitive advantage," Nithya said. "Wipro is committed to providing the types of innovation that eliminates our customers' pain and contributes to their ongoing success. We see this as our role and another way we add value."



Pros and Cons of Captive versus Third Party Shared Services Center

- Bharatendu Sureka, Associate Vice President, Wipro BPO

When we read the papers, we see a clear trend emerging: more and more companies that operate captive shared service companies are selling them to third-party BPO companies. And many more shared services of captives are on the block like Fidelity, Franklin and Dell-the list seems endless.

This trend reopens what many thought were settled questions in the shared service versus third-party debate: which model adds more value to the shareholders and to the firm in the longer run? What should be the roadmap?

Evolution

Over the last 15 years in this nascent industry, almost all the companies have made the same journey:

1. They started as the back office for mundane/routine transactional activities (Claims Processing, Email Support, Tech Help Desk)

2. They slowly graduated to more value-added activities (Invoice Queues Management, Cash Applications, General Ledger, Fixed Assets, etc.)

3. They were able to move to High-End Analytics, Financial Reporting, Regulatory Filing, etc.

The prevailing operating models are:

1. Captive model

2. Sales/Outsource model: The enterprise sells its shared service center (SSC) to a partner and then outsources that work to the partner

3. Partner model Shared service centers and the captive model have proven their ability to centralize and normalize operations and improve process efficiency and service levels. However, these models now need to deliver ongoing business value adds through innovations, which is the current demand. Such demands require heavy investment and specialized skill sets. This is where most of the organizations are planning to augment their SSC and captive strategy with third-party outsourcing.

Where SSCs still make sense

There are four instances where SSC still make sense for an enterprise. They are best when:

1. There is a need to control the end resolution like intellectual property issues or highly complex activities that require specialized domain knowledge. This is especially true where specialized R&D is involved. Technically these are not shared service centers but rather centers of excellence where residents and expatriates jointly work together on cutting-edge technologies.

2. There is a need for the people doing the work to be employees of the company.

3. There are legal or regulatory restrictions.

4. When the enterprise is uncomfortable outsourcing this to a third-party provider. For example, some banks prefer to own the entire process chain due to data and customer confidentiality.

The need for a thirdparty solution

Buoyed by the initial euphoria around significant cost savings, talent availability and favorable policies, most of the companies joined the shared service bandwagon in the 1990s. However, not many companies were able to realize the full potential of the expected benefits. The key challenges were:

1. Economies of scale

2. Management bandwidth to manage locations across the globe

3. Dedicated technology support to move up the chain faster

4. HR issues like managing and retaining employees

5. Cost allocation to different legal entities, subsidiaries or corporate divisions

BPO is not a quick-fix solution. Successful companies have stationed their senior accounting and opertions and business folks in India, China, Philippines and other offshore locations to make this work. Typically a shared service location takes anywhere between two to three years to grow in size, mature as a delivery center and start aligning itself with the goals of the broader organization.

In the light of these challenges, the model of completely handing over mature processes to an established and proven third-party player seems to be a viable model. It is a win-win approach for both the service provider and the client.

Here are some issues to think about:

• Management bandwidth. Planning the transfer involves expensive management time spent on gaining, understanding and deciding on the appropriate approach. How do we structure the organization? What are the pricing norms? How do we handle the arms-length distance requirement? How do we factor in the web of country-specific tax laws and regulations? We have seen many cases where the tax authorities of the shared service location levied income tax on the global income of the parent company!

• Fear of head count. Most shared service locations start with a few hundred employees. But when they enter the rapid growth phase, they are not sure how to handle the few thousand employees in a single location. Questions around things like career planning and role enrichment arise and the companies start facing attrition and poor employee morale.

• Cost-cutting rationale. A recent study found only 45% of the shared service centers have “attained the cost improvement goals they had in mind when they visualized the model.” Frequent travel, disproportionate management time, pace of execution and ramp up and costly redesign exercises made setting up a shared service center a daunting proposition.

• Strategic/Transactional . Some shared service organizations of multinational companies have stagnated at a few hundred employees even after eight years of existence; they just end up being outposts for redundant personnel. These shared services centers will never be able to take part in any strategic initiatives or contribute meaningfully in the global plan of the parent.

To sum up, using a third party is the preferred solution today as it provides:

1. Economies of scale
2. Access to technology
3. Access to best practices
4. Employee mobility
5. Cost savings
6. Benefits of specialization
7. Continuous improvement
8. Focus on critical core
9. Transaction pricing model
10. Operational excellence

The Case for Transaction-Based Pricing

- Bharatendu Sureka, Associate Vice President, Wipro BPO

The transaction-based pricing model is the result (and iteratively, the cause) of a series of improvements such as process simplification, application of technology, standardization and finally a combination of all these leading to what we call platform BPO.

Transaction-based pricing offers significant advantages over the variations of Time and Material (T&M- based pricing where service providers charge for manpower employed per unit of time.) Transaction-based pricing breeds efficiency since the service provider is paid for quantity of work.

The math of transaction-based pricing is not merely about dividing an FTE cost by the production per year. Instead, it is a whole different way of looking at managing delivery. It can meet present-day BPO objectives and be superior over the traditional Full-Time-Equivalent (FTE)-based pricing model, where payment to the service provider is based on the number of transactions processed. Typically, the service provider provides a base price for a specified volume band with a negotiated increase or decrease in price as usage fluctuates around the specified band.

Pros of Transaction-Based Pricing	Cons of Transaction - Based pricing	Commonly used when
• Closely tied to customer's business cycle • Enhances visibility into consumption pattern • Encourages productivity & efficiency	• May not be directly tied to customer's business outcome • Transaction-based pricing is challenging for low-volume processesor those that have different language requirements, which require higher temp staffing	• Output can be defined • Transaction volumes are known and predictable • Transaction volumes are tied to service provider's cost drivers

Why Transaction Pricing?

There are many good business reasons. They include:

- A truly variable price structure, which helps customers keep the cost of the outsourced process based on business volumes
- Predictable business planning because costs are directly linked to transactions
- Greater regional cost control as it becomes possible to assign every cent of cost to a geographic region (market)
- Linking the interests of the service provider and client into the same stream as they share the benefits of the revenue generated. This leads to a lower costs of quality and maximizes incentive efficiency
- Transaction-based pricing with defined volume ranges
- Strong service provider efficiency incentives to deliver operational efficiencies and reduce headcount
- Ideal for platform-based deals, since the price typically includes license, hosting charges and resource and infrastructure charge for services
- Reduced requirements for administrative monitoring / audits since the cost outflow is not linked to FTEs but to transactions
- Drive to deliver a high-quality service

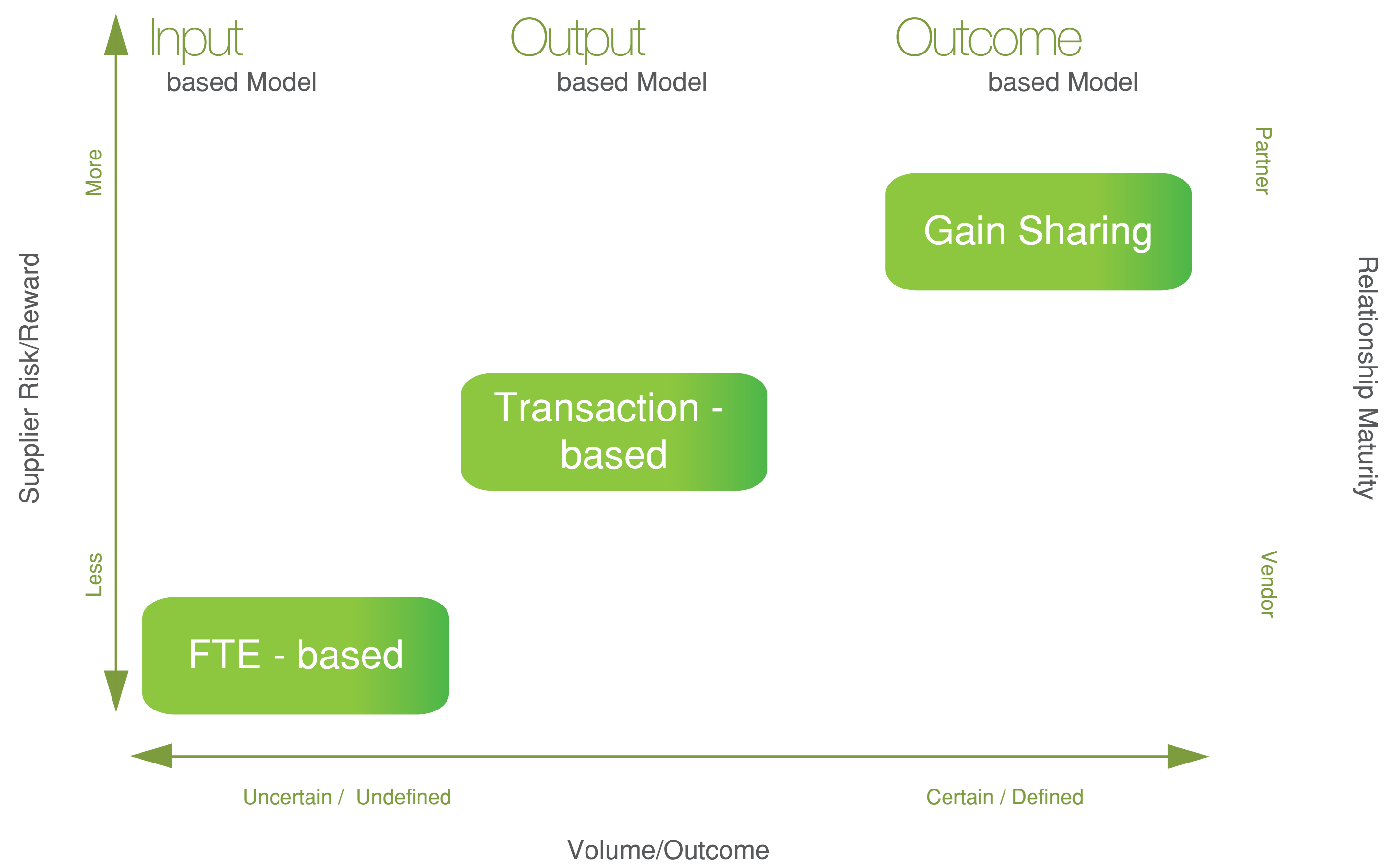
Key factors to consider while implementing transaction pricing

Enterprises considering implementing transaction pricing should do the following :

- Define the transaction. What does it include? What is excluded?
- Identify process interdependencies
- Estimate the process inflow
- Make sure the client's volume forecast is accurate
- Divide the transactions into tranches. Transaction-based pricing is challenging for low volume processes or those that have different language requirements, which require higher temp staffing. Separate these from the processes that are better suited. It is also not a convenient model for processes with high fluctuation in volumes
- Review historical data based on the definition of the transaction
- Separate the processes activities that are not end-to-end in nature, i.e., where service provider performs some of the processes while the client does the remainder
- Assess the foreign exchange impact
- Identify and agree on critical SLAs such as turnaround time, etc.
- Lock volume for four months
- Identify and define the requests that are not actionable but consume efforts. Then determine whether you need that action or not.
- Determine the degree of fluctuation/ seasonality of volumes (Hourly? Daily? Weekly?)

Remember:
Process changes during the steady state impacts the productivity and hence the effort. Validate all estimates!

The figure below compares these pricing models on outcome, risk and relationship maturity axes

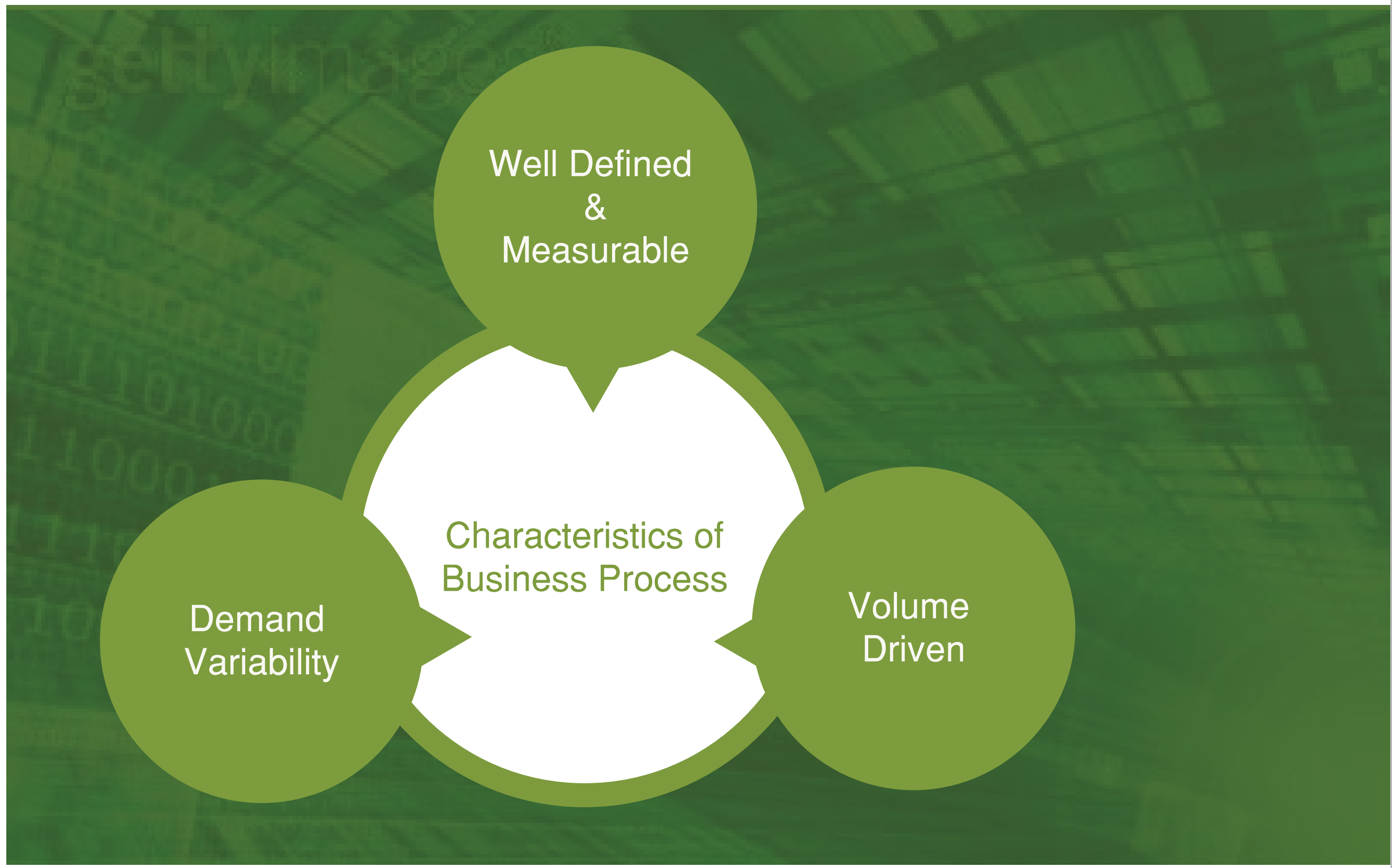


Is Transaction Based Pricing Suitable for Any Business Process?

Customers favor transaction based pricing for business processes that they can clearly define, measure in discrete units, have fairly accurate baselines and experience fluctuations in consumption. In addition, processes that have a well-defined and measurable service level requirement that remains stable even if the number of transactions or users fluctuates are good candidates.

From a service provider's perspective, the ability to deliver profitably in a transaction-based pricing scenario is tied to achieving volume and scale.Therefore, this type of pricing is usually favored for business processes that are standardized, transaction-intensive and demand-driven.

In practice,therefore, transaction-based pricing is suitable for business processes or transactions that have the following characteristics:



Well Defined and Measurable : -

Both the service provider and the customer must understand what constitutes a transaction and what is excluded from it. Transactions should be easily measured for operations processing and performance and auditable by both the service provider and customer for accurate and timely counting of transactions that serve as the basis for billing.

Volume Driven : -

Transactions should be of short duration and carried out repeatedly in sufficiently large volumes.

Demand Variability : -

Transactions where volumes vary in a short span of time are more suited for transaction pricing than any input-based mechanism.

Challenges in Adopting Transaction-Based Pricing

While there are significant benefits from transaction-based pricing for customers and service providers both, there are also a few challenges:

Complexity : -

Designing a transaction-based pricing model is complex and requires a good understanding of these transacations and their cost structure by both customers and service providers. Right transaction, scope, unit of measure, cost determination, etc. are required.

Predicting Volumes : -

Predicting a reasonable level of accuracy, providing minimum volume commitment for economies-of-scale and planning for volume variations is a complicated exercise that only a few customers are able to perform in a systematic and consistent manner.

Lack of Availability of Benchmarking Data : -

Lack of availability of reliable external benchmarks, in addition to unreliable internal benchmarks, hamper customer's ability to as-certain the commercial competitiveness of service provider quotes.

Loss of Control : -

Since day-to-day resource decisions and productivity information are not apparent to the customer, there is a perception that transaction-based pricing leads to loss of control.

Organization Change : -

Transaction-based pricing leads to changes in quite a few areas like budgeting (tracking inconsistent monthly / quarterly service cost); corporate finance (ensuring that invoices reflect accurate charges and credits); functional departments (affecting business process change); all departments (inculcating demand forecasting practices).

As the needs of business and how business uses BPO evolves, it only makes sense that BPO pricing models should evolve, as well. For standardized, demand-driven processing engagements, transaction pricing is emerging as a way to enable companies to manage outsourcing costs based on business volumes. Instead of becoming the new normal" transaction pricing is only the beginning of innovative pricing models that will be created to give outsourcing clients alternative, smarter ways to pay for the services they use.

By anyone's standards, that is a change for the better.

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