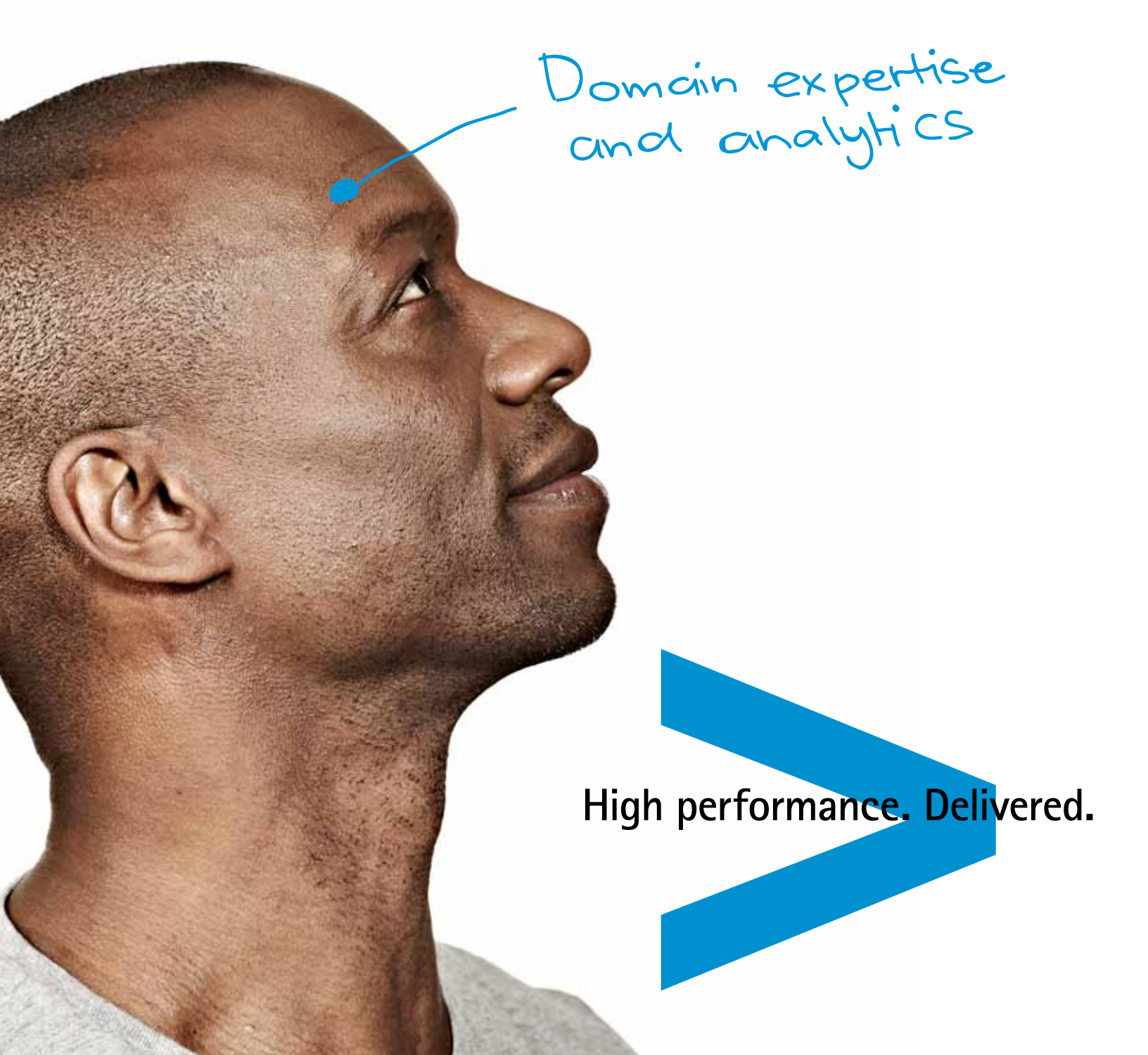


Mastering high-performance BPO

Keys to the Kingdom

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Domain expertise
and analytics

High performance. Delivered.

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Introduction

As the BPO market matures, clients are expecting BPO outcomes beyond cost savings and meeting service level agreements. Next-generation BPO clients want their service partners to transform their back offices, to improve business performance, to nimbly enable the client's shifting business directions, and to deliver business outcomes that were not initially expected. We call relationships that are achieving these exceptional results high-performing BPO relationships.

What practices distinguish high-performing BPO relationships from "typical" BPO relationships? Our latest research from the London School of Economics and Accenture uncovered the "keys to the kingdom" practices that contribute to high-performance.

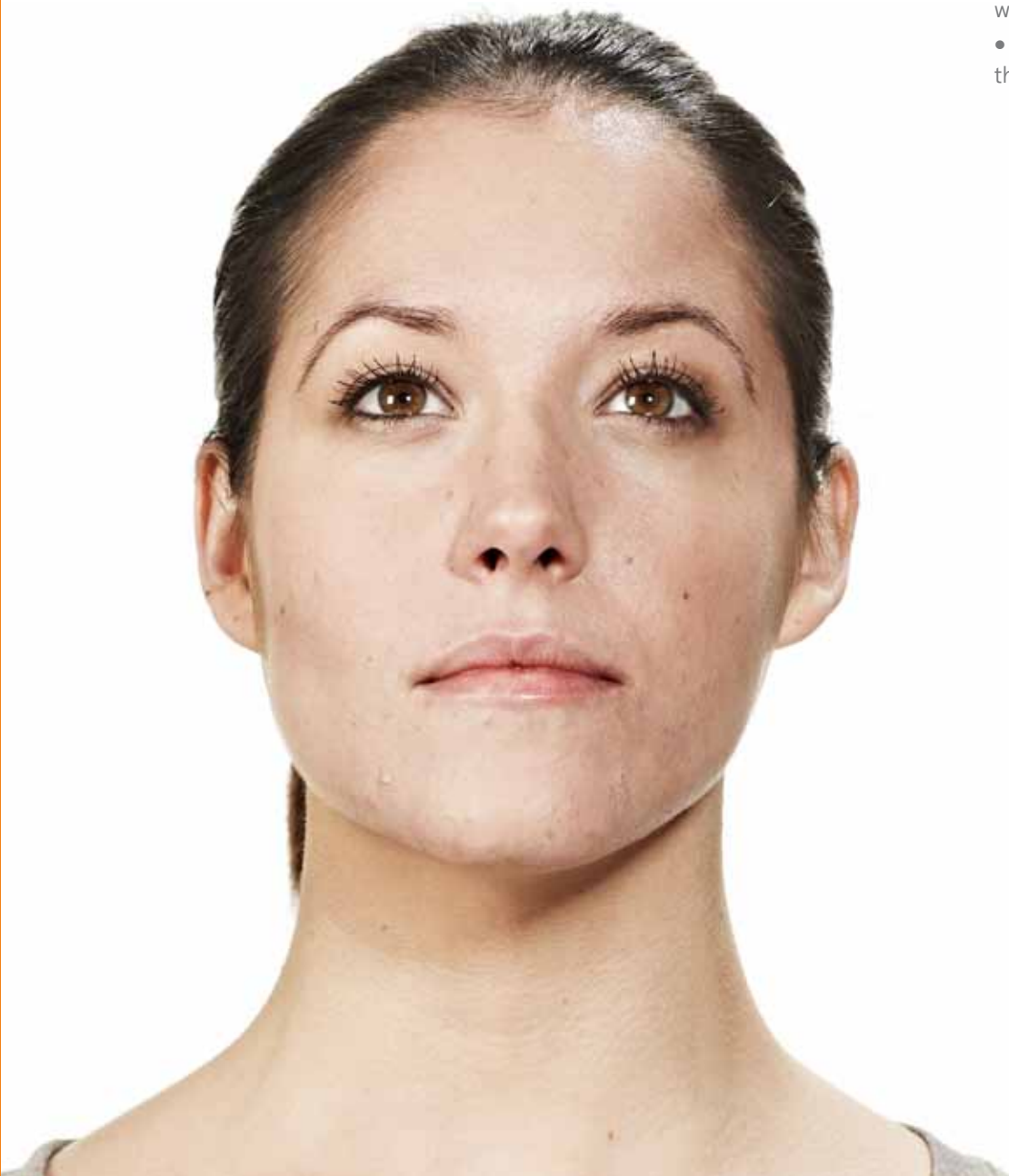
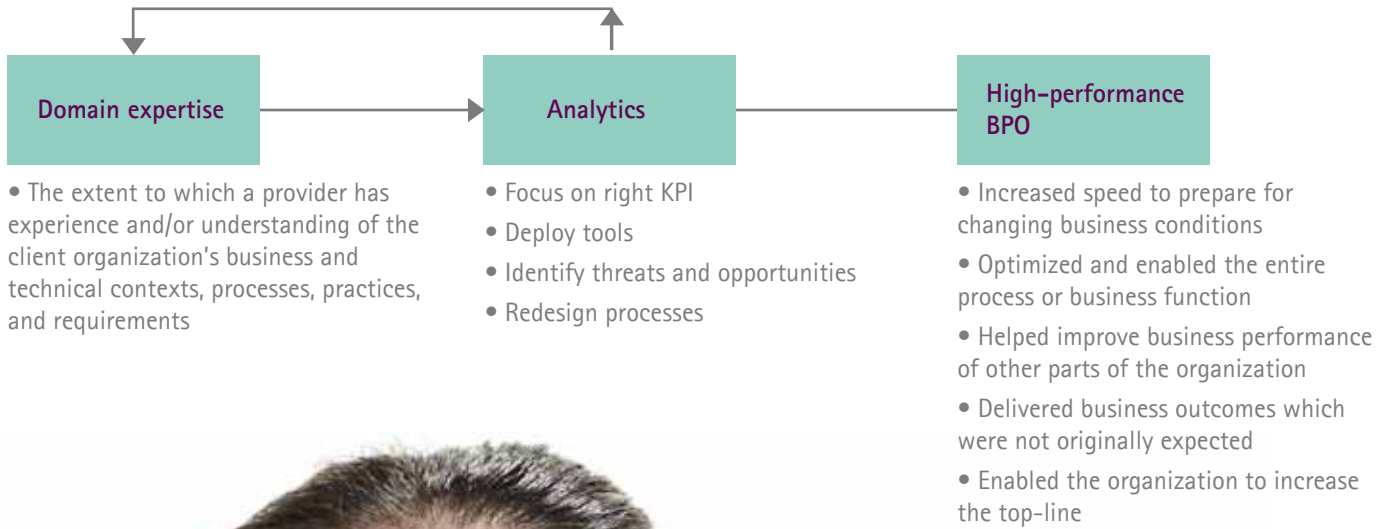
These practices emerged from analysis of four principal research streams: a comprehensive survey of 263 senior client BPO executivesⁱ, in-depth interviews with client-provider executive pairs in 20 organizationsⁱⁱ, research into 26 organizations identified as high performers in collaborative innovationⁱⁱⁱ and a review of 1,356 BPO and ITO findings from 254 academic research studies identified as robust^{iv}. Domain Expertise and Analytics is one of the most important of those practices.

We define “domain expertise” as the extent to which a provider has experience with and understanding of the client’s business, industry and technical contexts, processes, practices, and requirements (Lacity et al. 2011). From a comprehensive review of all academic research findings, domain expertise was identified as one of the top three provider capabilities along with human resource management and technical/methodological capabilities (Lacity and Willcocks 2012). However, we have long found—based on our vast case study research—that domain expertise is table stakes. Clients expect any competent provider to have strong domain expertise. This finding is also confirmed in the BPO survey conducted for this research project: domain expertise only weakly distinguished high-performing from typical BPO relationships. But our research uncovers a hidden key to high-performance: domain expertise is the contextual catalyst for analytics—the real value generator. And without the tacit experiential knowledge feed from domain expertise, analytics correspondingly underperforms.

All research sources identified compellingly that analytics is a powerful discriminator between typical and high-performing BPO relationships.

The survey found that 42 percent of the high-performing BPOs considered analytics provided by the service provider as an important component of the BPO relationship compared to 28 percent of the typical BPOs. In high-performing relationships we studied, the provider applied their domain expertise to deploy a rigorous analytics process that measured the right key process indicators, deployed tools and techniques to measure and report on KPIs and deployed algorithms, models, and sophisticated statistics to identify weaknesses and opportunities, and then redesigned processes to deliver measurable business outcomes (see Figure 1). As more data was collected and analyzed, domain expertise increased. The iterative domain expertise and analytics processes produced high-performance results in the clients we interviewed, as demonstrated in the next two case histories.

Figure 1 – Domain expertise, analytics, and high performance. (Source: 263 respondent survey and author interviews)



The case of a grocery retailer

A large, national grocery retailer was concerned about replenishment in its retail stores. It wanted to engage a service provider who would focus on continuously improving supply chain performance.

While cost was an important consideration in provider selection, the ability to improve performance was the client's main criterion. The client's vice president of replenishment, explained, "Outsourcing was more about service to our customers than about cost reduction. The outsourcing model is obviously woven potentially to save us money, but it wasn't our prime motivation."

The grocery retailer outsourced the replenishment for over \$1 billion worth of general merchandise to a provider with proven supply chain expertise and a willingness to expand that expertise to learn about the peculiarities of the client's business model. The vice president of replenishment explained, "Not every retailer is the same. We're not all cut from the same bolt of cloth. Each one has a specific operating model, we have different strategies, each one is unique for each retailer."

The provider applied their domain expertise and analytics capabilities to deliver high-performance. The client and provider first selected the right KPIs that mattered most to the client: stock fill rate and inventory levels. The stock fill rate—defined as the percentage of requested stock filled at the retail store—required focus. The inventory level—the amount of inventory in warehouses and distribution centers—was deemed as too high and tying up precious capital.

The provider realized that the client's legacy forecasting tools required improvement as well, being over a year away from a leading practice tool implementation. The provider also built a custom forecasting tool that used logic to forecast better year-round and seasonal products. The provider also built analytic tools for improved product management. The client and provider used the data to re-design business processes. The vice president of replenishment summarizes the analytics process:

"On the planning side, we work collectively and implemented a new tool that enables planning and allocation of products to stores. They've also extended that into allowing them to do category management and financial planning as well, in terms of forecasting. They have also, in the last 18 months, they have a number of resources on the ground spending time re-engineering and designing new or the right processes to drive the business functions all the way from the initial category strategy to getting the product moving through the supply chain which includes the vendor community through our network and eventually getting to those stores to support the sales plan."

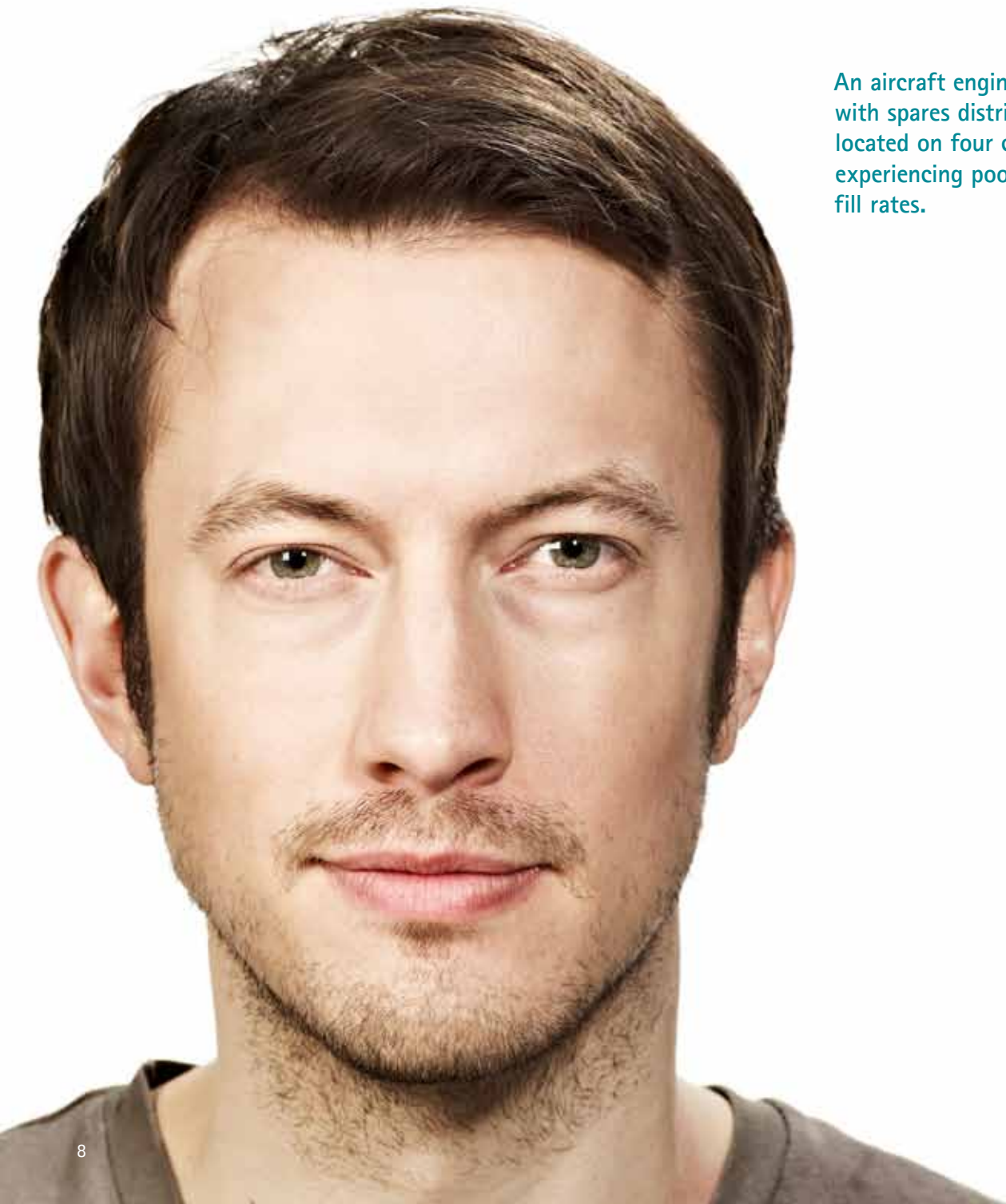
The provider helped the client increase the distribution center stock fill rate significantly (beyond industry norms) and improved inventory currency. Processes were also improved, which led to less rework, improved efficiency and adherence to timelines.

Client leads outside of general merchandise replenishment are impressed with provider's analytic tools and capabilities, and frequently seek the provider's advice on their replenishment issues. The client also plans to use the provider's analytic tools in other parts of their business. According to the account executive, "The business clients recognize that we're pretty good at logistics and supply chain in general and because of that trusting relationship, my client has other leads that come to me and need help. They ask 'How are you getting data? How are you dealing with this type of issue? I'm stuck.' Of course, we help them whenever we can."



The case of an aircraft engine manufacturer

An aircraft engine manufacturer with spares distribution centers located on four continents was experiencing poor customer order fill rates.



On-time accurate fulfillment is vital because any missing part can result in an aircraft being grounded. The manager of Global Workshare, said, "We could be missing one bolt and not be able to ship an engine out on time." Lacking sufficient analytic tools and capabilities in-house, the company sought to expand the scope of work with their existing service provider. The provider's strong credentials in inventory planning and replenishment coupled with a credible track record on existing transactional processes gave the client confidence to ask the provider to deploy analytics and manage inventory in their distribution centers to improve customer order fill rates. Because of the existing relationship, the provider already has deep domain expertise about the client's business.

The provider deployed their proprietary scientific service parts management tool to improve inventory modeling and to calculate optimum inventory targets. The provider then standardized processes for measuring and reporting on KPIs and automated some parts ordering processes. Armed with better data, the provider was able to perform root cause analysis on non-fulfillment of customer orders. As a result of the analytics, the provider discovered delays were caused by multiple process issues including missing parts and incorrect fulfillment by distribution centers. They analyzed parts availability versus order fill rates and provided insight into the gaps. The service provider

measured, reported, and acted on the new KPI. The provider account executive explains:

"These data points did not exist before. It gave us tremendous insight into root causes associated with low performance. We are now using data and analysis to drive discussions with multiple teams within their organization. Our discussions are extremely constructive and focused on process improvement opportunities. The common objective is to improve end customer experience by fulfilling their demands faster. The client is pleasantly surprised to see the performance improve."

Performance did indeed improve: The provider helped the client improve the customer order fill rates for new parts from 60 percent to 85 percent and the turnaround time for delivering parts to grounded aircraft from 21 hours to 17 hours.

According to the manager of Global Workshare, the provider achieved this performance within eight months. The momentum continues as the partners plan to continuously push the optimization curve to manage the trade-off between fill rates and inventory levels. They are working with buyers to generate supply alerts, using data from sales, forecasting, and engineering to better forecast sporadic demand, and tweaking replenishment algorithms and rules to adapt to the changing environment.

Breakthrough performance: Taking action

Our own studies in financial services, resources and high tech sectors^v found several key actions were needed by the client to harness the provider's domain expertise and analytics: establish standardized metrics and dimensions early; build high quality technology and data infrastructure; secure senior management support; and focus on what one respondent called "relentless business alignment" through change management and governance. The combined evidence from our BPO research streams enriches this study and the BPO survey findings. The evidence points to three actions for stepping up to high-performance:

Invite the provider inside the tent.

Powerful business analytics reflect the high level of collaboration and teaming between the parties^{vi}. Service providers need to understand early their clients' strategic initiatives. For example, one provider account executive said, "The biggest one is understanding the clients' business. Using their business outcomes to create the right delivery model for them. That's the first one. It is absolutely critical to know what their objectives are, advancing objectives I'm talking about. [So the issue is getting access to their]... executive level people and using those objectives to create the right delivery model and set performance levels for our team supporting them."

Build the internal team for transition and evolution.

It is vital to have the internal subject matter experts (SME) on board during transition. For example, one bank successfully transferred knowledge and experience to its provider who codified and standardized practices for re-use. The bank incented the SMEs with job redeployment guarantees^{vii}. However, high-performing BPO clients retain and build expertise and capability, even when outsourcing. In one resources company, people within the global reporting and analytics team and the seven core business process teams had extensive technical knowledge about the data warehouse environment and also software tools used for reporting purposes, together with a deep knowledge of the business context. This mix of technical and business knowledge is important when implementing business analytics systems. The balance between business and technical skills was well recognized, and stretches across client and provider. A process architect said, "You need a leadership group for analyzing and viewing the world, and a group of people to translate those business needs into design layout and technical requirements."

Leverage the provider's proficiency in analytics.

Increasingly the market contains providers with the depth and expertise to offer functional, industry specific, enterprise-wide and platform services in analytics. Our combined studies across sectors show that high-performing BPO clients are distinguished by their ability to identify and leverage providers' distinctive capabilities. In the effective BPO arrangements we have reviewed, providers help clients move from descriptive analytics (standard and ad hoc reports, drill down, alerts) to predictive analytics (statistical analysis, predicting modeling, forecasting, optimization) that direct performance towards competitive advantage, and deliver measurable business outcomes.



About Accenture

Accenture is a global management consulting, technology services and outsourcing company, with more than 244,000 people serving clients in more than 120 countries. Combining unparalleled experience, comprehensive capabilities across all industries and business functions, and extensive research on the world's most successful companies, Accenture collaborates with clients to help them become high-performance businesses and governments. The company generated net revenues of US\$25.5 billion for the fiscal year ended Aug. 31, 2011. Its home page is www.accenture.com.

For further information about this research, please visit www.accenture.com/highperformancebpo

Reference

i. The survey was conducted by Everest Group with support from Accenture in late 2011 and is reported in Accenture (2012) *Achieving High Performance in BPO* Accenture, London. The survey identified 20 percent of respondents as "best-in-class" scoring strongly on at least three must-have attributes, and in the top quartile on seven additional attributes. A further 20 percent were potential "best-in-class" performers meeting one or other of these two criteria; 60 percent were "normal" BPO performers meeting neither criteria. Note that "normal" here covers a wide spectrum of performance from normal to poor. The research found that levels of performance were independent of industry, geography, size of deal, tenure of BPO relationship and business function outsourced. "Best-in-class" performance was twice as frequent when two functions were outsourced as a bundle (as opposed to one function or three or more functions). Three further sources of research, described below, are used in this series of papers to enrich and extend these survey findings.

ii. The interviews were carried out in the October 2011-February 2012 period. They were typically 45-60 minutes in length and used a pre-designed questionnaire aimed at eliciting performance outcomes and effective and unsuccessful practices. The sample was drawn from across sectors and countries, with outsourcing deals ranging in size from small to very large. Nearly 50 percent could be identified as high performers on the criteria detailed above.

iii. Lacity, M., and Willcocks, L. (2012), *Advanced Outsourcing Practice: Rethinking ITO, BPO, and Cloud Services*, Palgrave, London, chapter 1 (forthcoming). Also Willcocks, L. and Lacity, M. (2012) *The New IT Outsourcing Landscape: From Innovation To Cloud Services*. Palgrave, London, chapter 3, (forthcoming).

iv. Lacity, M., Solomon, S., Yan, A., and Willcocks, L. (2011), "Business Process Outsourcing Studies: A Critical Review and Research Directions," *Journal of Information Technology*, Vol. 26, 4, pp. 221-258.

v. See for example Shanks, G., Bekmamedova, N., Willcocks, L. (2012) Strategic Business Analytics: enabling alignment and organizational transformation. *Proceedings of the European Conference in IS*, June, forthcoming

vi. See our first paper on collaborative BPO governance. This demonstrates the point that the seven practices we detail in this series are interrelated and mutually reinforcing.

vii. See Oshri, I., Kotlarsky, J. and Willcocks, L. (eds) (2008) *Outsourcing Global Services*, Palgrave, London, chapter 11 on managing dispersed expertise in offshore outsourcing.