

# Redefining the BPO Competitive Landscape through BPM

Companies in the Business Process Outsourcing (BPO) industry have become “boxed in” by external and competitive forces. This is driving the main point of competition towards price which has negative impacts on profit margins. Some BPOs are trying to get out of the box through better software applications, but creating those based on traditional development approaches, or buying independent software companies, aren't providing the gains sought. Business Process Management (BPM) software represents a paradigm shift and an opportunity for BPO players to compete on value delivered, not price charged.

## INTRODUCTION

In business, few things are less rewarding than competing on price. By definition, it means customers view your offering as a commodity that is indistinguishable from others. Price competition steals the margin all competitors need to invest in differentiating their offerings. Without that investment in innovation, companies become stuck in a downward spiral. One can argue that at least the provider who achieves the lowest cost position can thrive, but that assumes they can maintain that position, which is often a big challenge.

This describes the Business Process Outsourcing (BPO) industry very well. BPO clients are only willing to let them manage processes that are by definition not core to their operation, such as back-office financial transaction processing. The decision to outsource is driven first and foremost by the difference between the client's cost and what the outsourcer will charge to manage the same process, so price is a major factor right from the start.

BPOs take client-driven price pressures and transfer them to the BPO's own suppliers, the largest of which are suppliers of human capital. That's driven a race around the globe to find ever-lower wage geographies from which to operate. BPO companies leap-frog each other as they move from India to Bulgaria to Vietnam to Uruguay and so on. There are few untouched countries left for BPOs to move to, so the game of chasing lower wage costs is rapidly coming to an end.

With low wages no longer a source of competitive differentiation, what are BPO companies that want to thrive and grow supposed to do? Steve Jobs faced a similar predicament when he returned to Apple after a ten-year hiatus. At the time, Apple had lackluster products and a bloated cost structure. Many CEOs in the same situation would have first reached for the knife to cut expenses. Jobs thought differently and famously said, *“The cure for Apple is not cost-cutting. The cure for Apple is to innovate its way out of its current predicament.”*<sup>1</sup>

BPOs need to innovate the same way Apple did. Rather than continuing to “lift and shift” processes to lower wage geographies, BPOs need to reimagine client’s processes so they can be accomplished with more automation, more control, and greater service. What clients thought of as simply a back office necessity can be turned into a way for them to offer better service to their customers. BPOs who can deliver this capability have found a way out of the price competition game. This paper lays out a clear path for them to follow.

### **BPOS ARE “BOXED IN”**

Business Process Outsourcing started as a simple business with a simple pricing model. An entire business process was picked up and moved, intact, to a lower-wage geography. The BPO company hired local workers at prevailing wage rates which were dramatically lower. They charged their clients a rate somewhere in the middle on a fixed per full-time equivalent (FTE) basis. As long as the BPO could manage the process well, profits were predictable and steady.

It didn’t take long for challenges to appear. As the model took off, the prevailing wage rates started to rise. Not wanting to raise wages and sacrifice profits, BPOs found themselves with high employee churn which has been steadily increasing.

Computer software systems were the next challenge. The most basic “lift and shift” outsourcing contracts had new workers logging directly into a client’s corporate systems, using the exact same software that the client used and still maintained. It didn’t take long before some BPOs figured out they could differentiate themselves by developing specialized process software and offering it as part of their service. This was a path to increasing the percent of work that could be automated as well as improving qualitative metrics like turn-around time.

For a large enough outsourcing contract, a custom development project to create software just for that client was justified. But custom development projects, following traditional software development practices, ate anywhere from 20-33% of the total contract value. It also lengthened the service provisioning phase of a contract and delayed the client’s realization of benefits. And what was developed for one client was not easily transferrable to another, limiting economies of scale.

Some BPO organizations have tried to address the software challenge by acquiring third party software companies that make process software. Genpact, one of the largest BPO organizations, is a perfect example. Once upon a time, Genpact acquired a company called Akritiv Technologies, a maker of cloud-based order-to-cash software. The theory behind this and similar acquisitions is that a packaged software product can be adjusted more easily from client to client. The harsh reality is that traditional software companies have a product roadmap which is designed to meet the needs of the majority of customers. Meeting other customers’ needs requires customization. An unintended consequence of customization is often an inability to upgrade the core software product, freezing a customer’s solution and ensuring they fall behind. Should a BPO decide to take over a product roadmap, it will wreak havoc with the acquired company’s existing customer base, making this possibly an even more expensive route than traditional custom development.

The lack of good, flexible software and the increasing variety of BPO contracts have combined to create additional challenges. It’s very hard for BPOs to understand the productivity of their staff because they work on systems without good reporting and/or work across multiple systems. Without the ability to measure productivity across the full extent of its business, a BPO cannot appropriately reward its most productive people in a manner that would help reduce churn.

All of these challenges have combined to effectively “box in” most BPOs. They are sandwiched between clients who have become sophisticated outsourcing negotiators and want ever-lower prices, a lack of new low wage areas to mine, and software limitations that hamper their ability to deliver innovation and manage their existing business well. Successfully winning new business in this environment is likely to come through low margin bids, aggressive cost cutting with negative effects, and ever-riskier bets to “make it up elsewhere.”

## **BREAKING OUT OF THE BOX - BUSINESS PROCESS OUTSOURCING REIMAGINED**

BPOs do not need to accept price competition and declining margins as their fate. Just like Steve Jobs at Apple, there is a path to innovate their way out of the box. Business Process Management (BPM) software (BPM) is a new paradigm for application development and a perfect fit for the software needs of BPO organizations.

Let me illustrate this by walking you through a day in the life of a work team at a fictitious BPO that’s taken full advantage of BPM.

Acme Payables is a global business process outsourcing company specializing in procure-to-pay processes for a wide range of clients. Joe Smith recently joined the company and is in training to be a processing specialist. Joe comes to work and logs into Acme’s work system which was created using BPM. The system has already assigned a number of tasks to Joe. What’s in his work queue comes from controls set by Jane Jones, his supervisor. She logged into her management console yesterday and adjusted the filters so Joe only gets straightforward tasks to start, and a certain percent of Joe’s work is automatically selected at random for her to audit.

Joe begins work and moves quickly through his tasks. Unbeknownst to Joe, he’s doing work for several different clients of Acme. This is made possible because Acme’s BPM application easily integrates with the payables systems at different clients, extracting the information Joe needs to work and returning the results to be stored in the client’s system. This helps Joe’s productivity as he only needs to learn and use one system, and doesn’t lose time switching between different client software applications.

During the day, Jane gets a call from one of Acme’s clients who alerts her that they are changing their internal policy on paying vendors. Acme needs to adjust the way they process work to comply. Jane lets her client know it will be no problem and fires off a request to make a modification to how Acme’s BPM system works for this client. She’s confident the work can be completed in a day because a few weeks ago, Jane figured out a way to have more of the same client’s work processed automatically without human intervention. The support team implemented that change in just two days. It was immediately noticed by the client who complimented Jane on driving greater success for them. The timing couldn’t have been better, as it coincided with the client’s contract renewal. This extra improvement helped a price increase sail through. Jane’s boss praised her for creating the improvement, noting the BPM platform would allow it to seamlessly flow to other clients, including a major new one in the middle of the on-boarding process. That client signed a contract with a per-transaction price. Jane’s innovation that increased the automated processing rate will help more of that contract value drop straight to the bottom line.

At the end of the day, Jane checks her console and pulls up a report of her team’s productivity, which was easily tracked across a number of clients. She sees Joe is coming along well and clicks through to modify his filters and begin sending him more challenging work. Just before leaving, Jane gets a call from another client who received an automatic alert on her smartphone from Acme’s mobile application (which came as part of their BPM solution). The alert said that the threshold for daily payments had been exceeded. Jane told the

client she had already seen it, and had initiated a dialogue with her peers to address the issue using the social interface that's part of her BPM system.

*Impossible you say?* Feel free to think that, but recognize it puts you in the camp of BPOs who are stuck in the box and being passed by peer companies who are already adopting BPM and putting it to use in the ways described above.

## **KEY ELEMENTS OF A BPM SOLUTION FOR BPOS**

BPM is clearly a transformative technology for the BPO industry, offering both a platform to build process applications tailored to each client and an environment that staff and management can do all their work within. There are several providers of BPM software with varying features and capabilities. Here are key things for a BPO organization to look for in a BPM software package to ensure it will support the vision displayed above.

### **A complete BPM suite with all components built from the ground up to work together**

To support the core needs of BPOs, BPM solutions must include a process modeler, portal, rules engine, forms builder, analytics, content management, social collaboration, and data access. If any of these components were acquired, you'll face integration and developer challenges. Find a suite that has everything designed to work together for maximum advantage.

### **Integrated social collaboration capabilities**

Client responsiveness is key to BPOs. You want to know immediately when certain events and thresholds are reached so you can be on top of them for your clients. You'll even want to expose some types of activity and reports directly to them. E-mail is too slow and everyone's inboxes are cluttered. What you need is a social communication platform like Facebook, but with business activity events providing the context for communication and collaboration.

### **Native mobile applications for all major platforms**

The world is going mobile at an accelerating pace. If your BPM software doesn't come with native mobile clients for all major platforms that allow full process participation, and allow you to make any process mobile with a check of a box, then you're going to have to develop separate mobile applications and try to get them to integrate well. Not fun.

### **Web browser access and cloud/on-premise deployment options**

With operations around the globe, BPOs need software that can be accessible anywhere. Deploying in the cloud is ideal. But sometimes your clients will need you to deploy behind their firewall. Only a BPM software platform that's available in the cloud and on-premise – with the exact same code base – will make it easy to move from one to the other to accommodate changes at one client or needs across different clients. A prerequisite for this is BPM that's accessed 100% via a web browser.

## CONCLUSION

The external and competitive forces acting on BPOs are not pretty. Continuing with “business as usual” will only lead to greater price competition and compressed margins. BPOs who don’t want to be stuck in this negative cycle need to innovate. Business process management software offers them a way to quickly create customized process applications. This changes the game for BPOs so they can compete on value delivered, not price charged. Additional benefits include rapid institutionalization of process improvements, an ability to change applications quickly to adapt to changes in market forces, and greater control of their operations.

---

1 Apple Confidential 2.0: The Definitive History of the World’s Most Colorful Company (2004) by Owen W. Linzmayer

## Appian

As the market leader in modern Business Process Management (BPM) software, Appian delivers an enterprise application platform that unites users with all their data, processes, and collaborations – in one environment, on any mobile device,

through a simple social interface. On-premise and in the cloud, Appian is the fastest way to deliver innovative business applications.

For more information, visit [www.appian.com](http://www.appian.com)