

# Outsourcing Round Table | 5.25.06



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## MODERATOR:

Mark Toon, CEO and co-founder, EquaTerra Inc. (New York)

## PANELISTS:

Sean Kenny, vice president, business transformation outsourcing services, EDS Corp. (Plano, Texas)

Daniel Mummery, partner, Latham & Watkins LLP (Los Angeles)

Christian Baader, vice president, business process outsourcing, SAP AG (Walldorf, Germany)

Raj Asava, senior vice president, strategic deals group, Satyam Computer Services Ltd. (Parsippany, New Jersey)

## ORGANIZATIONAL TRANSFORMATION: DELIVERING SERVICES WITH BPO

**Mark Toon:** Most companies outsource because they desire lower-cost processes. In a recent survey of 250 executives at \$1 billion-plus companies in all industries, we found that about 60% of respondents use cost as their key driver to outsource. The other reasons are access to new technologies and improved processes to transform functions. And one final reason: they are searching for a way to deliver services on a global platform. They want to take advantage of all the different opportunities to reduce costs and get the best solutions. Interestingly, the companies that outsourced to achieve process improvement were more satisfied than those who outsourced to reduce costs.

**Sean Kenny:** As you drive for lower costs and to achieve acceptable service levels, the outsourcing company needs to accept a certain level of standardization. The more that services are provided on a standardized basis, the less expensive the cost at which an outsourcer can provide that service.

That requires a business relationship between the outsourcer and the firm in question that is more than one of just vendor and purchaser. It should be one where we can advocate at the executive level for things like accepting standardized reports, standardized approaches, feeds into reporting systems, and so on. If that requires change management and executive commitment, that can sometimes be a stumbling point.

**Toon:** In our study, we found that companies that are looking to just reduce cost are between 10% and 20% less satisfied than the norm. Those that were actually seeking process improvements and benefits related to that were 10% and 25% more satisfied than the norm. A lot of that had to do with focusing on process improvement and improved service levels. These companies were able to do that by embracing a more balanced approach as opposed to just a pure cost reduction.

**“It’s critical that the relationship is one where you’re bringing an outsourcer in to be your partner.”**

– Sean Kenny, EDS

**Toon: What are the key considerations for companies that intend to use BPO as a way to enhance their service or the quality of service?**

**Kenny:** In places like China and India, we have seen companies that don’t have a long-term presence in a particular area. They’re involved in large infrastructure projects such as hydroelectrics and dams. They look to an outsourcer to provide core back-office processes, because it’s an effective and efficient way to do so without trying to transport that staff there. It gives those companies an opportunity to work with an outsourcer to provide those processes and have them up very quickly.

**Toon: How has outsourcing become transformational in the last few years?**

**Raj Asava:** BPO has evolved over the last two decades from outsourcing of repetitive tasks like data entry and imaging to outsourcing of task-oriented processes that have clearly defined steps and predictable outcomes. During this decade, businesses have become so comfortable with BPO that they are beginning to shift middle- to front-office work, such as research, design, and customer interface, to a BPO arrangement. In fact, BPO has now become an integral part of most organizations’ business strategies for growth and for servicing a diverse and global customer base.

**Toon: Considering deal structures, what have you seen that has enabled different relationships between service providers and clients?**

**Dan Mummery:** We’ve seen a tremendous amount of evolution in the contractual model. Five to ten years ago, when people were thinking about governance, what that really meant contractually was a committee structure and rules of order around process and procedures. You were left with a framework but not a whole lot of detail

regarding how one would actually go about managing the contract after signing. More and more today, we’re seeing people focusing on the front end on the governance aspects – not only from the perspective of managing the deal day to day, but also in articulating both internally and externally the value proposition. If that’s not established on the front end, these deals can go awry. At Latham & Watkins, we’ve retooled our own contracts to make them flatter in terms of classic terms and conditions, turning them into more governance-centric agreements.

**Toon: Why should companies care about the technology supporting the processes being provided by the service providers?**

**Christian Baader:** We all agree that BPO is much more intimate than a typical supplier relationship – it needs to be a win-win partnership for the long term – and trying to control it via contracts alone is therefore not going to be sufficient. Think about the impact of BPO on the retained processes and IT, the parts of the outsourced cost, the promised savings that remain variable from a contractual point of view, and the potential impact of unforeseen future business changes. That is why customers ought to look under the hood of the provider’s delivery machine and understand what makes it tick technologically. We see a lot of short-sightedness at times when buyers put out a very complex RFP – and then boil down the comparison to the service price at a given service level. Instead, companies need to evaluate BPO alternatives in terms of their overall impact on enterprise value, which means to consider unstated but often considerable costs – for instance, resulting from increased complexity in the remaining in-house organization, from potential future changes in volume, business activity, or geographic scope, or from a potential exit scenario at the end of the contract duration. If you evaluate the true full cost of BPO, you’ll see that technology plays a large role, because it really enables a lot of these hidden costs



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to be mitigated. That is, if you have a provider with a truly global, integrated platform, you can be more at ease with respect to future business evolution and expansion.

**Toon: What are the areas that companies need to focus on to enable success with BPO initiatives?**

**Kenny:** It's critical that the relationship is one where you're bringing an out-sourcer in to be your partner. It is not a "vendor at arm's length" relationship. Those deals that are structured like that are where you find the highest dissatisfaction. It is also critical that our delivery team understands not only the company but the industry within which that company works. That is a key differentiator in terms of a successful outsourcing relationship.

**Toon: When organizations are engaged with more than one partner to help them with BPO, how successful are these arrangements?**

**Baader:** Much of the pain in these situations has been due to shortfalls between customer expectations and the different providers' delivery from a business and cultural integration point of view. The multi-supplier scenario can have clear advantages in terms of control and avoiding dependencies. But if you outsource, you need to think about the process break points introduced this way and how you can bridge these. If you have the procurement process, for instance, outsourced to one provider and the accounts payable function to another, it's clearly going to be a bigger challenge to create an efficient end-to-end scenario. A multi-supplier environment therefore makes it all the more important for the customer to have a clear view on the technology underpinning. In the end,

the technology becomes the backbone that helps to bridge the gaps between those different suppliers. It is the basis for integration, service-level – agreement monitoring, and problem handling, and it provides the basis for the evolution of these relationships in the future.

**Kenny:** Most customers who are entering BPO for the first time need some help. They are well advised to go to one of the third parties who specialize in this. It's vital to get somebody involved who does this for a living. All outsourcers are going to try to do their best, within the confines of what you have asked for as a client. But it is highly possible that if you have never done this before, you will miss significant considerations regarding service levels, uptime, the treatment of staff, and the communications around the outsourcing process itself. We also advise companies to get the highest-ranking officer possible to chair the governance committee, and that the governance team meet on a very regular basis. We are essentially talking about creating a virtual corporation. You need a board of directors to drive that. The early stages and the early steps here will set the stage for great success. So we urge executive involvement.

**Toon: From a due diligence point of view, what are the things companies should do when selecting a BPO provider?**

**Kenny:** The transparency regarding cost is absolutely vital. I think it's important that you interview the people from the service provider who are going to do that work. Get a commitment. Who is going to be the lead person, and how long are they going to be there? We have seen contracts written where specific individuals are identified. At the end of the day, business is always about relationships and people, and it's important that you get the right people.

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