

Improve your odds with Infosys Predictability



Right Questions



Business Insights



Integrated Solutions



Value Multipliers

Integrated Offshore Outsourcing Solution

Continuous improvement, productivity and innovation through consolidation of Business Process and IT outsourcing

– Krishnan Narayanan and Jacob Varghese

Introduction

As organizations begin to focus on generating long term value from offshore outsourcing – emphasis has shifted from tactical cost reduction to sustainable continuous business process improvement. This has triggered a number of discussions about the merits of combining IT and Business Process outsourcing. So far managers have made a clear distinction between outsourcing Operations vs IT systems within business processes. Since outsourcing has been viewed as a tactical make vs. buy decision, businesses have ended up outsourcing components of a single business process to disparate service providers. This paper will outline the relative merits of and integrated IT and BPO approach and discuss how it can be achieved for optimal results.



Background

The offshore outsourcing model of IT outsourcing which started in the late 80s, now accepted as a standard, has been a major driver in realizing cost reductions and quality improvements. Similar progress is being seen in offshore-based business process outsourcing that started almost a decade later in late 90s. Difference in evolution and maturity of offshore IT service providers and BPO service providers has led to an array of different providers with differing capabilities and methodologies.

Just as companies strive to align their internal IT and Operational resources, they are also looking to their outsourcing partners for new models that will give them optimal results in cost reduction, re-engineering, and reduced time to market. World class performance is essential even in outsourced processes to pre-empt any “competitive disadvantage” and this invariably requires talent and skills that the companies may not want to invest in. Service providers that can successfully integrate BPO and ITO activities around process clusters can reduce management complexity and provide operating leverage to the companies they serve.

The challenges driving these changes are

- **Unified business owner’s view:** Businesses ability to control processes in face of rapid changes is deteriorating as process components (transactions, IT applications and infrastructure) are split among internal departments and external service providers.
- **Execution Excellence and Reliability:** Organizations face inefficiencies, increased coordination costs, and significant operational risks as multiple vendors of differing maturities and capabilities own components of a single process. How can smooth hand-offs between the operations and IT teams be ensured? How can the risks of integrated operations be mitigated?
- **Going beyond cost reduction – Improvement, productivity, knowledge management and innovation:** Organizations focusing on generating long-term value from outsourcing. Expectations from outsourcing now go beyond cost reductions and variable cost structures. This can be achieved through innovative continuous improvement initiatives that integrate transaction processing, applications and infrastructure management instead of undertaking initiatives in silos.

Integrated offshore outsourcing solution

Given the above trends we believe clients will demand an “**Integrated Offshore Outsourcing Model**” to achieve continuous improvements in business performance through an integrated approach to offshore outsourcing, leveraging people, processes and IT. Progeon is a subsidiary of Infosys and this relationship enables Infosys & Progeon to offer just such a seamless single interface to clients.

The need for *Integrated offshore outsourcing* solution is based on the argument that managers have to re-assess the scope of activities performed by external vendors to leverage synergies by

consolidation of outsourced services. Managers have to look beyond the myopic silos of business transactions, IT applications and infrastructure and take a holistic view of business processes that includes all three components. Such a re-assessment will enable organizations to make IT accountable its contribution to the overall corporate profitability, while reducing hand-offs and eliminating disconnects between departments and external service providers. Companies cannot afford to fix processes and IT systems one at a time, rather by putting business processes at the center stage of all outsourcing including IT, corporations gain the ability to innovate, reenergize performance, and deliver value that today's market demands. Adopting "Integrated offshore outsourcing" will enable organizations to make agile course corrections, embed Six Sigma quality, and reduce costs while improving productivity across the value chain.

The below diagram highlights the major elements of "Integrated Offshore Outsourcing" solution from Infosys-Progeon:

Process Transition Management using "process-application" clustering, migrates the various components of processes i.e. transactions, applications and infrastructure to offshore leveraging global delivery model.

- A structured approach for transition exists and comprises 3 tracks (BPO, ADM and Infrastructure tracks) going through the stages of transition assessment, execution and parallel run.
- Process – Application clustering analysis is a key concept of Transition Management and helps to draw a boundary around processes to be outsourced. As mentioned earlier traditional outsourcing drew a sharp distinction between human transactions and IT systems. Process – application clustering is the foundation of integrated offshore outsourcing that enables this distinction to be obliterated.
- Offshorability analysis is done for each Process-application cluster. This includes determining offshorability of transactions, application maintenance and application development

Process Steady State Management aims to optimize, reduce cost and innovate to create competitive advantage through process & technology channels.

- During Steady State, the handshakes between the various Infosys – Progeon teams are very well coordinated. We have defined a "Process lifecycle, System Lifecycle and Infrastructure Lifecycle" model that shows how the hand-offs take place seamlessly
- The Six-Sigma approach and its DMAIC cycle are central to IOO's improvement & innovation management.
- We also leverage Infosys / Progeon's proprietary methodologies like InFlux, Inflow, QSD, and IT Effectiveness to maximize value.

Global Process Excellence Center (GPEC) brings to the IOO world a successful best practice in IT outsourcing called OSDC (OffShore Software Development Center).

- Integrated offshore outsourcing creates an extended client organization structure, where the service provider becomes a critical business partner. Personnel are retained on a continuous basis and knowledge management is a key benefit in this model
- GPEC includes a sound governance structure – it suggests the roles of a unified Infosys-Progeon Account Manager responsible for the overall process and collaborative mechanisms

of creating joint executive sponsorship, business process advisory councils and a STAR team between the client and Infosys-Progeon

- A specially instituted STAR (Strategic Transformation And Rationalization) Team will assess and identify the “excellence and innovation initiatives” across the 3 dimensions of IT Efficiency, Business Process Effectiveness and Innovation & Competitive Advantage
- It provides for a business case driven process change management and establishing a business process advisory council. It proposes 4 types of investments – Transformational, Renewal, Process improvement and Experiments

Risk Management addresses various types of risks mitigation strategies that encompass provision of integrated services.

- Risks are categorized as disruption risks, loss of control risks and vendor lock-in risks
- A shared risk mitigation infrastructure between Infosys and Progeon is a critical element of the “Integrated offshore outsourcing” and helps address the risk of disruption
- The client’s involvement in the process execution and monitoring, both onshore and offshore, well documented process maps, defined financial models for exit, knowledge / resource transition plans and well defined end of term agreements help address the risks of loss of control and vendor lock-in

SLA Management presents a combined face of Infosys & Progeon services and helps achieve the unified business owner’s view.

- SLA management for steady state operations can be viewed as operating at three different platform levels – Operational level agreement, IT service level, and business process level
- SLA management in integrated offshore outsourcing focuses on much more selective set of metrics rather than inundating the business owner with plethora of performance data, thus giving a highly targeted visibility into the performance of the processes
- The same applies to Process/Systems development activities. By combining all the elements of the Process Development Life Cycle, Infosys and Progeon offer streamlined project management and consolidated accountability to business owners

Integrated offshore outsourcing journey

Outsourcing engagements can be divided into three levels of integration of multiple services as they progress towards “Integrated offshore outsourcing”.

- Level 1 engagements are where the client has outsourced a single component of the business process either transactions or application development.
- Level 2 refers to engagements where the outsourced vendor is accountable for transactions and all applications that these transactions have dependencies on.
- Level 3 in addition includes the infrastructure component. In outsourcing the infrastructure component associated with a single Process, there is a cost of reducing scale economies of moving a piece out of a shared infrastructure set-up. Thus the addition of infrastructure should be addressed when a critical mass of process-application clusters have been outsourced.

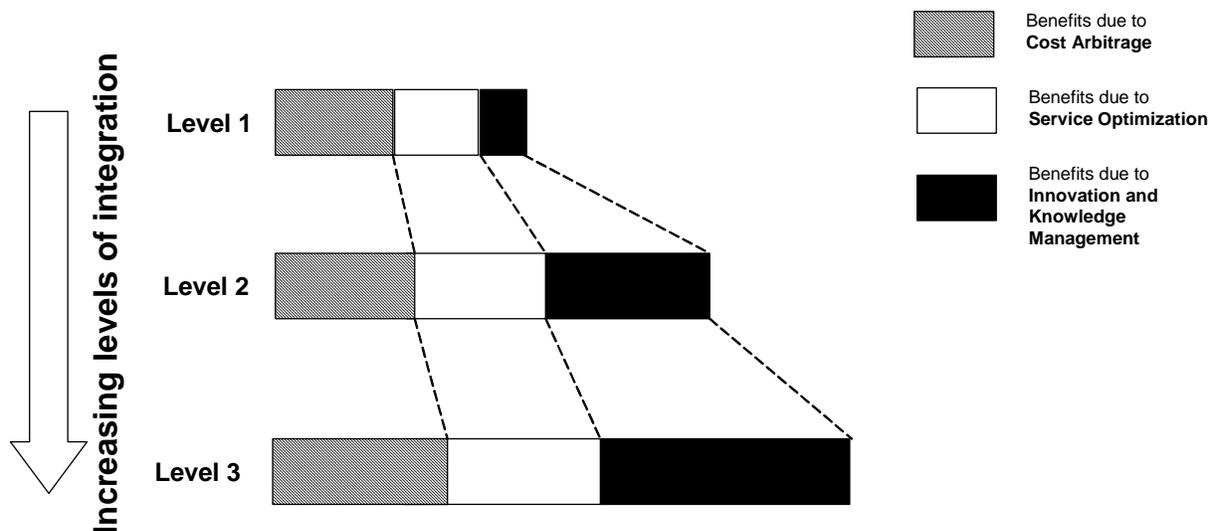
At each Level of outsourcing engagement, benefits may be accrued through multiple ways – cost arbitrage, Service optimization and innovation / knowledge management (KM).

- Cost Arbitrage refers to as-is offshoring of existing business transactions, application development or infrastructure support. The benefits realized are primarily due to cost or skill arbitrage and increased leverage due to variable cost structure. Most of smaller offshore vendor's value propositions are limited to that of cost arbitrage.
- In Service Optimization, the relationship focus moves from utility benefits to realizing enhancements and increased effectiveness due to process improvements and optimizations. This is due to the investments in continuous improvement methodologies like Six Sigma, CMM, etc.
- In Innovation and KM, the focus is on business transformation, increasing the amplitude and frequency of improvements and creating competitive advantage to clients.

As outsourcing engagements move from Level 1 to Level 3 outsourcer's ability to undertake continuous improvement initiative goes up. The increased scope of control over various business process components enables it to undertake projects, which otherwise would have been discarded due to high cost of hand-offs and co-ordination cutting across organizational boundaries.

	Level 1	Level 2	Level 3
Engagement Scope	Transactions	Transactions, Application Development & Maintenance	Transactions, Application Development & Maintenance, Infrastructure Support
Illustrative Example	Progeon responsibilities include Reconciliation Transaction Processing	Progeon / Infosys responsibilities include Reconciliation Transactions and ADM of Smart Stream and 22 related applications	Progeon / Infosys responsibilities includes the entire Reconciliation LOB, ADM of related 50+ applications and the Infrastructure management of the Citrix Meta-frame

Benefits of increased integration



As engagements move from Level 1 to Level 3, value created is increasingly through knowledge management, innovation and service optimization going beyond mere cost arbitrage

IOO Value Proposition and Case Studies

With “Integrated offshore outsourcing” model Infosys-Progeon is uniquely positioned to enable organizations to move towards increased levels of integration of services. It not only brings in the cost arbitrage benefits, it also helps to realize sustainable competitive advantages due to focus on continuous innovation and knowledge management. Some of the key value propositions that Infosys-Progeon and IOO bring are:

- A structured approach to Transition and Steady State Management
 - Approach for transition comprises 3 tracks (BPO, ADM and Infrastructure tracks) going through the stages of transition assessment, execution and parallel run
 - We have defined a “Process lifecycle, System Lifecycle and Infrastructure Lifecycle” model that shows how the hand-offs take place seamlessly
- Introduce a unique practice of “Process-Application” clustering analysis for defining the boundaries of outsourcing better
- Six Sigma driven approach and investments in proprietary methodologies like InFlux (Biz-IT alignment), Proton (Operations improvement), InFlow (Infrastructure management) for continuous improvement and transformation
- Global Process Excellence Center (GPEC) brings to the IOO world a successful best practice in IT outsourcing called OSDC (OffShore Development Center).
 - Integrated offshore outsourcing creates an extended client organization structure, where the service provider becomes a critical business partner.
 - A single Engagement Manager from Infosys & Progeon accountable for the overall process
 - Strategic Transformation and Rationalization (STAR) team concept that leverages Infosys-Progeon’s investments in research and development, domain expertise groups and Centres of Excellence
- 3 layered approach to SLA management that helps reduce the noise to signal metrics ratio. What were exceptions to Progeon Operations agreeing to an SLA i.e. application or infrastructure downtimes, now become the responsibility of Infosys – Progeon combine.
- Shared risk mitigation infrastructure between Infosys and Progeon. The client’s active involvement in the process execution and monitoring, both onshore and offshore, defined financial models for exit, knowledge / resource transition plans and well defined end of term agreements help address the risks of loss of control and vendor lock-in

Moving beyond mere cost/skill arbitrage and incremental continuous improvements, “Integrated offshore outsourcing” model thus offers the following benefits:

- Single point accountability for combined SLAs
- Increased innovation by synchronized changes to entire process ecosystem
- Achieve cross divisional, cross geographical coordination
- Reduce transaction costs, vendor management, coordination costs
- Effective knowledge management
- Scale from transactional to analytic activities

Case Study 1

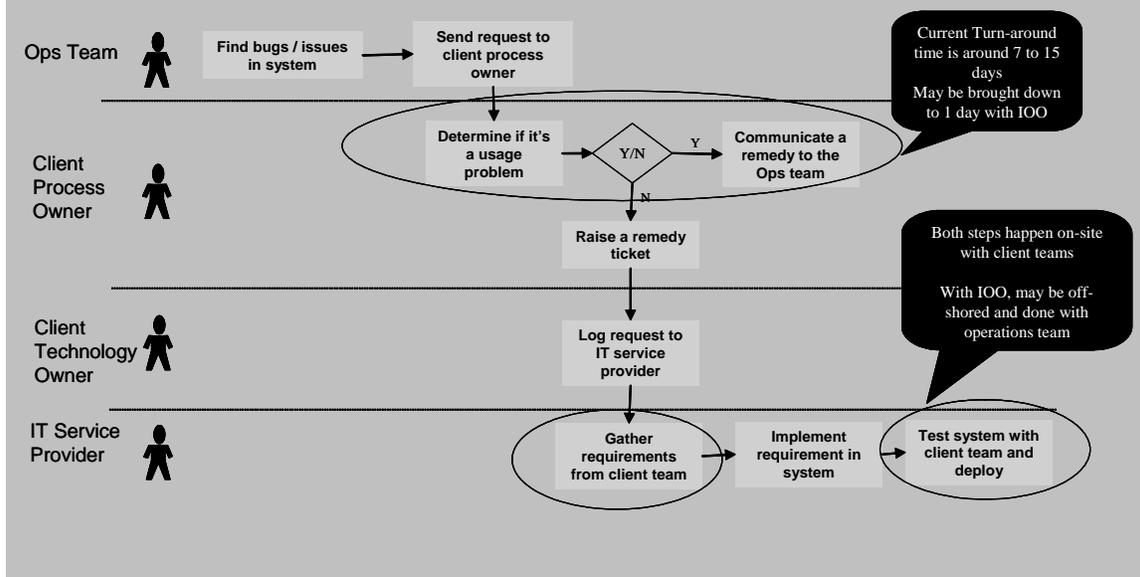
A global financial data provider that had outsourced its contracts and billing processes to Progeon (BPO subsidiary of Infosys) faced several challenges. They did not know if they were billing clients correctly for contracted services and whether they had contracts to support the bills being raised or revenue being recognized.

Progeon in close coordination with Infosys application development team undertook initiatives that led to savings of over \$5mn in revenue leakage.

Multiple initiatives like digitization of paper based transactions using imaging solutions, development of a contracts database and a reconciliation tool were undertaken

Case Study 2

For a leading US based financial services player, bugs in application used, identified by Progeon executives get managed by a separate technology service provider. It is estimated that if Infosys were doing the ADM, would result in over 80% reduction in turnaround times for usability clarifications and cost reductions.

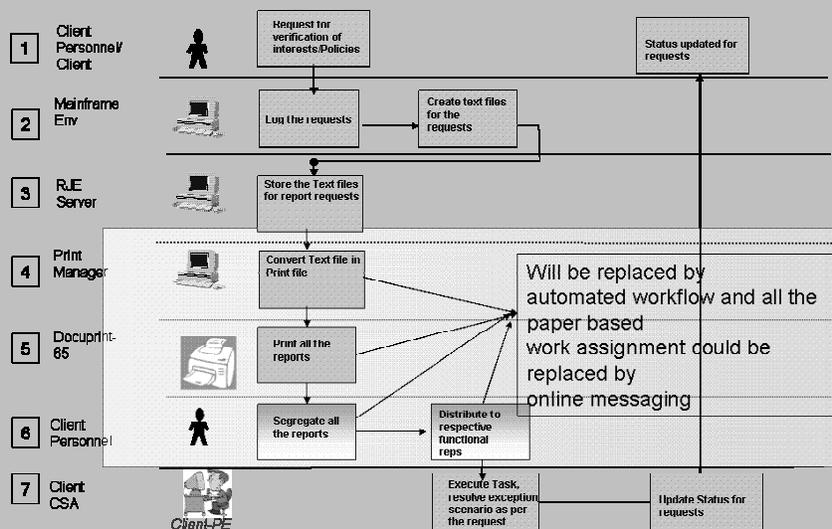


Case Study 3

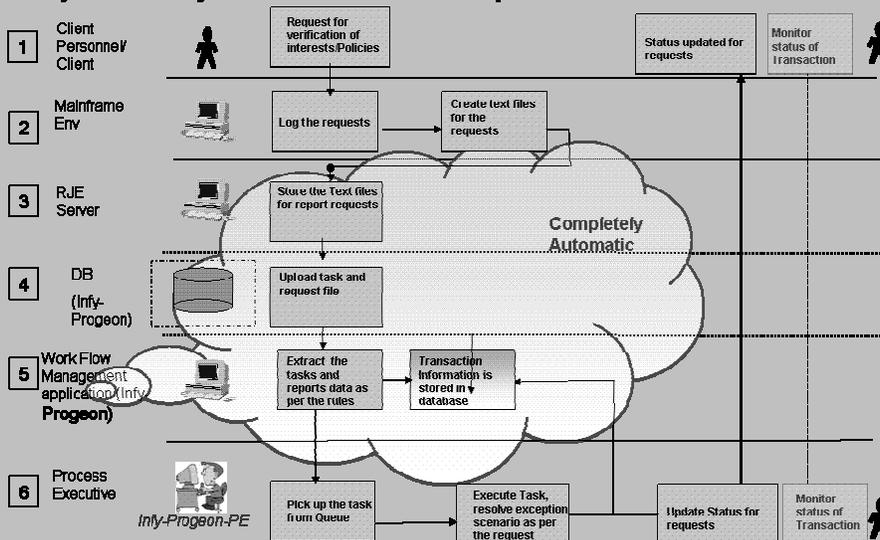
A mid-size mortgage bank had outsourced its mortgage loan servicing function, which would involve handling inbound calls from customers regarding the loan. Collaboration between Progeon and Infosys led to savings of \$500,000 per annum and a reduction in cycle time of 90%.

Progeon-Infosys teams automated the testing and reporting mechanism where earlier about 300,000 pages were printed every month at the client location to test and report the call details. They also developed a call monitoring tool which could ensure that the quality of the call could be simultaneously monitored at both vendor location and client location.

Revised Solution involves distribution of Tasks and Reports electronically using a workflow tool ...



...and supervisor can allocate & monitor tasks dynamically based on available processors



About the Authors:

Jacob Varghese is Marketing Manager with SETLabs. In the past his papers have been published in Journal of Business Strategy, Handbook of Business Strategy, Darwin Mag. He can be contacted at Jacob_varghese@infosys.com

Krishnan Narayanan is a Senior Consultant with Infosys. His areas of interest include business – IT alignment and process improvement and he has participated in several consulting engagements in the financial and healthcare industry. He can be contacted at Krishnan_narayanan@infosys.com

References

1. Feeny, D F, Lacity M C, Willcocks L P, Business Process Outsourcing: The promise of 'Enterprise Partnership Model'; Templeton Executive Briefing, 2003
2. Feeny, D F, Hindle J, Lacity M C, Willcocks L P; 'Value-Added outsourcing at Lloyd's and BAE systems'; KM Review Sep/Oct 2003
3. Lacity M C, Willcocks L P, 'An empirical investigation IT sourcing practices: lessons from experience' ; MIS Quarterly, September, 1998
4. Adler, P S; 'Making the HR outsourcing decision'; MIT Sloan Management Review, Fall 2003
5. Currie W. L., Willcocks L P; 'Analysing four types of IT sourcing decisions in context of scale, client/supplier interdependency and risk mitigation'; Information System Journal (1998)
6. Varghese, J. 'ROI is not a formula, it is a responsibility'; Journal of Business Strategy; April/May, 2003