

Bundled ITO and BPO- The Neo-Sourcing Strategy
By Manu Tandon, Sr. Manager Marketing – Equinox Corporation

"Never innovate to compete, innovate to change the rules of the game."

-- David O. Adeife

Businesses are under enormous pressure to lower their operational costs in a market troubled by low margins, industry consolidation, and increasing global competition. The combination of greater pressure on expenses, improvements in communication, networking and imaging technology, and an increased appreciation for more flexible business models has led many businesses to consider outsourcing as a strategic tool. Financial services have been an early adopter to this phenomenon.

Historically, outsourcing has been viewed as a mechanism to reduce costs and leverage specialist skills while allowing management to focus more time on core activities. Often companies have turned towards outsourcing when external business factors demanded more radical cost reduction ideas. This practice has led providers to offer a traditional, cost-focused model for outsourcing.

With an early success and the BPO industry getting matured, the industry is evolving new models around its delivery platforms. This evolution has been a vertical movement in the value chain with a horizontal integration with IT. This bundling of BPO & ITO can be branded as Neo-Sourcing which is a natural extension of the more tactical BPO model and involves the transfer of responsibility for managing back-office functions and enabling technology, as well as a comprehensive business change management in terms of process redesigning and re-engineering to an external vendor. The objective is to maximize the long-term benefits of the BPO & ITO operations, resulting in a comprehensive business transformation & optimization. Neo Sourcing is not a tactical subject but a futuristic strategic tool for competitive advantage.

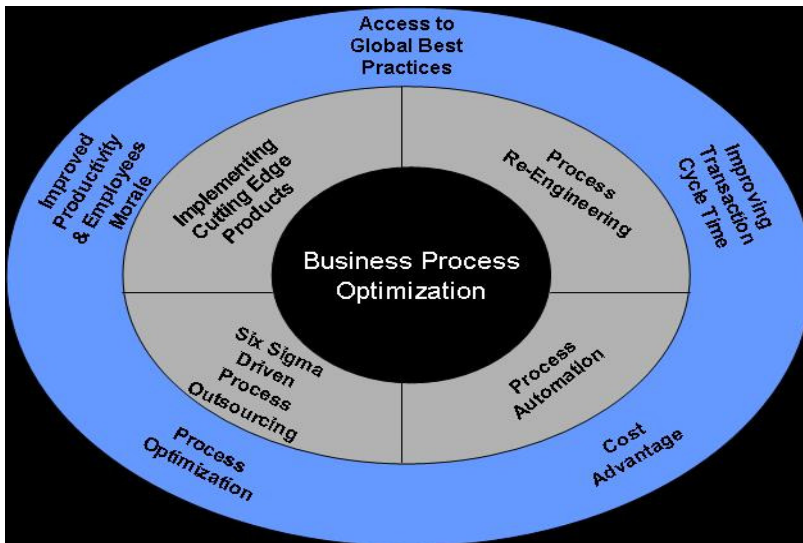
Neo- Sourcing strengthens the idea extended by the legendary Henry Ford- *"Nothing is particularly hard if you divide it into small jobs."*

There are some innovative & pioneering companies moving beyond the traditional model of outsourcing by simultaneously outsourcing their IT function and business processes to a single vendor. This convergence facilitates an organization to accelerate its agenda to focus on its core competencies and add value to the processes and business as a whole.

We have seen this rapid acceptance because of the shift in many companies' objective for outsourcing; today a company's sole objective is not only cost advantage but also how a vendor can add value to its business. Companies are also challenging the reason for the existence of underlying technology assets (people and capital), and looking for the correlation between IT and business operations. Further, companies are poignant to integrate the business and technology. Today, Information Technology is not only seen as a tool for reducing costs but also in enabling productivity, efficiency and innovation. The model given below talks about the intrinsic tenets of the ITO and BPO convergence

which results in Business process optimization as shown in the middle layer on the model:

- Process Re-engineering
- Process Automation
- Implementing cutting edge Products
- Six Sigma Driven processes

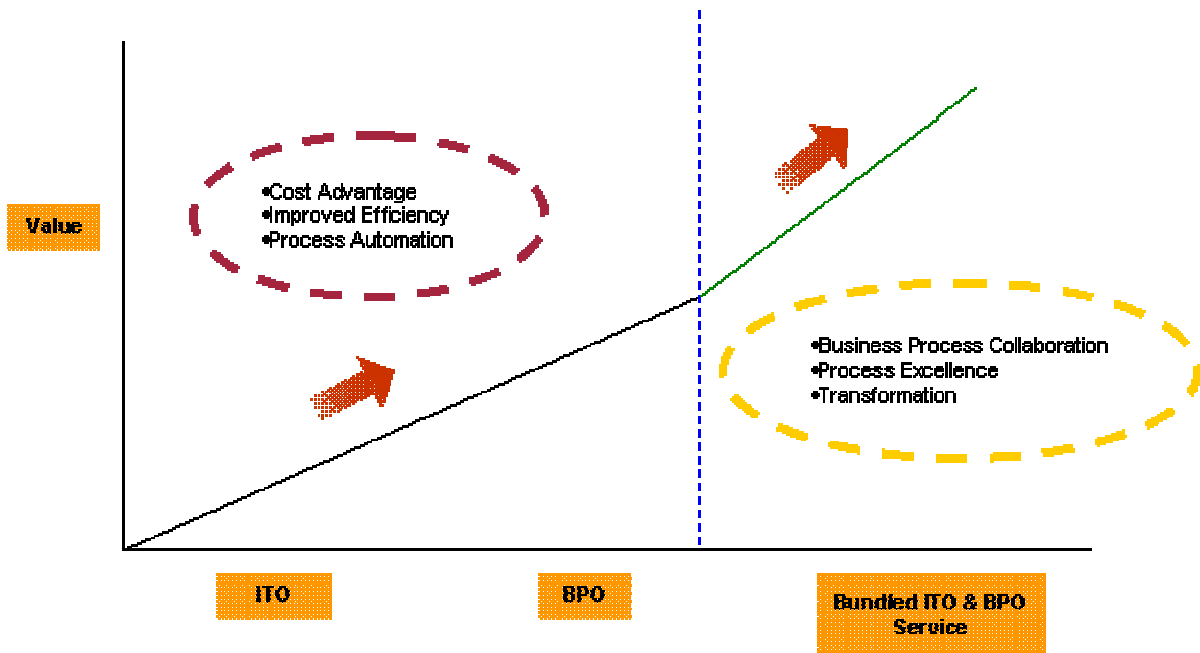


Equinox BPO & ITO bundled Model

This convergence of ITO and BPO enables the provider to own or control the technology used in the process, allowing a more seamless service. Bundling makes governance, communication and sourcing management much easier. The last circular layer of the model specifically talks about further inherent benefits of a bundled BPO and ITO relationship:

- Process Optimization
- Cost Advantage
- Improving Transaction Cycle Time
- Access to Global Best Practices
- Improved Productivity and Employee Morale

The below diagram reflects how the value is created through the convergence of ITO and BPO against traditional ITO and BPO:



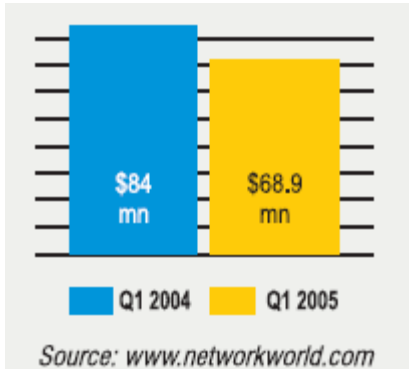
Equinox BPO & ITO bundled value Model

The increased bundling of ITO and BPO has led to a paradigm shift in both the IT and BPO industries. We see large IT companies either setting up BPO operations - Infosys, Satyam, Hughes, Mphasis or buying out independent vendors- i-flex-Equinox, IBM-Daksh, TCS eyeing Vertex, are some examples to strengthen this transition.

We have seen this convergence in Human Resource Outsourcing; wherein the HR automation products are bundled with business process services. The bundling will continue to be vertical specific. HR, Procurement and Financial services are among the functions optimized when IT and business processes are combined. Vendors have an opportunity in large banks, particularly those that are the product of multiple mergers over the past decade or so and which tend to have an assortment of legacy systems that make it difficult to gain improvements in operational efficiency and functionality by redesigning administrative processes.

One of the examples of this convergence is Toronto-based Canadian Imperial Bank of Commerce (CIBC) which I noticed in BAI's Banking Strategy General, outsourced its human resources operations and core technology to EDS six years ago. While growing from a regional bank to one of North America's largest financial institutions with operations in Europe, Asia and the West Indies, CIBC managed to accumulate 30 separate HR systems. The operation was both highly inefficient and unable to accommodate improvements in functionality without a significant financial investment—money that CIBC was reluctant to spend. Over a two-and-a-half year period, some 200 members of CIBC's HR staff were transitioned to EDS, and the 30 HR systems with approximately 100 different interfaces, 330 processes and 1,000 different HR procedures were transferred as well.

One of the trends outsourcing industry has been witnessing for last two years is the diminishing size of outsourcing deals and the shortening length of contracts. Companies are bringing their operations back in-house or opting for selective outsourcing. This shift has put large technology and BPO vendors under pressure.



The dwindling size of deals can be attributed to fundamental changes in clients' behavior. They want to avail the benefits of economies of scale provided by big vendors. At the same time, they also want to reap the benefits of emerging technology. As a result, they start looking for other avenues of outsourcing; bundled services are coming as very handy with this approach.

A business in a transition phase, is very dynamic particularly in an era of hyper competition. The BPO & ITO bundled offering is very strategic in nature; companies which are contemplating this initiative will have to plan it smartly. They have to review the organization's installed technology and targeted processes, gauge the current IT infrastructure costs, quality and ROI, and estimate the costs and ROI for a bundled outsourcing initiative to meet their business goals. Another critical aspect of bundled outsourcing project is the equilibrium between IT and business process constituents. Bundling typically involves colossal changes, many of which involve job functions and responsibilities; it has a long-term commitment often five to seven years. Last, but a very critical component of the plan is to select the vendor, which has to be very stringent. In today's world, no single player is the best across a broad spectrum of activities. Finding a single vendor who has the skills for the entire set of a complex deal is quite difficult. Dealing with a single vendor is also complicated because of the long lock in period, less flexibility and getting entangled in many 'safety' contracts. So, it becomes very risky to put all eggs in one basket. On hindsight there is an indeed realistic business challenge towards this model.

The success of this phenomenon will depend upon the synergies and seamless integration between the ITO and BPO arm of the service provider, which indeed looks very difficult at this point of time but we cannot rule out the idea whose time has come.