



How BPO Can Reduce Back-End Costs to Create Front-End Flexibility

Executive Summary

SKU rationalization, increased private brand penetration and fact-based merchandising decisions helped retailers survive, if not thrive, in the previous decade. By 2015, consumers will be calling the shots as they demand more and better interactivity, segmentation, localization and customization, as they exert more leverage on increasing visibility into product availability and pricing. This will require unprecedented levels of value chain collaboration.

Business process outsourcing (BPO) can be a useful weapon in this battle. Retailers need new ways to reduce back-office costs to free up capital that can be invested in multichannel selling, where they can concentrate on customer preferences. To achieve this, many retailers are looking to specialists to manage business processes ranging from support functions such as finance and accounting (F&A), payroll and human resources (HR), to more revenue-enabling activities such as supply chain management, merchandising and replenishment, store operations, sales and marketing, e-commerce and real estate and store planning.

The main decision maker – the CEO, CFO or business unit head – needs to look beyond expense-related factors (though the goal should be to reduce operating costs by approximately 30% to 40%) to the value delivered by the service provider, as measured by its ability to drive process efficiencies, improve service levels,

turnaround times, transaction accuracy, team utilization, data analytics and to standardize operations. This white paper offers guidance on ways to transition to F&A BPO; new thinking for generating continuous operational benefits; and emerging areas where retail business performance can be optimized through a partnership with a managed business services specialist.

F&A Process Outsourcing

Companies that task a partner to manage their F&A processes retain only key finance personnel to coordinate the BPO relationship. This frees managers and subject matter experts to spend more time on merchandising and supply chain optimization, as well as being more customer-centric rather than operation-centric. Once a retailer successfully tasks a partner with traditional F&A processes, it should consider other areas such as payroll, accounts receivable, fixed assets, general ledger (GL) accounting and treasury operations, among others. BPO programs can be structured so cash flow benefits stream immediately without undue capital burden.

Streamlining Accounts Payable Processes

Our recent work with a large privately-owned, U.S.-based department store is a case in point. Saddled with a variety of systems, paper-intensive processes and multiple communication channels within an inefficient legacy accounts payable platform, the company had limited reporting, visibility and decision-making velocity.

Process Improvement Due to OCR Implementation

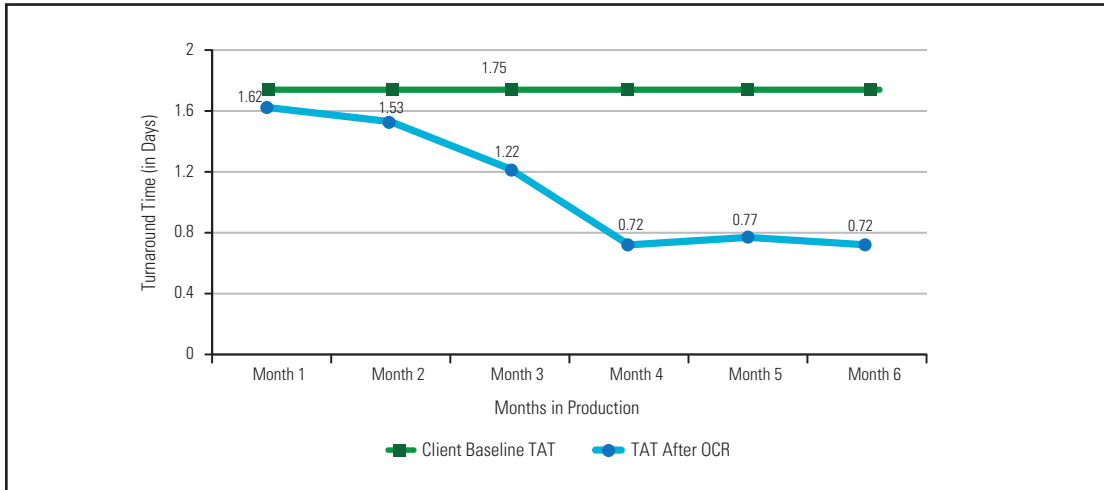


Figure 1

Data entry was slow and cumbersome. Working with this company, we transformed the accounts payable function by developing 55 small- to medium-sized tools (that wrapped around its core legacy systems). Key processes were streamlined, standardized and integrated across multiple locations. A customized OCR solution reduced invoice processing time by 60% and workflow management tools provided much greater visibility on unpaid invoices, which resulted in faster resolution (see Figure 1).

In another example, a large private, U.S.-based grocer had a huge volume of unprocessed invoices

over 30 days. Using our customized workflow and other tools, we were able to bring down the number of unprocessed invoices by more than 50% (see Figure 2).

Our proprietary cloud-based workflow platform is deployed in most F&A processes and is useful for automatic work allocation, metrics tracking, quality check, report generation, audit trail and monitoring associate performance. With the help of synergies between our IT and BPO practices, we are able to deliver value to our client by not only improving but also automating processes, thereby reducing its head count.

Unprocessed Receipts Over 30 Days as a Percent of Total Receipts

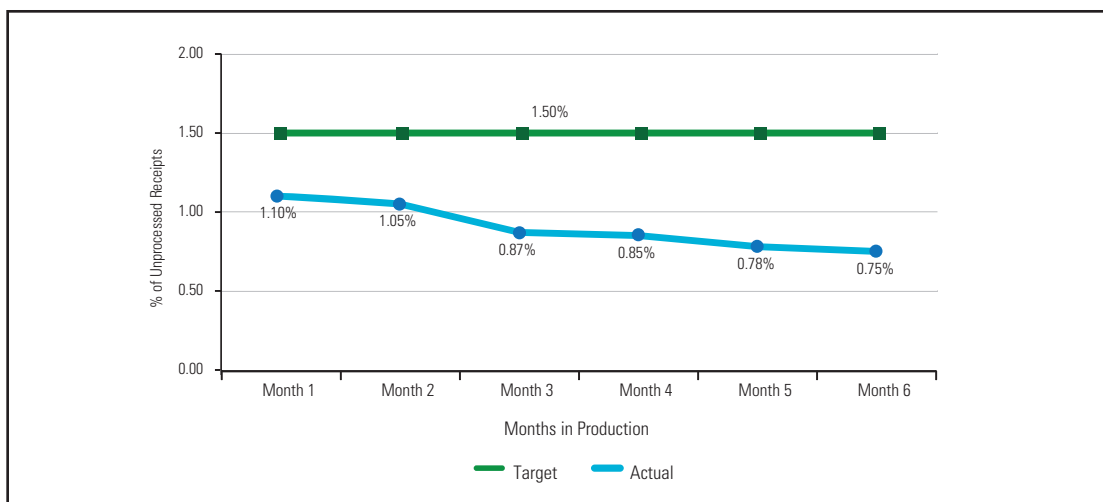


Figure 2

Retail BPO Options: At a Glance

Functions	Processes to Consider
Merchandising and Replenishment	Vendor data management, including handling of routine vendor queries, assurance audit, duplicate payment control, negative balance vendor management, spend management and analytics, EDI data reconciliation, pricing support help desk and forecasting and demand planning.
Supply Chain	Item management/SKU data management, inventory master data management, bill of lading reconciliation and delivery scheduling and planning.
Store Operations	POS help desk, local hours/shift planning, customer data analysis and resource utilization (full time/part time mix) and store analytics.
Sales and Marketing	Customer help desk, after-sales support, loyalty program management coupon and gift card management.
E-Commerce	Online help desk, online surveys, content review and social media support.
Real Estate and Store Planning	Planogramming, lease management and property management.

Beyond F&A: Other Processes to Outsource

There is a great need for retailers to put business process at the “high end” of the value chain to both cut costs and improve top line revenue growth. Consequently, we are investing in a business process management (BPM) system which can be used for modeling and managing business running on proprietary and third-party

Estimated Annual Savings Per Retailer

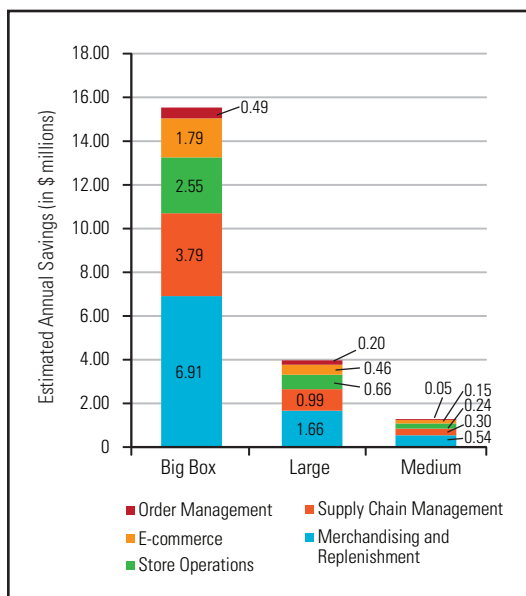


Figure 3

software platforms. The system has various embedded components, such as process administration, reporting and collaboration tools, to offer retailers greater transparency around how their business processes are performing. Thus, we see traditional BPO (e.g., lift and shift of business process to a third party, predicated on labor arbitrage) and BPaaS (e.g., invoking third-party automation and expertise to optimize process performance) as co-existing in the short term. In retail, there is a major push to divest overhead associated with in-house processes – labor, hardware, applications, real estate and management. Many of these functions can be better handled by a managed services partner. The table above shows which processes should be considered.

Figure 3 to the left reveals potential cost savings retailers across categories could realize by engaging a managed services partner with many of the processes enumerated above.

BPO's Value Proposition

The benefits of engaging a managed services partner cover a wide range of activities. They include:

Store Operations Support: Global experts knowledgeable in a wide array of retail processes and products can provide input around the clock to help when issues arise. For example, if a customer's coupon will not scan in the system, the cashier can call the support team for help in solving the problem. Retail personnel can ask

about everything from inventory availability to promotions to store technology; the support team will help resolve any issue at hand, freeing store employees to interact with customers.

For one of the largest office supplies companies in the world, we assumed responsibility for help-desk support processes, including Level 1 and 2 troubleshooting, incident and knowledge management and support for hardware and software across stores, corporate centers, distribution centers and contact centers. Our team comprised generalists and specialists for POS, copy centers and ship centers, PCs, pick-to-light systems, conveyor belt systems and order systems. Working with us, the client realized a savings of \$2.1 million over a three year contract term with productivity gains of 10% Y-o-Y.

Loyalty Programs: These programs have become a major force in retail, one that can often be better managed by a third-party service provider. Many retailers have switched from stand-alone loyalty programs that are promotional in nature to house credit cards that offer shoppers incentives to buy. Loyalty programs are expanding as retailers seek to reward their most valued customers.

Merchandising Processes: These processes have emerged as another area of managed business service opportunity for retailers. For example, planning and analysis can be handled by any service provider with proven and relevant experience. We have helped retailers with customer and product segmentation, including category analysis, store analysis, same-store sales and customer profitability analysis.

Enabling Better Business Performance

Retailers evaluating the business case for managed business services, or BPO, have ample evidence based solely on cost savings. But this approach can also help drive continuous business performance improvements for the following reasons:

BPO and IT/IS Synergies: We are continuously improving the performance of legacy systems with wrap-around solutions that combine applications expertise and process understanding. These add-ons achieve speed and flexibility while managing development costs.

The aforementioned large U.S. grocery chain had thousands of receiving documents that were scanned and transmitted by its imaging partner. The grocer's associates had to manually log in to the imaging repository and verify the receipt

of some late documents in order to resolve differences. Due to timing differences between the transition of electronic data between systems and imaging of the hard copy documents, they would look up the same document multiple times on consecutive days until it was found in the image repository. We developed a macro to look for that documentation automatically to determine if the document has been received. A two-hour process was thus cut down to 15 minutes every day, which is approximately 450 hours saved per year on this process. By tapping into additional resources such as Six Sigma, quality control and buffer resources, we were able to deliver process improvements that benefited our client through increased accuracy and automation.

Financial Incentives Tied to Business Impact:

Service-level agreements (SLAs) have improved over the years between service providers and their clients. In the early years of managed services, SLAs were normally stick-driven agreements that penalized performance that declined below the agreed-upon level. Today, incentive-based agreements that offer financial rewards when vendors exceed expected performance are commonly accepted.

Visibility and Control: Retailers need information quickly and want to interpret it easily. Current ERP/legacy platforms are geared to handle large chunks of data and integrate with other applications such as general ledger and sales ledger. Reporting – and hence visibility and control – can be simplified and accelerated with the service provider's tracking and tools.

Innovation: Retail business leaders need solutions to business problems, yet often find it difficult to motivate internal technology teams to innovate and evolve. With the right provider, BPO is a guarantee of continuous process improvement, analysis and innovation.

The Glocalization of Retail

All retailers need to fundamentally rethink their brands to better reflect customer needs and desires while aligning business processes with corporate strategy. Initiatives to rebrand and refocus on the customer may have limited capital if back-end costs can't be effectively trimmed.

Working with a managed business services provider allows reinvestment in the all-important front end. Retailers that succeed with this will increase agility and seize new opportunities to innovate.

About the Authors

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About Cognizant BPO

Leveraging 9,000-plus BPO associates globally, Cognizant delivers a wide range of IT and BPO synergies both in Domain and Technology. Our Retail BPO Practice delivers "value through transformation" in store support help desk, restaurant accounting, business operations and telecom order management. It also focuses on vertical processes and delivers exceptional business process and operational consulting in store help desk, store operations, supply chain management, merchandising and product assortment management, as well as multichannel strategy and franchise operations. Retail is among our fastest growing industry practices, as evidenced by the fact that 11 of the top 30 U.S. retailers and eight of the top 30 global retailers have made us their global services partner of choice.

About Cognizant

Cognizant (NASDAQ: CTSH) is a leading provider of information technology, consulting, and business process outsourcing services, dedicated to helping the world's leading companies build stronger businesses. Headquartered in Teaneck, New Jersey (U.S.), Cognizant combines a passion for client satisfaction, technology innovation, deep industry and business process expertise, and a global, collaborative workforce that embodies the future of work. With over 50 delivery centers worldwide and approximately 118,000 employees as of June 30, 2011, Cognizant is a member of the NASDAQ-100, the S&P 500, the Forbes Global 2000, and the Fortune 500 and is ranked among the top performing and fastest growing companies in the world. Visit us online at www.cognizant.com or follow us on Twitter: Cognizant.



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