



How to Deliver Better Results with Holistic BPO

By leveraging the synergies of a single IT and business process outsourcing services provider focused on business outcomes, organizations can transcend cost efficiency and achieve process innovations that pay continuous dividends.

Companies have become adept at achieving labor arbitrage advantages enabled by outsourcing IT operations. Some of the larger players have also ventured into the equally cost-effective area of working with service partners to outsource basic business processes, such as accounting, payroll or other HR processes.

Now, standing safely in knee-deep calm water, many organizations are asking, what's next? In the aftermath of the outsourcing boom, the big-bang efficiencies seem to have all been accomplished and the low-hanging fruit all picked. And yet the pressure continues to not only cut more costs and run the business more effectively, but also to break ground in new markets, reap more revenue from existing customers and discover innovations that increase the bottom line.

The fact is, there is a next step, and it's a transformative one – a step that can take companies from wading in a shallow cove to sailing on the open sea. Taking this step requires a change of mindset, but those who have taken it realize it can spur a cycle of innovation that reaps benefits that far outstrip simple savings in labor, alone.

Getting there entails rising above the traditional view that puts the mechanisms of technology, business processes and sourcing into three separate buckets. From this more holistic vantage point, these formerly distinct levers intertwine in a seamless combination that best serves what should be a company's most important focus: A business solution.

A business-solutions approach to BPO requires companies to ask themselves three simple questions:

1. What outcomes does your business desire?
2. What processes need to change to achieve that outcome?
3. What do you need to measure to know you've achieved success?

To understand this more holistic BPO approach, let's compare it with how we traditionally view BPO. Commonly, BPO means handing over to a service provider a basic set of processes that are not core to the business. The provider picks up where the bank leaves off, essentially performing the process in Chennai or Mumbai the same way the bank performed it in New York or Boston.

Almost immediately, the institution realizes 35% to 40% in savings, thanks to labor arbitrage, and sits back, satisfied with those results. However, because its processes have not been scrutinized with a fresh pair of eyes, with an eye toward optimization, the bank is actually missing out. The benefits grind to a halt once those initial savings have been realized.

Now let's look at the same picture through the more holistic lens described above. This time, the bank partners with a service provider that not only takes control of mundane processes, but it also optimizes some of the underlying technology,

as well. The provider takes an end-to-end view of the institution's processes—both the basic ones and the more knowledge-based, analytical processes, such as equity research or investment accounting. By looking at both upstream and downstream components, the provider can look for optimization opportunities, including those that might not be apparent at first blush.

For instance, it might see advantages in decoupling a process that at first seems to need the client's specialized knowledge and attention.

However, a closer analysis might reveal that pieces of the process are repetitive or mundane enough that they would be better accomplished offshore, leaving a smaller piece of the process under the client's ownership. Without a holistic, end-to-end approach, this level of process optimization could not be obtained.

Furthermore, the service provider is able to apply its greater scale, best practices, cost efficiencies and technological capabilities to the processes, while the institution's internal resources focus on core capabilities that further differentiate and expand its business. The bank now has round-the-clock access to more technology knowledge, operational expertise, scalable cost structures and quality and performance improvements.

Holistic BPO in Action

This kind of partnership is happening today. We recently worked with a global alternative asset manager with over \$180 billion in assets under management to improve its process capability

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Sidebar: Choosing a Partner

When choosing a service provider to achieve transformative BPO, key considerations include the partner's capabilities, track record, approach, price, value and the quality of the client experience. Consulting should be part of the package, not an expensive add-on, and the provider should be able to blend BPO with IT outsourcing in a single, coordinated approach.

Here are some questions to guide your decision-making:

1. How can you help my business grow?
2. How can I get business advantage by outsourcing this process to you?
3. What do you bring in terms of capabilities and technologies that are truly a competitive advantage to me, so I'm not just replicating what I have?
4. Are you just cost-focused or can you help me make money with services I haven't considered?
5. What is your track record in helping others innovate and deliver value beyond pure outsourcing arbitrage?
6. When there are issues, are you organized to resolve problems fast? What is your track record for doing that?
7. What can you offer me in terms of geographic expansion, innovative deal structuring, committed productivity, etc.
8. Can you take over my captive center, or buy it from me?
9. Are you willing to commit to a price that's locked in?
10. Since I'm outsourcing critical processes, will you be around in five to 10 years?

and reduce its operational costs. What started as a straightforward BPO deal morphed over a three-year period into a synergistic combination of BPO and IT, enabling the bank to improve its process capability and optimize the underlying IT, thereby reducing costs by 50%.

For this client, we manage 50 sub-processes for over 200 funds across multiple lines of business,

and in less than two years, we ramped up from 30 to 300 FTEs. Because the partnership involved not just managed processes but also outsourcing some IT functions, we were able to take advantage of synergies such as designing and deploying an integrated business process management tool to streamline and standardize areas such as investor operations and cash management. Over a third of our professional team at this client consists of MBAs, CPAs and CAs.

The results go far beyond what could have been realized through simple labor arbitrage:

- Cost benefits in excess of 50% annually.
- Access to global talent pools to support growth.
- Cash process consolidation – 20% reduction of FTEs.
- Automation of financial statement workpapers – 12% reduction of FTEs.

Here is a summary of what we accomplished for this client over a 30-month timeframe:

- **Month 9:** Implemented a workflow-based BPM platform for the investor operations process.
 - **Benefits:** Streamlined the investor onboarding process, reduced turn-around time by 27% and minimized errors through controls.
- **Month 12:** Created an investments portal that provided workflow for testing and supporting 3,000-plus underlying fund-of funds deals, as well as centralizing the team for Partner Capital first-level entries.
 - **Benefits:** Enhanced the control, tracking and review mechanism; and maintained the audit trail.
- **Month 18:** Implemented a document imaging platform that transitioned paper-intensive activities to a paperless environment and moved primarily onsite activities offshore.
 - **Benefits:** Reduced processing errors, increased process efficiency and drove down annual costs by 60%.
- **Month 24:** Consolidated cash management across multiple lines of business and 300-plus accounts, so that sweep interest amounts are calculated and validated daily.
 - **Benefits:** Enabled automated sweep-in journal entries, eliminating manual work; reduced FTEs by 20%; and enabled plug-and-play on-boarding of new lines of business.

- **Month 30:** Automated quarterly financial statement work papers by converting paper-based output to Excel-based templates, with links to supporting documents and notes.
 - **Benefits:** Reduced FTEs 12% and overall quarterly work paper turn-around time by 15%; improved the audit process; reduced reporting time; and accelerated the move to real-time reporting.

It is important to understand that to realize the continuous innovation of a holistic BPO approach, the provider needs to be able to equally address not just BPO – which is by necessity a people-centric business – but also the systems and tools that support the processes and that can be leveraged across multiple projects and engagements. This IT/BPO synergy is what fuels the cycle of innovation.

This can be seen in the mortgage business optimization consultancy we did for a U.S. bank. The bank's mortgage lending division asked us to identify opportunities for process improvement, optimization, consolidation and cost reduction, with the goal of funding future growth initiatives. It asked us to develop solution options and a business case for key opportunity areas, as well as an implementation road map.

We developed a synergistic strategy that uncovered approximately \$18 million in savings over a three-year basis, spanning technology, sourcing, footprint and process optimization to continue increasing the client's mortgage lending leadership. Here is a summary of our recommendations:

- **Technology:** Implementation of upfront imaging to reduce printing/shipping costs by an estimated \$1.25 million annually and serve as a prerequisite to leverage offshoring opportunities.
- **Sourcing:** Tap an estimated 100+ FTEs across regional processing centers, the wholesale lending business, the correspondent lending business, document control/post-closing and new-loan setup. These activities have no voice-

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based client interactions, are relatively low risk, include a high degree of manual effort and are well-defined and repeatable.

- **Process:** Implement Net Funding for the retail channel and automate the construction/permanent draw process. We also defined an incremental, high-level roadmap for the next four quarters to mitigate risk, minimize the people impact and factor in technology and consolidation dependencies.

Measuring success

Achieving transformative ITO/BPO requires a radical re-thinking of success metrics developed and used. Historically, we turn to service level agreements, such as completing a certain number of transactions in a given timeframe or achieving a set level of uptime. But those metrics do not always accurately reflect whether a business has achieved its goals.

A better way to measure success is by establishing the business outcomes that the company wants to accomplish and then

devising metrics based on those outcomes. What outcome is really going to impact the business? Rather than measuring how long it took to enter

data in a form or process a transaction, shouldn't we be asking whether we've lowered the cost of originating a mortgage or boosted customer satisfaction?

Consider a mortgage business that chooses to outsource its loan origination process, with the goal of lowering the cost per loan, boosting customer satisfaction and increasing both the quality and volume of loans originated.

If service level metrics are based on measures such as 24-hour turnaround time in 95% of the cases, how does that matter to the ultimate business goals? Are we sure that faster loan origination drives down cost, increases loan quality or brings in more business? It would be more important to know that we brought down processing costs from \$10 per loan to \$8 or reduced the number of days to close a loan from 60 to 45.

This is why it's essential, before entering into a BPO relationship, for the client and the provider to understand how to measure success, which entails knowing the business outcomes you wish to accomplish and devising metrics that are in line with those events. We call this, "outcomes-based BPO."

Below are some examples of metrics we created that measured the business impact delivered to our clients.

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Process	Business Impact	Measurement
Subrogation	Increased addressable space	Enabled the client to review < \$ 500 claims, which increased the market for the client by approximately 16%.
Equity research	Increased client effectiveness	Provided depth to equity research while adding capacity to research team for core analysis. In specific instances, client reports were singled out for enabling proprietary research content, which moved the market.
Retail banking processes	Increased process capabilities	Deployed workflow-based solutions for transforming various retail banking processes, including finance and accounting processes.

Choosing Which Processes to Transform

There are several considerations when choosing which processes to be outsourced:

1. Which processes are not core to your business? If the function provides you with a competitive advantage or is a differentiator in the marketplace, it's not one to outsource. That means
2. Which lines of business are most commonly outsourced in your industry? This will give you an idea of the maturity level of the service provider offerings. In finance and accounting,

any other process that doesn't give you a distinct advantage could be a candidate. For an investment bank trading in securities, for instance, the secret sauce is not in post-trade book-keeping processes and reconciliations.

For BPO to be successful in a truly transformative way, the mindset of business-as-usual needs to be abandoned, and fast, since it cannot spur the innovations required to stay competitive in the reset economy.

for instance, accounts payable is a critical function, but from an offshore standpoint, it's also very mature and thus a good bet for outsourcing. With a commonly outsourced function, you can take advantage of what others have done; in fact, if you don't take advantage,

you will be missing out on the service provider's ability to apply best practices to your process.

3. Which areas are bogged down with inefficiencies? By ridding yourself of one cumbersome or manual function, you can free up resources to do other more important things. A good example is a large investment bank that needed to monitor the Web literally every five minutes in its research function. We were able to automate that function, freeing up bandwidth for the research team to do more analysis on collected data.

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Success Factors

Taking the plunge into a holistic BPO engagement requires a new way of thinking for many industry sectors. It requires a willingness to make a fresh start not just in terms of processes but often the underlying technology infrastructure itself. Companies with significant investments in their applications, technology platforms and resource infrastructure are understandably reluctant to jettison that investment by handing over entire functions to a provider.

But for BPO to be successful in a truly transformative way, the mindset of business-as-usual needs to be abandoned, and fast, since it cannot spur the innovations required to stay competitive in the reset economy. Companies facing unprecedented growth or the need to drastically cut costs are often ready to face down the challenges in order to realize the transformative affect of such a bold move. For many, it's a matter of asking some tough questions and looking into the future: In three years' time, will your current way of doing business be able to support the changes – both anticipated and unforeseen – that are to come?

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 111,000 employees as of March 31, 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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