

USING BUSINESS PROCESS OUTSOURCING TO ACHIEVE STRATEGIC INNOVATION

Business Process Outsourcing (BPO) not only helps retailers drive out costs, but it also helps them achieve new levels of productivity. Smart retailers use the cost savings from BPO engagements to help large transformational projects that might not have sufficient funding to move forward on their own. Also, retailers use BPO engagements to help them rewire operations to achieve further benefits by streamlining organizational processes. BPO has evolved from simply filling a need for a retailer to more of a strategic partnership where both sides work at bettering the relationship over time and achieving greater goals through strategic innovation.

› INSIDE

- 3 BPO DEPLOYMENT:
THE ROADMAP
- 4 MODERN BPO
OFFERS RETAILERS
FULL PARTNERSHIP
- 6 SAAS AND CLOUD
COMPUTING
INCREASE BPO
EFFECTIVENESS
- 7 TARGETING HR
PROCESSES AND
TURNOVER
- 8 MEETING REGULATORY
REQUIREMENTS

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WHAT'S AT STAKE FOR RETAILERS

In today's economy, retailers face overarching economic and competitive pressures. First is a "new normal" where consumers seek maximum value for their dollars and lowest possible pricing. This, in turn, has created a "new normal" focused on cost containment for retailers, even those who in the past have typically succeeded by offering higher price points.

And yet the pressure to differentiate is greater than ever as retailers search for ways to compete beyond pricing. To achieve differentiation from their competitors, retailers are seeking innovative ways to re-engineer such core areas as sourcing, merchandising, and marketing.

Business Process Outsourcing, the outsourcing of IT-enabled services centered on a specific business function to a third-party provider, allows retail organizations to simultaneously achieve cost-containment to adjust to the "new normal" and achieve differentiation through innovation of internal functions.

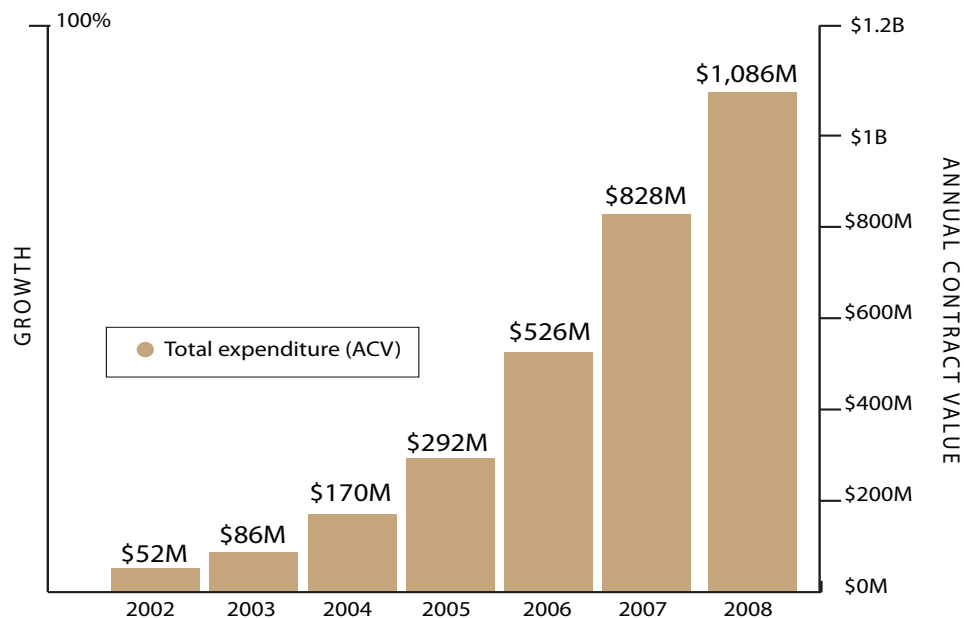
Through the use of sophisticated, real-time IT systems, BPO providers can fully integrate their services with a retailer's enterprise systems, allowing seamless third-party execution.

When properly leveraged, BPO can offer retailers measurable offensive benefits to achieve success in the marketplace, while also driving defensive benefits. On the offensive side, BPO enables retailers to streamline operations, reduce head count while not losing productivity, increase efficiency, and apply best prac-

[TAKEAWAY]

➤ "BPO ALLOWS INNOVATION: BUSINESS PROCESS OUTSOURCING LETS RETAILERS OUTSOURCE THE MANAGEMENT OF ROUTINE, NON-DIFFERENTIATING TASKS, LEAVING EXECUTIVES AND DECISION-MAKERS MORE TIME TO CREATE INNOVATIVE STRATEGIES THAT PROVIDE COMPETITIVE ADVANTAGE."

SUPPLIER MANAGEMENT BPO ANNUAL EXPENDITURE



SOURCE: AMR RESEARCH SUPPLY MANAGEMENT BPO STUDY, JUNE 2009

tices to routine tasks, thereby allowing the retailer to re-allocate resources where they can achieve greater customer benefits. On the defensive side, BPO drives cost containment and greater business efficiencies that can be added to the bottom line.

Through BPO, retailers can significantly reduce capital investment, improve organizational efficiency and agility, and increase focus on core areas of competitive differentiation. It also can free up time for executives and critical thinkers to devote more effort to innovation and “out-of-the-box” strategies.

“Traditionally, retailers have been slow movers into BPO,” says Joe Skorupa, group editor-in-chief of *RIS News*. “They have always had a roll your own philosophy, even when it comes to software development. But this is changing rapidly, especially in an economic climate that rewards cost containment efforts and punishes those who can’t adjust. But BPO is about more than cutting costs. BPO cannot solve all retail problems in a troubled economy but for many who have already achieved cost containment, BPO can help them refocus on innovation.”

[TAKEAWAY]
 > **“BPO ELIMINATES COSTS: BUSINESS PROCESS OUTSOURCING STREAMLINES THE COST OF PERFORMING LOWER-LEVEL FUNCTIONS AND REDUCES HEADCOUNT IN NON-STRATEGIC AREAS OF THE BUSINESS.”**

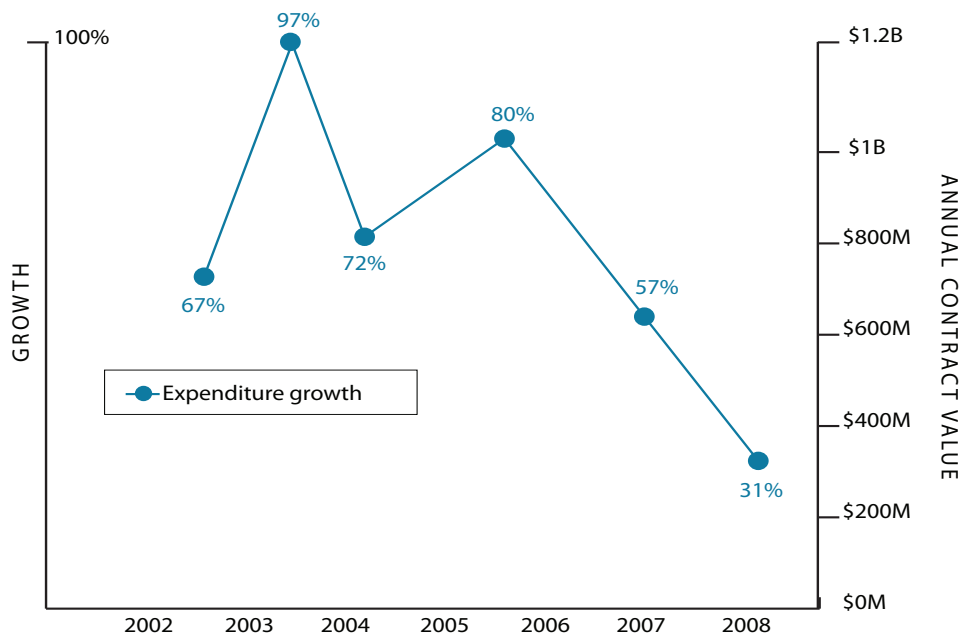
BPO DEPLOYMENT ROADMAP

Retail organizations that are considering launching a BPO program and developing a deployment roadmap should carefully examine the following:

Cost Containment: BPO can measurably reduce operational costs by shifting budget away from internal personnel, IT systems and organizational processes for routine

Continued on page 5

SUPPLIER MANAGEMENT BPO ANNUAL EXPENDITURE



SOURCE: AMR RESEARCH SUPPLY MANAGEMENT BPO STUDY, JUNE 2009

BPO IS AN OPPORTUNITY TO DRIVE INNOVATIVE PRODUCTIVITY

Ramesh Gudalur, Vice President and Global Head BPO, Cognizant

Q. WHAT ROLE DOES BPO PLAY IN THE RETAIL ENTERPRISE AND WHY IS IT AN IMPORTANT TOOL TO HELP DRIVE PRODUCTIVITY?

Gudalur: Obviously, BPO is a high priority area to help organizations drive out costs, but you can also use it to help drive new levels of productivity. For example, think about a big retailer with 75 people working in the finance department. By moving to a BPO engagement you can simultaneously cut costs and use the opportunity to rewire operations to achieve further benefits. Then you can use the gains to help fund a major IT transformation. One retailer who set out to implement a \$20 million ERP system combined it with a BPO project that produced savings to help compensate for the ERP cost.

Q. WHAT IS THE BIGGEST CHALLENGE A RETAILER FACES WHEN IMPLEMENTING A SUCCESSFUL BPO PROJECT?

Gudalur: The biggest challenge is helping companies embrace change. If a company gets everyone on board it will be a success. Change needs to be led from the top by an executive who tells people to get on board because the train is leaving. However, it's important to make staff realize they aren't going to lose their jobs. To get to this point you need to document your processes carefully and drill down to each individual staff member. You might find Bob does 40% strategic reporting and 60% manipulating or archiving data. Your goal is to shift Bob's 40% to 80%. If you follow through and make the transformation happen, you will achieve expected cost savings.

“By moving to a BPO engagement you can simultaneously cut costs and use the opportunity to rewire operations to achieve further benefits.”

RAMESH GUDALUR, VICE PRESIDENT AND GLOBAL HEAD BPO, COGNIZANT

Q. HOW CAN RETAILERS IMPLEMENT BPO THE RIGHT WAY TO GET THE MOST BENEFITS?

Gudalur: First you need to document your processes, and then map how they fit together. You need to know about your current state and how labor is devoted to achieve it. Then determine your game plan, identify skill sets you need to improve, identify core assets, and finally determine your current costs. If your mission is to grow the company, analyze how your processes impact the ability to grow. Will it impede or help down the line? Finally, determine if you have the right team in place to manage the transformation. It's not as simple as reaching out to the marketplace to hire a team. You will need to provide internal training to enable your managers to successfully handle the transformation.

Q. HOW HAS BPO EVOLVED TO BECOME MORE OF A STRATEGIC OPTION FOR RETAILERS?

Gudalur: Initially, BPO was all about execution. Retailers had a need and the BPO company hired a team to fill it. Today, retailers have problems they need solved, and the right BPO provider has the domain expertise to offer industry-specific solutions, often bringing in existing best practices, workflows and knowledge bases. Now it's more of a strategic partnership where both sides work at bettering the relationship over time and achieving goals through strategic innovation.

Continued from page 3

tasks that do not provide competitive differentiation or strategic advantage and yet must be performed at a high level of competency.

Low-hanging fruit in this category includes certain functions in finance, operations and human capital management. However, in recent years, many retailers have begun opening up vertical-specific areas of the enterprise to BPO. These include some functions in the purchasing and supply chain divisions. By separating high-level, proprietary activities in these areas from lower-level, non-core areas, retailers can achieve new levels of cost savings without jeopardizing competitive advantage or differentiation.

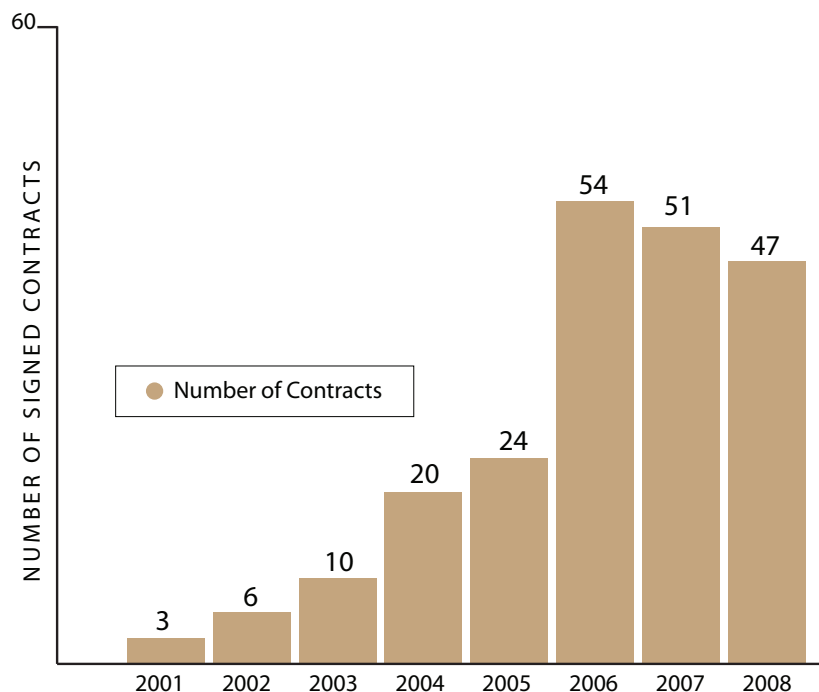
For example, a vertical apparel retailer would not outsource the selection of raw materials from a Southeast Asia supplier, but it might want to outsource the payment and compliance monitoring for its vendors. Similarly, the vertical apparel retailer would not outsource supply chain management strategies, but it might want to outsource the freight management or other elements of logistics in transporting raw materials to the U.S.

According to AMR Research June 2009 report on BPO across a variety of industries, one of the areas that is growing sharply is supply chain management business processes. The study notes the supply management BPO market surpassed \$1 billion for the first time in 2008 (which was the last full year for measurement at the time the report was written in mid-2009), and had an annual growth increase of 30%. The study indicates the reason for this uptick is the increased availability of low-cost offshore services for procure-to-pay and strategic sourcing support.

Speed of Operation: For retailers managing routine business functions in-house, speed is a significant issue. As a result of staff cuts, many retailers cannot dedicate as many personnel to low-level, routine tasks as the used to, and instead ask employees to multi-task. This trickles up to reducing productivity of higher-level tasks, due to delays and the fact that many employees are doing both.

Using BPO to handle low-level tasks in this scenario solves the problem by simultaneously speeding

NEW SUPPLIER MANAGEMENT BPO ENGAGEMENTS



SOURCE: AMR RESEARCH SUPPLY MANAGEMENT BPO STUDY, JUNE 2009

up delivery of low-level tasks and the higher-level tasks that are dependent on them.

Many BPO providers work globally, with staff dispersed across multiple continents and time zones. This means that outsourced functions like these are essentially working around the clock, tripling the amount of time a retailer can dedicate to them.

Effective Communication/Collaboration: This same 24/7 mode is a major benefit for achieving satisfaction levels for customer, internal and external communications and support.

By outsourcing such functions as procurement, payment and logistics retailers can increase the efficiency and effectiveness of how they communicate and collaborate with suppliers and partners.

Service Level Agreements: Increasingly, BPO providers are turning to flexible, service-level agreements with their clients. This means that rather than assigning fixed costs and manpower to a specific task, the BPO provider builds in flexibility so that a retailer can adjust the resources directed at a task depending on changing needs.

For example, a retailer outsourcing its customer call center could add resources during the holiday season and then subtract them during the typical post-holiday sales slump. Service-level agreements often include financial incentives when a BPO provider exceeds set goals or delivers innovations that produce new gains. On the opposite side of the coin, there also can be penalties built in for non-compliance.

Change Management: BPO providers have moved beyond their original role of filling specific needs for retailers. Modern BPO providers are leveraging their expertise to provide a full-range of services for complex change-management engagements.

In these scenarios, the BPO provider works with the retailer to examine internal processes and procedures and find innovative ways to streamline and re-organize them to increase efficiency and productivity. For engagements like these, the BPO provider becomes a full strategic partner with a vested interest in the success of the retailer.

Security: In today's world, retailers need to be extremely vigilant about protecting customer data. As a result of handling vast streams of personal and financial data, retailers are prime targets for criminals seeking to steal sensitive data. Several high-profile lawsuits involving major retail chains have led to costly and embarrassing settlements.

Therefore, it is imperative for any retailer entering into a BPO agreement to ensure that their BPO partner fully guarantees the security of confidential data. According to Javelin Strategy & Research, more than 11 million U.S. adults were victimized by identity fraud in 2009, a 12% increase from 2008. The total cost of identity fraud in the U.S. in 2009 was \$54 billion, a 12.5% increase from 2008.

[TAKEAWAY]

› “SAAS ALLOWS CLOSE INTEGRATION: SOFTWARE-AS-A-SERVICE (SAAS) ALLOWS BUSINESS PROCESS OUTSOURCING PROVIDERS TO DELIVER IT-BASED SERVICES WITHOUT ANY IMPLEMENTATION, ENABLING CLOSE INTEGRATION WITHOUT INTRUSIVENESS OR SECURITY RISK.”

SAAS AND CLOUD COMPUTING

Recent advancements in SaaS (Software as a Service) and cloud computing have contributed to the effectiveness of BPO services. Both IT delivery models are well suited to the delivery of flexible services across a distributed retail enterprise.

These two computing models allow BPO providers to deliver IT-based services without the client having to implement or manage new hardware or software, making deployment and integration with other applications proceed quickly and with less disruption.

The SaaS and cloud computing model also fits in with a retailer's focus on cost containment and ROI. According to a January 2010 study by Avande, 65% of companies using SaaS have obtained expected ROI and 62% plan to increase SaaS usage in the next year.

HUMAN RESOURCES AND TURNOVER

Turnover is detriment to every retail organization in terms of time lost, productivity hampered, and hard costs required for recruiting, hiring, onboarding and training new employees.

BPO has traditionally been used as a means of outsourcing routine HR processes related to forms management and data entry processes. However, BPO also can serve as a valuable resource for much higher-level functions that can ultimately reduce turnover by selecting more qualified candidates who are well suited to their responsibilities, and then providing them with better training and support once they are on the job.

By engaging a BPO provider to create and manage a highly specialized screening process using a strategically developed questionnaire, a retailer can better separate the wheat from the chaff at an early point in the hiring process, eliminating a manual process done for hundreds or thousands of stores in a chain.

Superior applicants are contacted by e-mail and go through more screening steps, leaving a more qualified and smaller set of applicants to administer and schedule interviews.

Once employees are hired, a BPO provider also can automate the filling out of tax forms and employment agreements, as well as the distribution of company literature. Training also can be automated through the digital distribution of manuals and videos.

By centralizing this process and working with a BPO provider, retailers can simultaneously screen a training video to new employees in hundreds of stores in multiple time zones through a live Web link.

Generation Y and millennial employees, who now make up a large percentage of most the retail workforce and will dominate higher-level positions in the coming decade, have different workplace expectations than their older counterparts. They have grown up as digital natives and expect the workplace to offer the same kind of online efficiency they experience in their personal lives.

They also have different perspectives about benefits packages. According to a December 2009 study by Fidelity Investments, the majority of Generation Y respondents, 62%, said the quality of benefits package influences their choice of employer, and 64% said it influences their job loyalty. Another 44% believe benefits packages should be tied to employee performance, rather than “one size fits all.”

By automating benefits management through a BPO provider, a retailer can more easily tailor packages to meet the needs of younger employee and deliver them in an efficient and familiar way.

[TAKEAWAY]

› **“BPO REDUCES TURNOVER: BY STREAMLINING AND AUTOMATING HIRING AND OTHER HR PROCESSES, BUSINESS PROCESS OUTSOURCING CAN HELP RETAILERS RECRUIT BETTER QUALITY EMPLOYEES AND KEEP THEM EMPLOYED FOR LONGER PERIODS OF TIME.”**

CONCLUSIONS

Smart retailers are increasingly turning to BPO engagements for cost containment, business transformation projects and competitive differentiation through innovation. Here are key takeaways to consider when planning your BPO engagement:

- BPO allows retail organizations to simultaneously achieve cost-containment to adjust to the “new normal” in the current economy and achieve differentiation by assuming a partnership role that can deliver innovation of internal functions.
- When properly leveraged, BPO can enable retailers to streamline operations, reduce head count while not losing productivity, increase efficiency, and apply best practices to routine tasks, thereby allowing the retailer to re-allocate resources where they can achieve greater customer benefits. All of which enable retailers to drive cost containment and greater business efficiencies that can be added to the bottom line.
- In an era of stretched resources and multi-tasking, BPO can free up time for executives and critical thinkers to devote more effort to innovation and “out-of-the-box” strategies.
- Most BPO providers work globally, with staff dispersed across multiple continents and time zones. This means outsourced functions are essentially working around the clock, tripling the amount of time a retailer can dedicate to them.
- BPO providers offer flexible, service-level agreements that enable retailers to resources directed at a task depending on changing needs, say for the holiday season, which requires far higher levels of service than the rest of the year.
- SaaS and cloud computing have greatly increased the effectiveness of BPO services, and both delivery models are well suited to deliver flexible services across a distributed retail enterprise.

Although retailers are slow adopters of BPO, they are increasingly turning to it as it has evolved from simply filling a need to one that is more like a strategic partnership where both sides work at bettering the relationship over time and achieving greater goals through strategic innovation.

ABOUT COGNIZANT

Cognizant (NASDAQ: CTSH) is a leading provider of information technology, consulting, and business process outsourcing services. Cognizant’s single-minded passion is to dedicate our global technology and innovation know-how, our industry expertise and worldwide resources to working together with clients to make their businesses stronger. With over 50 global delivery centers and approximately 78,400 employees as of December 31, 2009, we combine a unique onsite/offshore delivery model infused by a distinct culture of customer satisfaction. A member of the NASDAQ-100 Index and S&P 500 Index, Cognizant is a Forbes Global 2000 company and a member of the Fortune 1000 and is ranked among the top information technology companies in BusinessWeek’s Hot Growth and Top 50 Performers listings. Visit us online at www.cognizant.com.



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