

# Business Transformation Outsourcing

Canadian Perceptions



Executive Summary

Accenture’s survey was designed to track the business priorities of Canadian executives and to delve into the state of outsourcing in their organizations. Our key findings include:

**Canadian executives increasingly pursue operational efficiency.**  
Nearly half of private sector interviewees say that, overall, cost control is a greater concern than revenue growth.

**They consider outsourcing part of the solution.**  
Sixty-eight per cent say that outsourcing certain business functions, processes or entire organizational entities is a priority in 2002 and 2003.

**As outsourcing grows, organizations worry that they lack experience.**  
Although 93 per cent of executives have outsourcing experience and nearly half currently outsource some aspect of their information technology, almost two-thirds characterize their expertise as “limited.”

**Relationships with tactical outsourcers don’t help the experience gap.**  
Executives say that they want to work with strategic providers. In reality, their current outsourcing partners are often vendors focused on basic execution.

**Business Transformation Outsourcing (BTO) adds new complexity.**  
Canadian decision-makers remain largely unaware of the rise of the most strategic form of outsourcing relationship, and its potential to create fast, sweeping improvements in business performance.

**BTO compels organizations to use outsourcing more strategically.**  
As CEOs increasingly turn to BTO to increase the scope and velocity of business change, many Canadian organizations lack the outsourcing experience to respond. To prepare, decision-makers must understand BTO and embark on strategic outsourcing relationships that pave the way for its potential.

# Research Findings

**Introduction**  
Canadian executives face a challenging business climate. In the midst of economic uncertainty, market pressures are escalating. Globalization brings new competitive pressures, while emerging technologies increase the pace of change.

The growing pressure creates a management dilemma. Decision-makers know that they must institute the operational discipline needed to weather any economic storm. But ensuring stability is not enough. They must also develop and execute visionary agendas that enable not just survival, but sustained market leadership.

This challenge shines a spotlight on the issue of resources. Faced with unprecedented business demands, Canadian organizations need to muster the breadth and depth of knowledge, skills and staff to follow through.

Increasing numbers of Canadian businesses have decided that they can't go it alone. Instead, they turn to outsourcing

relationships that involve partners in the operation of business functions or processes. Research firm IDC predicts that Canadian organizations will spend \$3.6 billion to outsource information systems this year alone.<sup>1</sup> But how effectively do firms use these relationships to fulfill both aspects of their agenda - increasing operational efficiency while fueling strategic growth?

In this report, Accenture analyzes the state of outsourcing in Canadian organizations today. We look closely at executive priorities and the role of outsourcing relationships in achieving business goals. We also examine the readiness of Canadian executives to embark on a new kind of relationship with important strategic implications – Business Transformation Outsourcing (BTO).

**Methodology**  
*The survey was conducted in November of 2001 by NorthStar Research Partners. It involved 304 decision-makers at major Canadian government organizations and companies in four key industries: financial services; communications/high-tech; resources/utilities; and products/manufacturing/retail. These executives have responsibility for outsourcing relationships. The results from this survey are accurate within +/- 5.8 per cent, 19 times out of 20. In addition, Accenture consulted relevant secondary sources, including reports from IDC and Accenture's Institute for Strategic Change.*

# Operational Efficiency Tops Canadian Organizational Priorities

Executives in Canada have their eyes closely fixed on the bottom line. They see operational effectiveness and efficiency as the keys to maintaining the health of their enterprise in a challenging economic climate.

ORGANIZATIONAL PRIORITIES

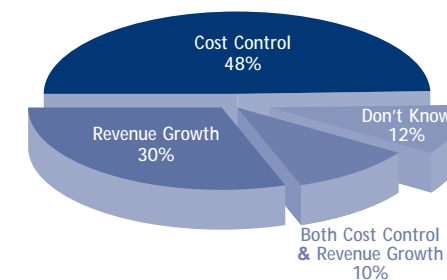


“Nearly half of interviewees explain that, overall, cost control remains a greater concern than revenue growth.”

**Customer satisfaction and cost-cutting form the foundation.**

When asked about their critical business priorities for the next two years, Canadian decision-makers cite five most frequently: improving customer satisfaction (79 per cent); cutting costs (79 per cent); enhancing productivity (71 per cent); recruiting and retaining top talent (66 per cent); and attracting and keeping the right customers (62 per cent). The urgency of three of these priorities has grown notably since 1999. Cost reduction, productivity growth and talent management have risen 17 per cent, 16 per cent and 21 per cent respectively in just two years, as the economy has weakened.

PRIVATE SECTOR CONCERNS



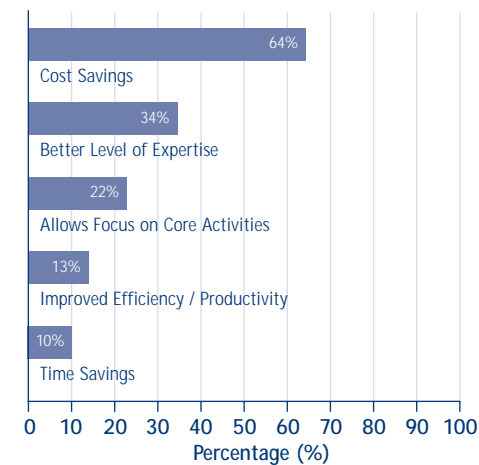
**Revenue growth takes a back seat.**

Growth strategies including business expansion and new channel development are not the primary focus of Canada's private sector. Nearly half of interviewees explain that, overall, cost control remains a greater concern than revenue growth. Less than one-third prioritizes expansion, while another 10 per cent try to balance the two goals.

# Canadian Executives Consider Outsourcing Part of the Solution

As operational pressures mount, many decision-makers look outside of their organizations for help. Among our interviewees, 68 per cent say that outsourcing certain business functions, processes, or entire organizational entities is a priority in 2002 and 2003. Why?

**PERCEIVED ADVANTAGES TO OUTSOURCING**



**Executives see the value.**

Decision-makers across the public and private sectors believe in outsourcing's potential. Eighty-five per cent of interviewees say that they have a favourable impression of such relationships. The most optimistic: those in the high-tech and financial services industries, with positive ratings of 94 per cent and 92 per cent respectively. In addition, over 91 per cent of Canada's largest organizations – those exceeding \$400 million in annual revenues – assert outsourcing's value.

**...but also increased management complexity.**

Eighty per cent of executives assert that an outsourcing environment demands a different management style, while 75 per cent add that it radically changes the nature of an entire organization. Private sector respondents take their opinion one step further. Eighty-seven per cent say that successful engagements depend on the commitment of executives all the way to the CEO's office.

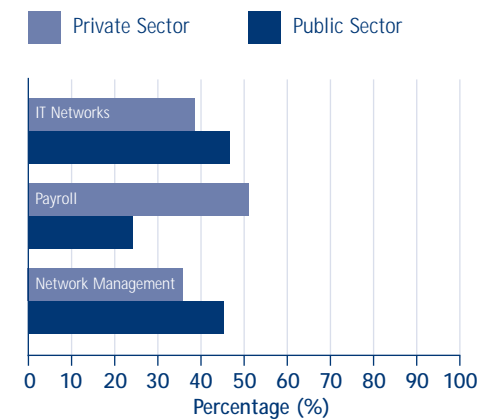
**Organizations expect measurable results...**

Canadian executives base their favourable impressions of outsourcing on the potential to boost operational performance. They perceive the greatest advantages as cost savings (64 per cent), increased staff expertise (34 per cent), and the ability to focus on core activities (22 per cent). Interviewees take these benefits seriously. More than two-thirds describe cost savings and new expertise as important to their organizations.

# As Outsourcing Grows, Organizations Worry that They Lack Experience

Canadian executives speak about outsourcing from first-hand knowledge. Overall, 93 per cent tell us that they have some direct experience. In organizations with over \$400 million in annual revenues, that number grows to 100 per cent. But most still characterize their expertise as “limited.”

**BUSINESS FUNCTIONS CURRENTLY OUTSOURCED**



“Despite the widespread use of outsourcers, few organizations describe themselves as experts in managing these relationships.”

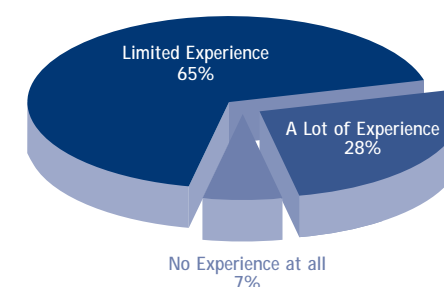
**Many organizations outsource for technology and customer needs.**

Almost half of executives employ information technology (IT) outsourcing, led by deals to manage security (44 per cent), IT networks (42 per cent), and payroll (40 per cent). Thirty-eight per cent rely on partners to deliver aspects of customer relationship management, including Web-based self-service (26 per cent). Meanwhile, nearly 30 per cent maintain relationships to increase supply chain efficiency, such as product development (18 per cent) and logistics (17 per cent).

**Exact practices vary according to an organization’s size and sector.**

For example, 56 per cent of governmental bodies outsource some form of IT, compared to 45 per cent of their private-sector peers. In addition, organizations with less than \$100 million in annual revenues outsource supply chain activities twice as often (35 per cent) as those exceeding \$400 million (17 per cent). The disparity stems in part from a greater reliance on partners to manage sourcing and procurement. Twenty-three per cent of smaller organizations outsource these functions, while only 8 per cent of larger ones do so.

**PRIOR OUTSOURCING EXPERIENCE**



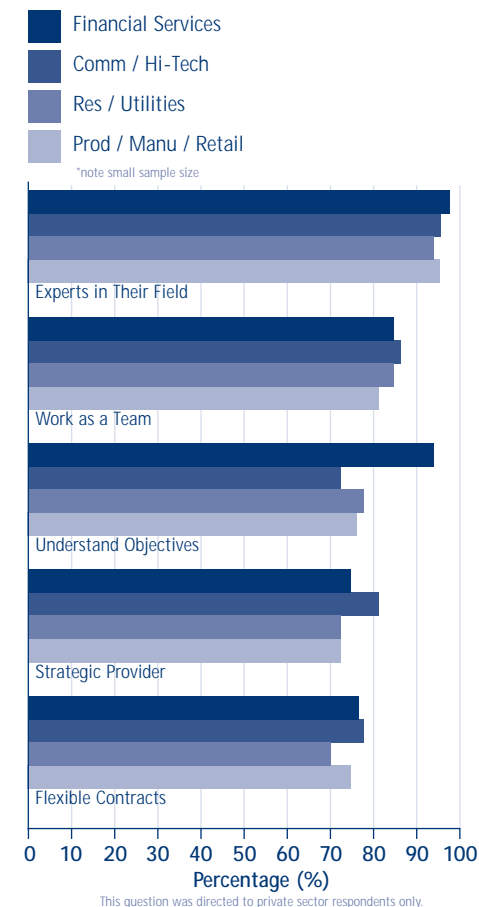
**Yet Canadian executives believe that they lack deep outsourcing experience.**

Despite the widespread use of outsourcers, few organizations describe themselves as experts in managing these relationships. Nearly two-thirds characterize their experience as “limited,” led by those in products/manufacturing/retail (75 per cent) and resources/utilities (72 per cent). High-tech respondents are the most confident, with 50 per cent claiming “limited” experience and 38 per cent asserting that they have “a lot” of experience.

# Tactical Outsourcers Don't Help the Experience Gap

While organizations say that they would prefer to work with strategic providers – full partners in achieving business goals – they currently employ vendors focused on basic execution.

TOP FIVE CRITERIA FOR OUTSOURCING PARTNERS



**Executives have high expectations for outsourcers.**

When asked to rate important qualifications in an outsourcing partner, they point to: expertise in a given field (94 per cent); ability to work as a team (86 per cent); understanding of core business objectives (80 per cent); previous experience (75 per cent); and willingness to strike a flexible contract that can evolve with the relationship (74 per cent). Knowledge transfer is also a priority to decision-makers. Seventy-three per cent of private-sector firms expect a partner to share expertise with internal staff.

**Organizations find strategic providers more effective than vendors...**

Canadian executives believe that they are more likely to find the qualities they desire in a strategic provider. Seventy-six per cent agree that such outsourcers have a “clear advantage” over vendors in delivering effective solutions.

**...but most outsourcers remain tactical.**

Despite their stated preference for strategic providers, most interviewees currently work with vendors. We asked organizations with existing outsourcing relationships to characterize their outsourcers across 21 different business functions. They are more likely to employ tactical vendors in 18 areas, including security, Web-based customer service, call centres, marketing and finance. Strategic providers only predominate in billing/invoicing and real estate management. Interviewees outsource their product development to equal numbers of vendors and strategic providers.

# Business Transformation Outsourcing Brings New Opportunity – and Complexity

As Canadian executives address the role of outsourcing in their organizations, a new form of business relationship is emerging.

Business Transformation Outsourcing (BTO) is a program intended to change the way a business works on a fundamental level, enabled by outsourcing. As BTO develops around the globe – including the United States, Europe and Southeast Asia – the majority of Canadian decision-makers:

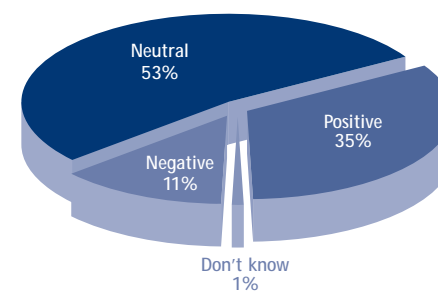
**Struggle to understand BTO.**

Seventy-nine per cent of Canadian executives are not familiar with the term Business Transformation Outsourcing. In organizations with less than \$100 million in annual revenues, that number reaches 88 per cent. Among those who claim awareness, few can agree on a definition. Thirty-six per cent correctly identify BTO as “using a third party to help change business methods,” but another 24 per cent equate it with “process change,” while eight per cent assert that it means “outsourcing non-essential functions.”

**Reserve their judgment – for now.**

Is BTO a positive development for businesses or a negative one? Most Canadian executives aren't yet sure. Thirty-five per cent report a positive impression and 53 per cent are neutral. However, of the 15 per cent who claim to have implemented BTO, a full 84 per cent had a favourable experience.

OVERALL REACTION TO BTO





# Market Conditions Influence the Lack of Outsourcing Experience in Canada

Since outsourcing first appeared during the recession of the late '80s and early '90s – when Eastman Kodak announced a \$250 million, ten-year deal to outsource its IT operations – it has proliferated and evolved. In the process, Canada has become an important market for these services.

In 2002, research firm IDC predicts that Canadian spending on information systems outsourcing alone will amount to \$3.6 billion, on track to reach \$4.4 billion in 2005.<sup>2</sup> But two issues have created a unique environment in Canada, resulting in a relative lack of strategic outsourcing experience:

#### **A smaller market.**

With a population of 31.1 million and GDP of \$1.1 trillion,<sup>3</sup> the size of the Canadian market is often compared to Australia and Spain. Therefore, Canada has not seen the sheer quantity of outsourcing activity – and the headline-grabbing megadeals – evident in larger economies such as the United States and the United Kingdom.

#### **A cautious business climate.**

Given today's economic uncertainty, many Canadian organizations scrutinize new business initiatives more closely than ever. As our survey reveals, they focus on shoring up existing functions and processes rather than blazing trails. For many, strategic outsourcing could represent uncharted territory.

# Business Transformation Outsourcing Raises the Bar

A growing group of CEOs strikes relationships with partners that can create significant value and positively affect the direction of their entire organizations – at speed. Accenture calls this *Business Transformation Outsourcing*.

#### *How BTO Works*

*BTO changes the rules of traditional outsourcing. It starts with a CEO's bold strategic vision, demands an innovative relationship with a partner who shares risks and gains, and delivers enterprise-wide results such as increased share price, competitive standing, and return on capital.<sup>5</sup>*

Accenture defines Business Transformation Outsourcing (BTO) as “a program to transform the way a business works by using outsourcing to achieve a rapid, sustainable, radical improvement in performance across the entire enterprise.”<sup>4</sup>

BTO is not a strategy reserved for prosperous organizations experimenting with business models. It has arisen foremost among CEOs facing market challenges that demand drastic actions and quick, measurable results. Two real-life examples illustrate this potential:

*\_AT&T and Accenture have joined forces to transform AT&T's Consumer Sales and customer care to serve nearly 60 million customers. This will enable AT&T to improve productivity and flexibility while reducing sales and customer care costs by more than half over the life of the agreement. Together, AT&T and Accenture are transforming an award-winning sales and customer care team by merging the experience and skills of both organizations.*

*\_A multinational financial services company lost its market leadership, with new competitors vying for additional share. The CEO felt that he lacked the culture, IT capabilities and management depth to engineer a turnaround – and entered a BTO relationship to help. Within three years, the company had increased operating margins from \$151 million to \$370 million; grew market share from 19 to 28 per cent; and doubled its share price.*

# Canadian Organizations Must Increase Outsourcing's Strategic Value

Not every decision-maker has the appetite for BTO's ambitious agenda. But its emergence raises the stakes for outsourcing throughout Canada. As global and national competitors employ BTO to increase the scope and velocity of change, many Canadian organizations lack the outsourcing experience to respond.

Leveraging BTO begins with knowledge. Canadian decision-makers should understand BTO, analyze its possibilities and consider it a new tool for achieving strategic goals. Then, they must build the organizational expertise that paves the way for implementing BTO's radical change. The most effective preparation? Taking an increasingly strategic approach to all outsourcing initiatives. Four imperatives can get organizations started:

#### **Re-evaluate existing outsourcing agreements.**

Executives should begin by reaping the maximum strategic benefits from existing deals. This means closely re-evaluating partner capabilities, engagement expectations, metrics and incentives, performance levels and ongoing management. Is the relationship reaching its potential? Then ask partners to propose how they can push their current work to new levels of strategic benefit. If they can't stretch, then it's time to rethink the relationship. The ultimate goal: Canadian

organizations should close the gap between the outsourcer qualities they desire – and those they have hired.

#### **Identify new challenges, then partner for breakthrough results.**

Executives can also gain experience by identifying business challenges that, if overcome, could greatly improve operational performance. Honing in on inefficient processes will uncover areas where a partner can add essential expertise. Organizations can then pursue a collaborative relationship in which both parties work together to reap strategic benefits.

#### **Consider the potential for shared services.**

Some organizations increase outsourcing activity by coming together with industry peers or partners in a shared services model. In this approach, an outsourcer provides business functions or processes to an entire group – creating substantial cost reductions and new efficiencies for all. For example, Accenture created a Delivery Centre in Aberdeen, Scotland that now provides

outsourced finance and accounting capabilities to a group of four oil firms – BP, Talisman UK, Conoco UK, and Britannia Operator. The model proved so successful that it has taken root elsewhere, with a multi-service location in Stavanger, Norway serving the collective finance and administrative needs of five clients.

#### **Cement relationships using innovative incentives and metrics.**

Organizations can also increase outsourcing's strategic impact by enlisting measures that focus both partners on enterprise results.<sup>6</sup> Rather than rely on traditional contract terms such as service levels or cost reduction targets, organizations can compensate partners according to enterprise-wide outcomes: increases in revenue, company valuation or market share gains.



## Canada Post Corporation and Accenture Partner to Tackle Strategic Business Challenges

Canada Post is a Crown Corporation serving the needs of 30 million Canadians and more than 950,000 businesses and public institutions. Each working day, Canada Post Corporation and its affiliates deliver an average of 38 million pieces of mail to 12.9 million Canadian addresses. Together with its affiliated companies, Canada Post ranks thirtieth among Canadian businesses in terms of revenue and is the fifth largest employer in the country.

Canada Post first tapped Accenture in 1990 as part of a drive to increase operational performance. It needed to make a technological leap that would boost effectiveness throughout the organization – upgrading from the world of mainframes to client/server and distributed computing. But Canada Post executives felt that the organization lacked the skills to accomplish this alone – and in a cost-effective manner. Instead, it turned to Accenture to drive a successful migration and assume responsibility for ongoing support. Along the way, Accenture contained costs while enabling Canada Post to focus resources on its core business and customer obligations.

“Such responsibilities build on a foundation of trust and a track record of high performance – Canada Post has given Accenture seven supplier awards during the past decade.”

Based on that success, Canada Post and Accenture embarked on additional outsourcing work with increasingly strategic impact. Over the years, Accenture has tackled critical areas from application development, maintenance, and support to the installation of several new business systems.

Today, the relationship continues to ascend the value chain. Accenture's current agenda includes working alongside Canada Post for the installation of a major ERP system, with technical and process implications that touch the very core of Canada Post's business. Such responsibilities build on a foundation of trust

and a track record of high performance – Canada Post has given Accenture seven supplier awards during the past decade. Yet the relationship has also evolved into a true partnership at the highest levels, with frequent meetings between Accenture and Canada Post senior executives.

## The Workers' Compensation Board – Alberta, and Accenture: from Application Development to Business Change

“Rather than define project success according to traditional technical measures, Accenture and the WCB share the risk on achieving business outcomes.”

The Workers' Compensation Board – Alberta (WCB) is a not-for-profit mutual insurance corporation funded entirely by employers. The WCB provides cost-effective workplace liability and disability insurance to more than 1.2 million workers and 96,000 employers.

In 1990, the WCB faced a daunting task. It had a number of technology initiatives that needed to be accomplished, but wasn't sure that it had the in-house skills to complete them. Even if the WCB tried to improve its internal development capabilities, it could not guarantee rapid delivery of top-notch solutions. Instead, the WCB partnered with Accenture to custom build, operate and maintain the new applications. The engagement began a relationship that has spanned a decade and several additional projects.

The WCB and Accenture recently took their partnership to a new level with a major upgrade of claims management capabilities. On this project, the WCB seized the opportunity to enact far-reaching business change. Working as a team, the two companies re-evaluated the entire claims process, from internal procedures to touch

points with employers and injured workers. Even management systems and supervisory controls were changed to reinforce the new way of handling claims.

An innovative contract reinforces the strategic approach. Rather than define project success according to traditional technical measures, Accenture and the WCB share the risk in achieving business outcomes. By improving the case manager's ability to deliver the right service at the right time in the claim, the WCB will do a better job of returning injured workers quickly and safely back to work. And when they do that, everybody wins.

## J. Sainsbury Embraces BTO for a Leap in Business Performance

J. Sainsbury is a leading UK and US food retailer with interests in financial services and property. In 2001, the group had sales of £18.4 billion and employed 169,900 people.

When the Board of J. Sainsbury hired Sir Peter Davis as the company's CEO in March of 2000, it faced serious operational and competitive challenges. Costs were rising faster than revenues. Profits had fallen out of line with competitive levels – and with the firm's own historic performance. As a result, share price and market capitalization suffered, while rivals sought to lure customers away.

The situation called for aggressive action. Within months, Sir Peter Davis developed a plan for regaining market share through strategic repositioning and operational renewal. It included a BTO initiative – in partnership with Accenture – intended to drive radical change.

The commitment included transferring 800 J. Sainsbury employees to Accenture to help run all IT systems and networks, develop and

install new business systems and launch a more efficient Web presence to boost customer transactions and loyalty.

The relationship includes innovative strategies for keeping both sides focused on the partnership's long-term success, including financial provisions that fund strategic investments by making future cost savings available up front. High-level connections also keep the partners in lockstep. CEO Sir Peter Davis and Accenture's lead partner maintain offices on the same floor to facilitate constant contact – and collaboration on joint reports to the Board of Directors every second week.

**“The relationship includes innovative strategies for keeping both sides focused on the partnership's long-term success.”**

Accenture is the world's leading management and technology consulting organization. Through its network of businesses approach – in which the company enhances its consulting and outsourcing expertise through alliances, ventures and other capabilities – Accenture delivers innovations that help clients across all industries quickly realize their visions.

With more than 75,000 people in 47 countries, Accenture can quickly mobilize its broad and deep global resources to accelerate results for clients. The company has extensive experience in 18 industry groups in key business areas, including customer relationship management, supply chain management, business strategy, technology and outsourcing. Accenture also leverages its affiliates, alliances and venture capital activities to help drive innovative solutions. Strong relationships within this network of businesses extend Accenture's knowledge of emerging business models and products, enabling the company to provide its clients with the best possible tools, technologies and capabilities. Accenture uses these resources to serve as a catalyst, helping clients anticipate and gain value from business and technology change.

For the fiscal year ended August 31, 2001, Accenture generated net revenues of \$11.44 billion. Its home page in Canada is [www.accenture.ca](http://www.accenture.ca)