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## The analytics advantage

By Michael J. Salvino and Barbara J. Duganier

By building on the extensive and high-quality data generated as part of a business process outsourcing relationship, companies can more rapidly achieve higher levels of analytical sophistication—improving the efficiency of operations, generating cross-functional insights and mining customer data for opportunities to innovate.

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It was a textbook problem in the volatile world of retail. In the summer of 2009, a major US music distributor experienced a sudden spike in demand for the CDs of one of the artists in its back catalog. How could it ramp up production to meet immediate needs without creating excess inventory in the future?

This company had an edge, however—a longstanding outsourcing arrangement in place that, over a period of several years, had turned its supply chain into a finely tuned, industrialized engine. Moreover, the engine came equipped with a predictive analytics capability that could do more than just tell the company that manufacturing could not meet demand. The analytics could also identify how to solve the problem, leveraging insights across multiple domains beyond the supply chain, including finance and CRM.

In short order, the music distributor had pinpointed the source of greatest demand. The company was able to make informed and timely decisions about where to boost production and where the most cost-effective and profitable locations were to locate inventory. Net result: Instead of the costly alternative of increasing production everywhere in the world—which would have resulted in excess inventory and expensive shipping to redistribute products later—the company had an accurate, just-in-time, precisely targeted delivery approach that met customers' needs for a dramatically lower cost.

### **Sophisticated tools**

This is one of a growing list of examples where the intelligent use of analytics in business process outsourcing environments is making a significant impact. As with all applications of analytics, it leverages sophisticated tools and techniques for statistical surveying, root-cause analysis and optimization. Unlike many advanced analytics applications

at some companies, however, BPO analytics begins on what is already a strong foundation of comprehensive data about a business process and how it's performing.

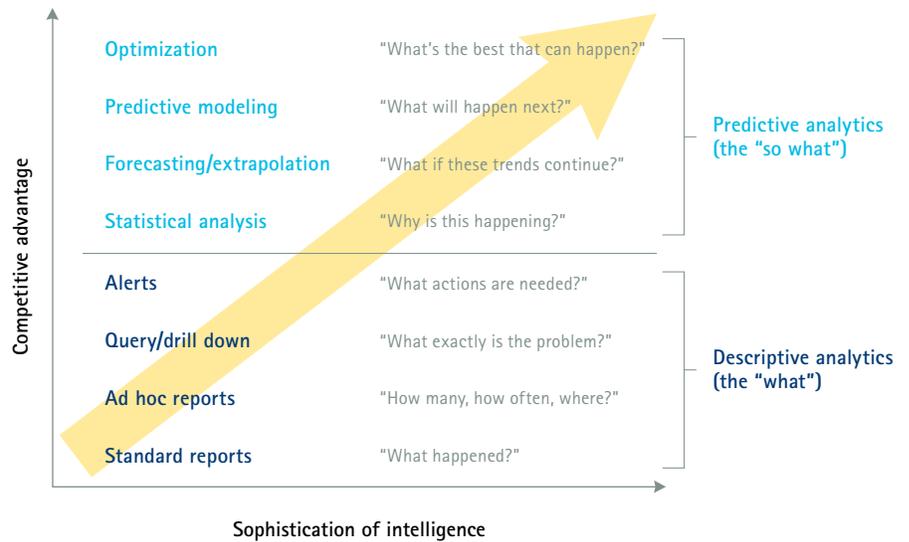
Where does such a foundation of high-quality data come from? From outsourcing relationships in which providers are already highly motivated to produce timely data that help them know, nearly in real time, how efficiently a supply chain, a procurement function, a global finance organization or other business processes are performing.

The analytics capabilities built on this existing foundation of data help companies realize significant benefits in three ways.

- **Improving the performance of operations and processes, including parts of processes executed by both the outsourcing provider and the client.** As performance analysis leads to ever-greater levels of standardization and industrialization, processes become more finely tuned engines, enabling companies to get products to market faster and serve customers more effectively.
- **Delivering insights about performance across traditional functions.** Because business processes frequently cross functional boundaries, it's entirely possible that a workflow problem in one function is actually being caused elsewhere in the company. An outsourcing provider serving a client across functions is ideally placed to analyze the end-to-end performance of a process.
- **Generating innovations based on insights into a company's interactions with customers or other stakeholders.** Consider the amount of data generated by the typical customer service center, for example. Analysis of that data

## So what?

When companies build or partner to develop more strategic analytical capabilities, the insights gained about future outcomes lead to decisions and interventions that deliver increased business value.



Source: *Competing on Analytics: The New Science of Winning*, by Thomas H. Davenport and Jeanne G. Harris (Harvard Business School Press, 2007)

can deliver insights to fuel new-product development or service innovations.

In short, analytics delivered through a BPO arrangement enable companies to improve enterprise efficiency and agility, and to differentiate products and services in a competitive marketplace.

The technology, process and modeling skills needed to execute business process analytics are wide-ranging and complex. Having a rigorous, comprehensive outsourcing relationship can be a way to speed innovations to market and accelerate the benefits for a company and its customers more cost effectively.

## Improving the operational engine

The first advantage in building an analytics capability on the back of a BPO relationship is that companies can go to a single source for high-quality data about the performance of a process or function—data that are measured and recorded consistently. This becomes a base layer of transactional data and information

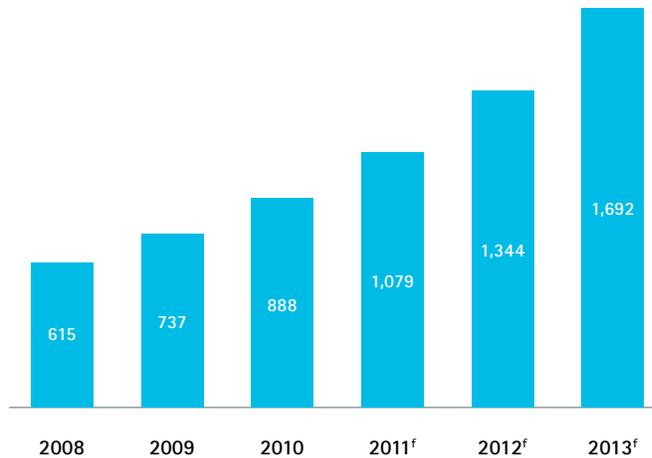
that companies can work with faster and more efficiently, using analytics to deliver important improvements in everything from manufacturing to finance to customer service.

In a large, global organization, essential business processes such as finance and HR are increasingly

## Data driven

Business analytics software-as-a-service revenue is expected to have a compound annual growth rate of 22 percent in the period spanning 2008 to 2013.

Revenue (\$ millions)



Source: IDC, 2009

complex. An outsourcing provider that is a part of such process execution is well placed to analyze the performance of a process end to end, discovering where inefficiencies and risks exist, then working to drive time and waste out of the process and standardize wherever possible.

An outsourcing provider does this in part by recognizing patterns in business activities, isolating the drivers of performance and anticipating the effects of decisions and actions. One way providers do this is by embedding analytics within the processes themselves. This makes it easier to look beyond the immediate task or decision to understand what's happening upstream or downstream.

For example, one global energy company made the decision in 2008 to outsource key components of its finance and accounting operations, including accounts payable, employee travel and expense processing, and vendor-related master data

maintenance, all of which are now provided from offshore locations.

Analytics are embedded in the outsourced processes themselves. A transaction compliance and analytics tool monitors the company's accounts payable records to help resolve and prevent overpayments. In this way, the tool helps avoid duplicate or improper payments, scrutinizing large volumes of information (including invoice line-item data) and identifying where exceptions are likely to occur. It also identifies pricing inconsistencies, discount and rebate opportunities, and allowance claims.

In the first year of the energy company's outsourcing arrangement, more than \$2.2 million in vendor payments were identified as duplicate or erroneous. Of this amount, more than 98 percent was caught before payment was made, resulting in savings of more than \$2 million, as well as a sizable increase in cash flow and a significant reduction in postpayment audit work.

## Focused expertise

Analytics capabilities can help improve not only readily industrialized processes in areas such as finance but also “softer” areas, such as employee development.

For example, consumer goods company Unilever was looking to increase sales and market share in China. In this emerging market, the company needed to capture the behaviors of the best performers and apply those consistently across the entire sales workforce through a capability development program. Unilever worked with its learning outsourcing partner to design and deliver a capability development program targeting specific sales metrics to improve the performance and productivity of its more than 500 sales representatives across Greater China.

Using an analytics approach, the team identified the selling

behaviors of the top performers among the Unilever sales staffs, as well as the methods and tools producing the best results. Those approaches and assets were then embedded into new training and coaching experiences. A robust measurement process was applied to isolate and track the impact of the solution.

Within three months of deploying the program, the campaign had produced a significant boost in annualized sales. The program also contributed to a boost in morale among sales representatives. Jonathan Donner, Unilever’s global chief learning officer, says, “This is a great story about expertise applied in a focused way to deliver a real business result.” Based on the success in China, Unilever is now delivering a similar capability development program for its sales force in Russia.

## Discovering hidden insights

A second critical area where analytics can deliver greater value as part of a business process outsourcing arrangement is in generating additional insights by tracking data across different parts of the organization. Such a capability can deliver a variety of benefits. The integration of data sets from separate functions can optimize results or help balance apparently competing or contradictory objectives.

A common example is the balancing act companies face in reconciling the needs of the procurement and finance organizations. A procurement professional is going to push for early payments to get discounts from suppliers. But a finance professional is going to want to hang on to cash as long as possible. How can both sides of that equation win?

The answer is that they cannot—not exactly. But with an analytics capability in place as part of an outsourcing arrangement that bundles procurement and finance, a company can be assured of finding the precise point at which the benefits on both sides of the equation are balanced, helping to generate as much business value as possible by improving cash management.

BPO analytics can also help identify parts of a finance, accounting or procurement organization that are not in compliance with standard procedures—areas where cost savings can be generated by improving the ability of disparate parts of a company to operate according to standardized procedures.

**BPO analytics offers distinctive value by helping companies manage data—from the front office, the back office or both—in such a way as to generate innovations or improve time to market to increase revenue.**

Consider Microsoft, where business growth in recent years has been fueled in part by granting a high degree of autonomy to subsidiaries. An unintended consequence of that operating model, however, was a considerable fragmentation of the company's finance, accounting and procurement functions.

Most of the company's subsidiaries managed those functions independently, resulting in duplicated efforts, as well as inconsistent processes and performance. Accounting transactions were recorded separately across more than 90 subsidiaries, each assisted by different local vendors. The lack of a centralized procurement function meant that purchase orders could be created by almost anyone, resulting in varying degrees of accuracy and compliance with government regulations and corporate guidelines.

Such fragmented, non-standardized processes resulted in added costs, reduced efficiency and more time spent on non-strategic activities. With pressure on both margins and top-line growth, Microsoft saw a clear need for a more centralized, consistent and efficient approach to finance, accounting and procurement.

The company has achieved this goal through an outsourcing arrangement that bundles finance processes with the procurement function. This has helped the software giant develop a centralized procurement capability focused on standardizing policies, improving the accuracy of purchase orders and driving a global, category-based approach to sourcing.

It's the BPO analytics dimension, however, that has especially helped Microsoft boost efficiency and drive continuous improvement. For instance, analytics embedded in payment processes have helped the company identify non-compliant spending—groups that were buying

from non-approved vendors—as well as other categories of spending that could be made more efficient by being brought under master contracts.

The centerpiece of the analytics effort was the creation of what the company called a Controller Workspace, an analytics and reporting tool providing clear, up-to-the-minute data on regulatory compliance and the status of the monthly close, as well as timely alerts if problems were identified.

By increasing the transparency of processing—complete with real-time scorecards on compliance and execution performance at each subsidiary—Microsoft has been able to improve compliance and, perhaps even more important, the speed and accuracy with which it closes the books each transaction period.

### **Reducing risk**

BPO analytics can also deliver important benefits in the area of risk mitigation. Indeed, greater insight across related business functions and processes might have prevented some of the high-profile product recalls that have plagued several industries in recent years.

Here's an example. If you're a manufacturer and you want an early warning sign of problems back on the factory floor, you're going to need to look at warranty transactions—how many customers are returning products and for what reasons. Surprisingly, however, many companies do not link warranty management to manufacturing in a way that would enable predictive analysis of related data. So if auto dealers are seeing a sudden increase in warranty repairs for a particular car part, the necessary alerts to manufacturing may not happen for several weeks.

With an outsourcing arrangement, on the other hand, the chances are far greater that such integration is already

in place. An engineering outsourcing service provider knows that it needs data from warranty management to help improve the efficiency of the manufacturing services it is providing. By integrating the warranty system with the engineering design system, companies and their providers can receive timely information from customers, analyze the data, locate design failures faster, and then execute a rapid redesign and get the product back into production.

That means retooled products can continue to be manufactured and sold, so sales do not suffer. It also means companies can reduce their warranty costs. Above all, it reduces the risk of a damaged brand name.

The customer call center is another area where critical data is generated every minute of every day. With a predictive analytics capability embedded in an outsourced call center function, contact center professionals can look up and down the supply chain, see and fix potential problems, or even spot new sales opportunities.

Consider this scenario. A call center manager is alerted to a spike in call volume and customer complaints. Examining the detailed report, the manager sees that call volumes are clearly rising during periods when customers typically report missing or late deliveries. Looking at another report, it becomes evident that most problem deliveries are related to backlogs with a particular supplier.

Another few clicks on additional reports, linking the manager into the finance and procurement system, reveal one potential issue: The supplier has recently been moved from a 30-day to a 90-day payment term schedule. Armed with this information, the call center manager can then consult supervisors about how best to handle the situation. The third area where BPO analytics offers distinctive value is in helping companies manage data—from the front office, the back office or both—in such a way as to generate innovations or improve time to market to increase revenue.

## Innovations to drive revenue

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For example, one major company in the health and life sciences industry has established an outsourced center for “pharmacovigilance,” defined by the World Health Organization as “the science and activities relating to the detection, assessment, understanding and prevention of adverse effects or any other drug-related problem.” The testing component of pharmaco-

vigilance is an especially vital step in new-drug development, tracking millions of data points to monitor the potential adverse effects of the compounds being studied.

The distinctive advantage of the outsourced pharmacovigilance center is a one-to-many model for analyzing adverse events. Companies get improved access to leading-edge drug safety IT systems and processes while controlling costs. The analytics platform gives multiple companies access to enhanced drug safety insight through a shared database without compromising the privacy and security of individual companies’ data.

## For further reading

"Agile IT: Reinventing the enterprise," *Outlook*, June 2010

"Industrialize and innovate," *Outlook*, February 2010

The outsourcing approach to providing pharmacovigilance capabilities has enabled the company to increase productivity by as much as 40 percent. The outsourced analytics capability has enabled the company to collect and analyze data faster, shaving significant time off the approval cycle, more readily identifying drugs with no marketplace potential and getting approved drugs to market faster.

### Hard to duplicate

Is an outsourcing arrangement the only way to make business process analytics effective? Certainly not. But the foundation of data and process industrialization upon which an outsourcing provider works is hard to duplicate using internal resources alone.

Our colleague Jeanne Harris, in her book *Analytics at Work*,\* has identified four particular capabilities that cross all the dimensions of BPO analytics discussed here.

The first is process optimization. In most cases, enabling a process with analytics does not involve creating a new process from scratch but rather altering an existing one. At the beginning of an initiative to reengineer or redesign a business process, it's important to measure baseline process performance first and even run the new process in parallel to the old one for a time, to refine the new process and measure its performance and value. Because of the scale,

state-of-the-art technology platforms and global footprint available to companies through a BPO arrangement, they are usually significantly better positioned to run these kinds of multi-modal operations combining the old and the new in parallel.

A second capability is modeling. If a company is going to industrialize any process—that is, make it more rigorous and repeatable—it's important that the rules, assumptions and algorithms of the model are correct. Special skills are generally necessary—skills that are in short supply at many companies but usually present in abundance through a BPO relationship, because they're central to the provider's industrialized operating model.

Third are information systems capabilities. It is critical to integrate and test new systems and interfaces that accompany an analytics program. So the systems integration capabilities within the overall BPO functionality are particularly important to delivering on the promise of embedded analytics.

And finally, the human dimension: When it comes to implementing an analytics capability within a business process, the greatest challenge is often the human one. It's important to have the right mix of automated and human decision making—and the outsourcing provider is often already adept at delivering on that kind of mixture.

Companies that effectively use an outsourcing relationship to embed analytics into their business processes have an opportunity not only to reduce costs and improve process efficiency but also to generate the insights that can lead to market breakthroughs faster and with greater assurance. Outsourcing providers gain enormous insight into the way a client company works, at extremely detailed levels. It would be a missed opportunity if organizations failed to use those insights for competitive advantage.

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