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This article appears in
the February 2010 issue of

Outlook

The journal of
high-performance business

Outsourcing

Industrialize and innovate

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Outsourcing has succeeded because of its ability to reduce risk, drive standardization, increase productivity, and improve reliability and predictability—in other words, its ability to industrialize an ever-increasing range of business activities. Having honed its skills in the IT function, industrialization is now redefining the outsourcing of services and business processes.

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Industrialization.

It isn't a pretty word, especially when spoken in the same breath as "services," a word that carries connotations of customization and a personal touch. After all, "industrialization" shows up for work not in a business suit but in a pair of overalls. But then, when applied to the outsourcing of services and business processes, that's precisely the source of its value.

The industrialization of any activity represents a relentless drive to discover the essence of how that activity is optimally done, and then to do it in exactly the same way every time. It breaks a task or capability into smaller components, optimizes them, eliminates redundancies, automates and standardizes wherever possible, and then drives the work itself to the most cost-effective and competent workforce available. The result is that companies get to mitigate the biggest threat to a business: the unknown.

Outsourcing has succeeded because of its ability to reduce risk, drive standardization, increase productivity, and improve reliability and predictability within the domains it touches. In other words, where outsourcing has been successful, it has been so because of its ability to industrialize assets, capabilities, functions and tasks.

Today, a number of business leaders are finding that outsourcing is entering an exciting new realm—the management of business processes and the advancement of efficiencies in the short-cycle services industry. In addition to the other advantages offered by industrialization, this latest phase of outsourcing will create more agile businesses that will be able to innovate even more predictably.

Many outsourcing pioneers discovered that the early phases of industrialization—focused primarily

within the IT environment—delivered impressive results initially but then sometimes hit a wall in terms of ongoing performance improvements. Breaking through that wall has required following outsourcing's natural course of evolution, from IT to processes to innovation.

One global company in the life sciences industry has seen this evolution of industrialization play out during the last decade, as it pursued an ambitious, multiyear effort to increase the efficiency and effectiveness of its global operations through a standard global delivery model supported by comprehensive outsourcing services. The first stage in the industrialization of those operations came with a global shared services strategy, consolidating common IT and business back-office functions at regional delivery centers.

The focused expertise

Shared services is often the first step an organization takes when it comes to the industrialization of IT activities (such as application development and maintenance) as well as such business processes as finance, procurement and human resources. The shared services approach enables a company to build centers of expertise focused on common functions—people doing the same tasks the same way—improving the way tasks are executed, and performing them the same way every time, picking up speed in the process.

Eventually, however, the amount of value delivered to a company through shared services can stagnate unless it looks to additional efficiencies and ways to improve the performance of the functions under common management. This is a phenomenon Accenture refers to as "value redistribution."

The best thing a company can do when the growth curve of value creation levels off is to redistribute

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the activity—give it to another entity, which then can both deliver and derive additional value from the same activity. Accordingly, when the value of a pure shared services approach begins to level off, many companies redistribute the value by moving from shared services to an outsourcing arrangement.

At this life sciences company, for example, the value generated from the shared services approach eventually could not keep up with the company's business performance and cost reduction targets. As one of the company's executives remarked, "We had reached a plateau in our ability to drive our unit costs lower and began looking at how we could leverage a global workforce to help us do that."

To reach the next level of benefits available from industrialization, the company looked for an outsourcing arrangement for the common functions being managed via a shared services model.

Extending the reach

As it considered an outsourcing approach, the company looked to extend the reach of the industrialization principles that had been focused to that point primarily within the IT shop. Accordingly, the company bundled the outsourced management of a set of its IT applications along with selected processes within finance, accounting and other related business functions. This bundled approach delivered additional cost efficiencies and also enabled greater synergies between the performance of the relevant processes and the underlying IT infrastructure.

This is a key lesson about industrialization: Although standardization is very important, it is not the whole picture. Using standardized production methods, a company

could make the very best concrete lifejacket in the world—faster, cheaper and better—but it obviously wouldn't have any practical value.

In much the same way, a company can standardize IT infrastructure and applications using a one-to-many platform or through rationalized technologies. But unless standard technologies are aligned with the correct business processes, the standardization does not produce sufficient business value. True industrialization goes closer to the heart of the matter—taking a company beyond "standard" work to efficient and effective work.

Critical alignment

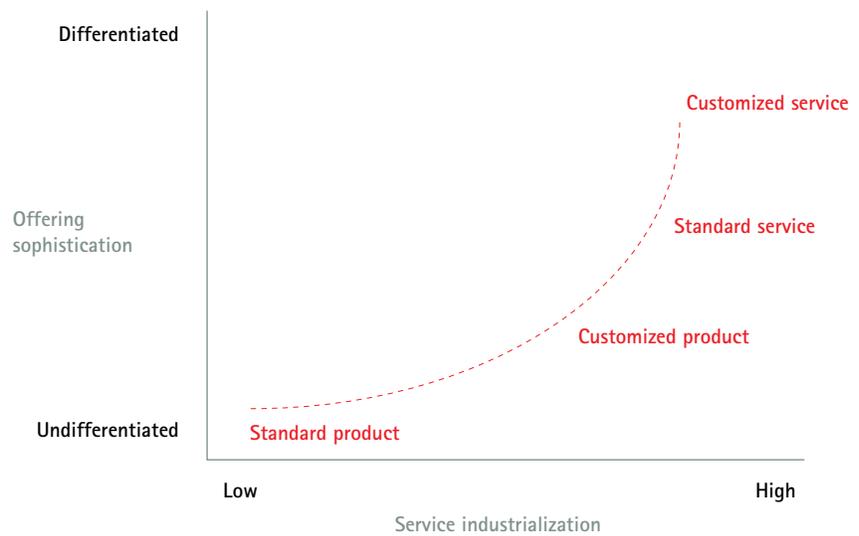
One way that industrialization can increase its impact on the business over the course of an outsourcing arrangement is the migration of work to lower-cost locations. In the case of the life sciences company, as IT performance became increasingly industrialized, the company was able to move greater percentages of work to offshore delivery centers.

More generally, the industrialization principle involved here is aligning the right people—those with the appropriate skills and experience at the right price point—with the right work. For example, application development can take place in a part of the world where the most appropriate resources exist, while accounting or HR can take place in another region.

This alignment of the right work with the right people was also a key factor in telecommunications company BT Group's successful outsourcing program in the finance and accounting area. As BT sought to leverage greater value from an industrialized approach to finance operations, the company worked to come up with a new, common finance operating model that would drive better business results. The new model was designed

Sophisticated and differentiated

Industrialization principles were developed first in the product manufacturing environment. Over time, those principles have been enhanced and extended to enable more sophisticated, customized and lower-cost services and business processes.



Source: Leslie Willcocks, London School of Economics, 2009

to more effectively support world-wide centralization of the company's finance and accounting activities, and the consolidation of disparate teams into centers of excellence based on core functional activities.

The result was more consistent, predictable performance, with increased visibility into end-to-end finance processes, including the ability to analyze and measure complete finance processes, not just parts of them.

Self-service

The best outsourcing solutions use industrialization principles to improve the level of service to clients both internally and externally. For example, HR outsourcing now can embed repeatable processes into HR systems so employees can get the information they need, when they need it, through self-service capabilities. Tiered layers

of help-desk support can then be reserved for less common activities and less frequently asked questions.

For example, when BC Hydro—one of the largest electric utilities in Canada—outsourced HR and customer care, service to external customers and internal clients improved dramatically. BC Hydro was able to increase by 31 percent the number of calls resolved through self-service telephone voice-response capabilities, thereby reducing the cost of service. Average call handling time was reduced by approximately 35 percent during the initial six-month period, while at the same time, customer satisfaction improved. Innovative solutions implemented by the customer care delivery team have resulted in external customer satisfaction levels reaching record highs—above 90 percent as measured by an independent third party.

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Improving business agility

By its very nature, an outsourcing solution improves the agility and responsiveness of businesses to market conditions because of the variable cost structure at the heart of the deal. Workforce resources and technology capabilities can be scaled up or down as needs ebb and flow. If a particular marketing initiative or business strategy causes a sudden increase in customer contact activity, for example, companies can quickly leverage experienced resources, without the need for recruitment or lengthy orientation and training times.

But more specific industrialization principles also help a company be more agile. Remember that a basic principle of industrialization is to break down a process or activity into its basic components, and then optimize performance within each of those components. What this means is that industrialized outsourcing solutions are anything but “one size fits all.” In fact, solutions configured for unique needs can be put together rapidly precisely because the overall process has been effectively calibrated within each component.

It’s like playing with building blocks. You’re not fashioning the blocks from scratch; they have been created based on hard-won experience and analysis about the standard parts that go into a solution. What you are creating is a configuration of those blocks that’s right for your needs. And when those needs change, you can be flexible and fast to respond simply by reconfiguring the blocks for a new, changed environment.

Bundled outsourcing solutions can be particularly effective in creating better organizational agility, particularly in the finance area. Accenture has seen instances in which outsourcing has enabled a company to make acquisitions more readily and also help with the divestiture and initial public offering of business units.

But just how does industrialization work exactly? The companies that have been most successful in driving business value through industrialized outsourcing of business processes have leveraged the following principles.

Apply lean and Six Sigma principles to the services environment

One of the distinctive—and challenging—dimensions of a business process outsourcing environment is that the sense of a single organization owning the entire business process goes out the window. The client company owns some of it, the outsourcing provider owns some, and there might also be other vendors involved at other points. Being able to take an end-to-end view—and then optimize the workflow and handoffs across all dimensions—is therefore a key to success.

Consider something as apparently simple as processing an invoice.

The client organization receives an invoice; the outsourcing provider scans and indexes it, checks to see if it’s a valid payment, sends it back to the client’s retained organization; the company approves it, puts the funds in place to cover the payment. When this many handoffs occur for a single process, there are opportunities for delay and error. But there are also opportunities for operational excellence and greater efficiency.

The majority of companies do not spend the time or money to look in detail at the efficiency of their

non-core business processes. An outsourcing provider, however, can give these kinds of processes an end-to-end review and apply so-called “lean” principles and Six Sigma approaches to drive time and waste out of all the handoffs, and to eliminate needless variations when they occur.

The lean principles provide tools for analyzing process flow and delay times for each activity in a process. Six Sigma brings to the table a comprehensive set of quality tools under an overall frame-

work for effective problem solving based on hard analytic data.

The results can be truly impressive. When a company begins to work with an outsourcing provider for business functions and processes, it is not uncommon for it to discover that it has been realizing an on-time delivery rate of only 30 percent to 40 percent. In a few months, that number can rise above 95 percent. The results in terms of cost take-out and improved service can be dramatic.

To innovate, get the noise out of the system

As their outsourcing relationships become more collaborative and strategic, increasing numbers of companies are asking their providers to deliver innovation and business advantage, not just efficiency. What needs to be understood, however, is that in an outsourcing environment, innovation is actually rooted in industrialization.

The inefficiencies in processes and functions—redundancies, delays, performance issues, multiple operating models and the like—constitute “noise” that has to be eliminated if the voice of innovation is to be heard. If a company can get the operating environment stabilized

and running optimally, it can look beyond today’s urgencies toward the innovations of tomorrow. It will also have savings generated by those efficiencies that can be plowed back into making new ideas actionable.

At travel company Thomas Cook Group, for example, the desire to drive continuous improvement through its outsourcing arrangement (a bundled multifunction solution) was so important to company executives that they wrote a clause into the contract specifying the provider’s responsibilities to provide ongoing innovations—and to be measured in part on such contributions.

Focus on what's common, not only what's different

Often, the biggest sticking point that companies face internally as they move to adopt advanced industrialization principles is the belief that their operations are somehow different from the norm. Certainly there are aspects of any organization that are functions solely of its

own thinking, goals and operating modes. But the key is not letting those pockets of uniqueness get in the way of improving those parts of the business that really can benefit from solutions and approaches that have been tested in the fires of experience with multiple companies.

Within the IT function and business processes of any organization are things that are unique and things that are common. Industrialization lets a company use common approaches where those are workable, and particular ones where those are appropriate. But again, just because

a solution (or part of a solution) is custom-built doesn't mean it can't be industrialized. As noted, the component-based design of a good outsourcing solution means that industrialized, common pieces can be put together into a custom, even unique, solution.

Look at the outputs, not the inputs

Where outsourcing arrangements have produced less-than-optimal results, it's frequently because of a failure to adjust to the need to measure success based on outputs (results, outcomes) and not inputs (the way the outsourcing provider achieves business results).

Consider what someone inexperienced in package shipping might say if he or she tried to manage a shipping company's inputs instead of its outputs—which, in this case, would be a package delivered overnight, on time. Someone in Chicago shipping a package 100 miles north to Milwaukee might well wonder why the package was being routed 500 miles south through Memphis, Tennessee. In fact, the leading overnight shippers have industrialized the process, and know that by using their central

hub in Memphis, they can move packages faster, at lower cost.

Executives often need to change their management mindsets when working with an outsourcing provider. If they try to stay "down in the weeds" and manage the inputs—every detail of how the process is delivered—they may simply add more noise to the system and disrupt an otherwise smoothly flowing industrialized process.

The answer to the problem of managing inputs is simply stated but sometimes difficult to achieve: trust. The establishment of trust is essential to driving greater value from industrialization. An outsourcing provider that has delivered successfully and built up trust then can manage its own inputs, focusing on its own incentives to meet deadlines while keeping costs low.

For further reading

"Outsourcing: A new value proposition," *Outlook*, October 2009

"A bold new source for global sourcing," *Outlook*, September 2007

"Jobs, profits and patriotism," *Outlook*, September 2007

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Trust the process, not only the people

A final point is related to the preceding one. What a company relying on an outsourcing provider really needs to do is become convinced of the reputation and qualifications of the provider's industrialized model, not simply the personalities who designed or are implementing the model. It's important to trust the process, in other words, not just the people.

Many companies become overly dependent on the people running their critical processes: Sally, who's been doing payroll for 28 years, or Joe, who wrote that important application in the 1980s and is the only one who can fix it when it breaks. Industrialization doesn't make Sally and Joe any less important; it just makes their expertise generally available and puts it into the process itself.

In his seminal 1976 piece on the industrialization of business services, the late Harvard Business School professor Theodore Levitt indulged himself in a bit of extravagant prose when describing the benefits of industrializing the non-goods-producing sector. His observations are no less keen, however, even three decades later.

It is the industrialization of activities long believed to be inaccessible to management, Levitt wrote, that has produced so much low-cost abundance in the manufacturing sector of advanced economies. “Thus,” he concluded, “to recognize and understand this phenomenon for what it is in practical terms is to introduce a potentially emancipating new cognitive mode and operating style into modern enterprise.”

Put more simply, industrialization is forcing executives to look with more penetrating insight into their operations and processes. It’s making them see and think differently. Business value is being produced in slightly different ways. That which can be made repeatable and predictable needs to be made so, leaving the considerable space that remains as the foundation from which to innovate and grow.

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