

Core

values

Increasingly, companies are peeling off operations not central to the day-to-day running of their business and outsourcing them to gain an edge.



Shifting one or more **business tasks** to a **third party— things** like payroll, processing accounts receivable,

or administering claims for an insurance company—is certainly nothing new. In business parlance it's known as business process outsourcing, or BPO. Are many companies doing it? You'd better believe it, and the business is growing at a torrid pace. Atul Vashistha, CEO of neIT, a San Ramon, Calif.-based outsourcing and offshoring advisory firm, predicts that companies in the United States, Western Europe, and other developed countries like Japan will more than double their BPO spending over the next few years, from \$19.8 billion in 2005 to \$42.2 billion by 2008.

Vashistha, one of the authors of *The Offshore Nation* (McGraw-Hill), is quick to point out that this is much more than just another business trend. "It's all part of services globalization that has become a strategic component for many of today's successful businesses," he says.

KEY NEW DRIVERS

This globalization of services is not only affecting how companies approach their business processes, it's also impacting how they drive efficiency into the way they manage their physical assets, says Frank MacInnis, Chairman and CEO of EMCOR Group, Inc., which was recently named to the International Association of Outsourcing Professionals (IAOP) *Global Outsourcing 100* as one of the world's top outsourcing service providers. "While executives continue to be extremely focused on improving organizational efficiency," MacInnis says, "they recognize that there are a few important new drivers in today's challenges, especially increased global competition and the effects of commoditization, energy costs, and interest costs."

EMCOR builds, services, and maintains facilities for companies in virtually every market sector, including biotechnology and health-care, commercial and industrial real estate, education, entertainment/hospitality, financial services, manufacturing, technology, and transportation, as well as for public and government entities. For the company to deliver the value its clients need, it had to learn to leverage not only the knowledge it has acquired by maintaining more than one billion square feet of real estate worldwide, but also the leading-edge insights it has gleaned as one of the world's largest electrical/mechanical construction companies.

"We've developed a formal structure for capturing

and sharing the knowledge gained from thousands of projects that involve working with the latest innovations, including energy-saving technology," says MacInnis. "Customers don't have to ask us to investigate new systems to see how they might be used. We're actually already working with them somewhere."

Thanks to such continual learning and the sharing of global knowledge, Vashistha and other experts see BPO as entering a new phase: its next generation, if you will. This next wave, they say, will be characterized by three key new ingredients: integration, digitization, and standardization. N. Chandrasekaran, executive vice president in charge of global operations and sales for Tata Consultancy Services (TCS), the Mumbai, India-based leader in business process outsourcing, information technology, consulting, and engineering services, puts it this way:

"It's the integration of these business processes and the technologies that support them that allow companies to digitize their operations. This digitization enables globalization where the work can be matched to the availability of talented people, wherever they are. By creating standardized platforms for doing the work and then charging clients on a per-unit basis, providers like TCS can create what is essentially a reliable, cost-effective business process utility that our customers can plug into."

RESHAPING THE LANDSCAPE

TCS has pioneered the adoption of flexible global business practices that enable companies to operate more efficiently and produce more value. Along the way it has created a high-value concept known as the "Global Delivery Model," a strategic service that is reshaping companies and industries worldwide.

One of TCS's customers is Pearl Group Ltd., a U.K.-based life insurance firm with two million customers and \$55 billion (£30 billion) of assets. Under a recently signed 12-year, \$847 million agreement, a newly formed TCS subsidiary will take over administration of the Pearl Group's four million policies, provide finance and accounting services, and manage the company's day-to-day human resources activities. For starters, TCS has assumed the Pearl Group's back-office operations, including providing 950 of the insurer's employees. Over the term of the agreement, TCS will migrate the

work to standardized application platforms and leverage its global services delivery capabilities. According to Jonathan Moss, managing director of life services at Pearl Group, "This is a new chapter in Pearl's history and it is good news all around for customers, shareholders, and staff. The new arrangements provide certainty over a major portion of the cost basis well into the future."

The U.S. Navy's Northwest Fleet Operations unit has entered into a similar relationship with EMCOR, convinced that the company will help it "move forward by creating more efficiencies in how we do business," says Rear Admiral William French, Commander, Navy Region Northwest. Under an eight-year, \$400 million contract, EMCOR will help streamline the Navy's management and administration, visual information services, security, facilities support, utilities, equipment maintenance, and environmental services. "It's an important initiative that we're proud to be part of," says EMCOR's MacInnis.

FOUR-STEP PROCESS

Despite dramatic advances in BPO, the field has a long way to go. "The potential for the kind of benefits BPO provides is real, but not every company is looking at services globalization as a part of its overall corporate strategy," warns neOLT's Vashistha. "Companies need to ramp into it through a four-step process of knowledge, planning, sourcing, and management." Pearl Group's Moss agrees: "This is very important protection for policyholders because over the long term the net cost per policy will be maintained at competitive levels."

The belief that outsourcing needs to be approached

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as part of an overall corporate strategy was also the conclusion of a recently completed membership survey by the IAOP, based in Lagrangeville, N.Y. "We found that 67% of organizations still approach BPO opportunistically," says Chris Disher, study leader and a vice president at Booz Allen Hamilton.

Bottom line: Outsourcing may still be in its formative stages, and the decision to go outside the company may often be made on an opportunistic basis, but sophisticated BPO skills are rapidly being developed, and the sharing of expertise is likely to become the norm very quickly. "In the end," says MacInnis, "we're not only creating efficiencies in the areas we specialize in for our customers, we're also enabling their management to focus on their core business."

—Michael F. Corbett

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