

Is procurement BPO right for your organisation?

Shaping the Future – Challenges in Procurement BPO

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This is a deceptively complex question that demands a thoughtful answer. The potential benefits of procurement BPO certainly offer enough justification to warrant a serious review of whether an organisation can realise improved cost savings, greater efficiencies, and higher service quality. This review should adopt a sober and well-informed approach, however. Despite claims that procurement BPO is a low risk / high return proposition for many organisations, there are plenty of reasons to proceed with caution. These include:

- **Continued Market Immaturity:** The procurement BPO market is in the early stages of development, and there is a surprising lack of consistency among analysts regarding how big the market currently is. A popular belief among analysts is that significant growth in the number and size of deals is at hand, but this moving target has been predicted for several years now. Actual growth has disappointed and the market continues to try to find its footing.
- **Crowded Set of Providers:** There is a wide range of providers trying to establish themselves, from large consulting firms with a broad portfolio of services, to niche providers focused exclusively on outsourcing specific tasks. The suitability of a provider's current and expected capabilities to an organisation's current, and potentially variable, requirements is not a formulaic exercise.
- **Changing Set of Providers:** There is an ongoing churn among the providers in the market, with ongoing acquisitions (for instance, Intersources, Procuri, Prosero), new entrants (for instance, HCL, Genpact, and Wipro), and reorganizations or divestitures (for instance, Accenture and Ariba). With so much change among the providers it can be difficult and potentially risky for an organisation to confidently sign a long-term agreement with any one provider.
- **Variety of Delivery Models:** No dominant service delivery model has evolved for procurement BPO. Some providers require their customer's to transition to the provider's delivery platform, while other providers deliver on the customer's existing platform. Some providers focus on transactional procurement, while others focus on strategic consulting. Selecting a procurement BPO provider involves developing a clear understanding of each provider's evolving delivery model and determining which model is most appropriate to meet the desired requirements.

In such an environment, organisations are well-advised to be thorough with their due-diligence. It is critical to understand not only the changing landscape of the provider market, but also evolving internal requirements.

What to Expect in the Evaluation Effort

There are several critical points that should be considered by any organisation which is serious about evaluating the procurement BPO market. These are:

i. **Importance of Vetting Providers**

Organisations must be extremely diligent in the review of provider capabilities and financial strength. The abundance of providers in the space and the disappointing deal volume means that some providers are struggling now and others will too if the market continues to grow slowly. There is a very real possibility that some of the providers will be faced with business disruption. In the worst case, this could mean the failure of the provider's business or acquisition by another market participant. In less serious cases, the loss of critical staff and a drop in the quality and consistency of the services delivered could be a direct result.

Researching providers is made difficult by the fact that some of the providers are privately held and limited information about their procurement BPO business is readily verifiable. Other large providers may have a variety of business lines and it is difficult to separate what resources apply to their procurement BPO capabilities.

ii. **Possibility for Provider Reluctance**

Procurement BPO sales cycles tend to be lengthy, expensive, and often result in a "no decision" by the customer. As a result, providers are getting more aggressive about bowing out of opportunities where they believe the customer is either not committed or considering too many candidates. Organisations may have to go out of their way to convince providers to participate in a selection process, and should expect to give all the short-listed providers a fair amount of face-to-face time. If a provider believes that an organisation is merely collecting market information in order to bolster a decision to deliver the services internally, the provider will likely disengage from the process.

iii. **Flexibility in Structuring a Deal**

The lack of material momentum in the procurement BPO market has made several providers more flexible in structuring their customer contracts. It is a buyer's market, and some providers are willing to be extremely accommodating in order to win a deal. Organisations can reasonably expect to have leverage in negotiating the scope of services delivered, commitment period, out clauses, pricing levels, pricing structure, governance rules, and performance targets. The downside to this environment is that in the provider's haste to close a deal regardless of the consequences, the provider may over promise and under deliver.

iv. **Variety of Deal Scopes**

Based in part on the disappointing momentum in the market, and also in an effort to shorten the long sales cycles, some providers are more willing to take on smaller deal sizes, representing a narrow scope of delivery, and for a shorter duration. Not all providers are taking this approach, however. Some providers are focused on pursuing large procurement transformation programs in conjunction with procurement outsourcing. Many providers also want to build their expertise in managing large, multi-function BPO deals that include a range of BPO services.

v. **Numerous Pricing Models**

There continues to be a wide variety of pricing options available in the market. In many cases there will be a fixed upfront fee plus a monthly service fee. This monthly fee can be based on a variety of factors, including the number of transactions, the number of full time equivalents, or the value of spend under management. Some providers are quite aggressive in promoting risk-share pricing, although it can be tricky to establish the appropriate baselines that determine when risk share payments to the provider should be triggered.

The fact that many Procurement BPO evaluations involve unique elements only reinforces the need to have a solid evaluation strategy and experienced evaluation resources. Equipped with the right resources, an organisation can gain deeper insight into the market and more fully address the concerns of all constituents.

Some of the more commonly cited reservations about procurement BPO include:

1. Uncertainty that a provider can actually deliver on its promises.
2. Dilution of internal control.
3. Concern over the provider's financial viability.
4. Anxiety regarding how internal staff will be affected.
5. Lack of understanding about the options considered in the evaluation process.
6. Poor experiences with past procurement initiatives.
7. Limited public success stories to generate internal enthusiasm.
8. Problematic change management effort with users and suppliers.
9. Loss of tactical functions limiting an organisation's ability to develop internal talent.
10. Confusion regarding the scope of services the provider will deliver.

Facts and trends in procurement BPO can be difficult to discern

Analysts following the space can be unduly influenced by the marketing message of the providers serving the market, and have shown a tendency to be overly optimistic in predicting the timing of the expansion and the rate of growth of the procurement BPO market. As a result, it is often difficult to separate reality from fancy. EightyTwenty Insight advisors have experience as providers, analysts and consumers of outsourcing services. As a result, we are uniquely positioned to tell the whole story regarding the industry. Our advisors have seen what makes outsourcing engagements succeed and fail at all points in the engagement lifecycle.

It should be remembered that procurement BPO is not the right solution for everyone. Properly determining whether procurement BPO is right for an organisation requires a thoughtful and informed evaluation. It is important that you clearly understand not only the provider's business model, delivery model, resource management model, and business objectives, but also the customer's objectives, existing capabilities, current processes, available data, and concerns of affected constituents.

EightyTwenty Insight will deliver a fact-based and thorough assessment of the options the company can pursue, and the tradeoffs associated with each. If a procurement BPO engagement is not the optimal solution, we are available to help implement alternatives, including process reengineering, technology adoption and staff realignment. If, however, an organisation decides to pursue a procurement BPO engagement, we are prepared to provide support throughout the contract.

Whilst there is no magic recipe that will guarantee success, there are several critical factors that EightyTwenty Insight will deliver to improve the chances of success;

1. **Prepare:** *Aligning Objectives with the Provider.*

BPO deals are typically long term arrangements and they require close and effective working relationships in order to be successful. A BPO provider is essentially an extension of the customer's internal team. EightyTwenty Insight will work to ensure there are both a healthy cultural alignment and a trusting relationship between the parties. This includes establishing open and regular communication and a clear mutual understanding of objectives, obstacles, and resolution requirements.

2. **Create:** *Defining and Optimising Processes.*

Procurement BPO works better when a customer's processes are defined and accurate data is available. Some customers may be tempted to outsource the delivery of problem categories that are lacking standard processes, but an outsourcing engagement is not sufficient to fix fundamental process flaws or data gaps. EightyTwenty Insight will ensure that the delivery processes and required data for the outsourced services are well defined prior to handing the service over to the vendor.

3. **Implement:** *Securing Internal Support and Adoption.*

If all of the internal constituents within the organisation are not committed to support and utilise the new provider, the program's success will be jeopardized. EightyTwenty Insight will help to ensure that internal teams are interacting with the procurement BPO function in the correct manner, and that internal users are taking every advantage of the service.

4. **Transition:** *Establishing Strong Governance.*

In the course of any outsourcing engagement, issues will crop up and a thoughtful and well-supported governance plan will allow both the provider and the customer to deal with any roadblocks as they arise. Despite any current convictions that requirements will be stable over time, there will undoubtedly be unexpected changes to processes, delivery scope, delivery scale, dependent tools, and data. EightyTwenty Insight will ensure that there is a strong governance process so issues and potential changes can be addressed in an equitable manner.

5. **Transform:** *Assuring Provider Innovation.*

Providers should not be perceived as just order fillers, nor should they focus all of their innovation efforts around reducing their own cost of delivery. EightyTwenty Insight will work with the customer and the provider to promote ongoing innovation by the provider that will benefit the customer.

6. **Perform:** *Validating Savings.*

After a few years, the baseline to measure savings can become hazy. This becomes particularly problematic when there is internal pressure to justify the cost of outsourcing, or when some portion of the provider's payment is based on risk sharing. EightyTwenty Insight will provide an independent validation of achieved savings throughout the engagement.

Embarking on a Procurement BPO evaluation can be a challenging time for any organisation. With a sound evaluation methodology, an unbiased perspective, and a well-informed understanding of the potential benefits, costs, and risks, organisations can make value-creating decisions more confidently and execute those decisions more effectively.

About EightyTwenty Insight

EightyTwenty Insight, the sourcing advisory company, creates business value through delivering innovative sourcing solutions on behalf of its clients. It is renowned for being:

- Strategy-led: starting with the end in mind.
- Expert-driven: lean, fast and focussed on what matters.
- Methodology-enabled: but not prescriptive.
- Enabling & empowering: by transferring knowledge, skills, tools & methods.

We understand the pressures organizations face today and the importance of a tailored approach - one that builds lasting relationships and works with your team to provide the best solution. EightyTwenty Insight was formed to provide this more sophisticated approach. We provide sourcing advice to the public and private sectors across all process areas including human resources, information technology, finance & accounting and procurement.

With EightyTwenty Insight, organisations (multinationals, nationals, public and private) are able to navigate their way through market diversity, a crowded set of providers and the complex delivery models available to them. EightyTwenty Insight prides itself on its expert staff, the experience-rich methodology it uses, our ability to think about tomorrow's needs as well as today's and the empowering way in which it transfers knowledge and skills to its clients.

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