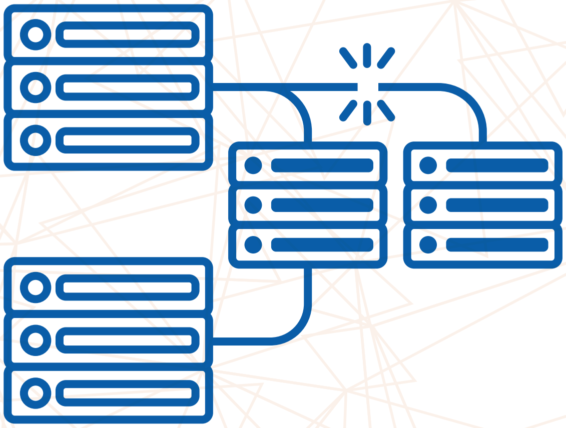
Top 5 Mistakes When Choosing a BPO Partner

US: +1 808 675 6310 PH: (045) 499 5164
2432 Sonoma Street, Honolulu, HI 96822
www.connext.solutions

Over the last 15 years of building and managing outsourced and offshore teams for midsize businesses, we have seen a recurring set of common mistakes. Careful consideration of the lessons learned will help businesses avoid these pitfalls and deliver more successful projects. These lessons apply whether working with a business process outsourcing (BPO) partner, building a captive offshore team, or building a centralized shared services organization. In order of importance, they are:

1) Lack of clarity about objectives
2) Unaligned incentives
3) Not understanding costs, both internally and for the partner
4) No ongoing management and oversight plan
5) Lack of process clarity

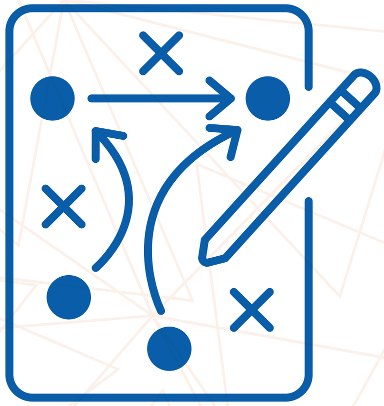
There are two significant consequences of not learning from and understanding these mistakes. The first is choosing a model that does not fit the business, the second is not properly manag-ing the team and partner. Most Connext clients have previously had unsuccessful and frustrating experiences with "outsourcing." That is not be-cause the partners were bad, rather, the model was not properly structured and managed.



For example, motorcycles, sedans and pickups all enable transportation; however, the low-cost motorcycle will fall apart when tasked to transport three passengers. The sedan was built to accommodate a larger number of passengers, while the truck is best for taking a load to the landfill. None will work if not properly fueled and maintained.

This paper is intended to help readers think through the processes and issues of tran-sitioning business tasks to third parties, regardless of location and business model.

Lack of Clarity About Objectives



As with many things, it is important to spend time up-front explicitly defining what a company wants to accomplish by building a remote team or outsourcing services. Business strategy is about aligning multiple operational aspects of the business. Think of Southwest's original strategy which included providing low cost service to smaller markets, no assigned seats, no business class, entertaining flight crews, and so on. These operational decisions were clearly aligned with a business strategy, based on competitive differentiation through a higher value and a convenient consumer experience.

Building a remote team or outsourcing to a provider is no different. In fact, when thinking about the mistakes above, one can see that all of the decisions should be interrelated. Starting with clear objectives creates a framework for the other decisions. Some common reasons for outsourcing are:

- Reduce administrative complexity
- Increase caliber of talent of local staff
- Improve customer service by expanding capacity and/or hours
- Reduce capital outlay (office, equipment, etc.)
- Access to employees to enable rapid growth
- Reduce costs
- Improve efficiency
- Increased focus on core competencies

Individually, none of these are really a strategic objective for business. Rather, it is a list of the benefits of outsourcing, most of which accrue to any company. Clarifying objectives needs to start even further upstream with the company's business strategy.

- What set of activities deliver unique value?
- Is the organization structured to perform those activities at the highest level?
- Are measurements in place to understand performance?

Once these are clear, the company can consider opportunities to change its structure to deliver value more efficiently and continually improve performance.

Since this is somewhat abstract, it is helpful to use a more concrete example. Consider a state or regional scale company competing with national scale organizations. These very large companies have the capital and scale to create very efficient supply chains and automate many processes. However, those companies do not have local relationships, management presence and the ability to provide highly differentiated services. Smaller companies need to maintain this market differentiation, while simultaneously finding inno-vative ways to remain cost competitive and spur sustainable growth. These companies fit the profile of most Connext clients. Their objective with outsourcing becomes something like:

Work with a trusted, long-term partner to develop a remote staff that supports our customers and our business operations across multiple functional areas with our quality, customer service and flexibility expectations.

Once an objective like that is defined, several things become clear:

- Control of quality, processes, systems and staff time is essential
- The long-term credibility and trustworthiness of the partner is paramount
- Piecemeal outsourcing of different functions is not aligned with the objective

For these types of companies, the solution lies in some form of dedicated staff. This is accomplished by partnering with an offshore company to reinforce their in-house team, often referred to as staff augmentation or a virtual captive. Even within this narrow defini-tion of outsourcing, there are many competitors and business models so it is important to invest the analysis time up front.

Unaligned Incentives

Alignment of incentives is a simple concept that is not simple to implement. The fact is that incentives can never be perfectly aligned. Therefore, it is a matter of trade-offs and conscious decisions about which things are most important. For the midsized company, the most important thing is likely control.

Consider quality – we frequently see companies progress from an outsourced ser-vices model, i.e. pay per unit, to a remote staffing arrangement. The primary driver of this decision is quality control. If there are 20 errors in a week, in a typical outsourcing arrange-ment, it is impossible to tell whether two people each made 10 errors (issue with the two people) or 10 people on the team each made two errors (issue with the training or process). In these situations, all the client can do is complain to the account manager who reliably assures there will be actions taken and improvement would follow. Often, improvement does not follow.

This is a common example of why clients switch BPO partners. In one recent example, a client switched to Connext because of inconsistent quality. The challenge was not just quality for the current set of tasks, but the lack of quality prevented transition of more com-plex tasks to the BPO partner. In this case, Connext and the client worked together to make a series of decisions that ensured the team would meet quality expectations.

- Connext and the client created screening tests and the client interviewed and approved every person that joined the team.
- The client created a well-structured training and progressive task complexity plan.
- Connext and the client worked together to create a robust plan for quality assurance, incentives, and consequences.
- Weekly meetings were held until all objectives were being met and now have over six years of ongoing monthly meetings to review performance measurements.
- Connext deployed the Connext-to-Client window, a real time 2-way CCTV view of the collaborating teams, enhancing communication and working culture.

Given this approach, it should be no surprise that quality expectations have been consistently met and the team steadily progressed in size and task complexity. How did incentives play into this? Since Connext did not bear the cost of initial training or quality assurance (QA), the client was able to control exactly how much investment was made in those vital activities. The agreement covering the engagement was month-to-month (ver-sus long-term), so the entire Connext team had every incentive to work collaboratively to make the initiative successful. Connext had no profit opportunity in cutting costs in training or QA. The staff was designated to a single client, so Connext had no opportunity to shuffle the workforce for its own benefit. The incentives of Connext and the client were closely aligned to deliver the desired output.

For other clients and applications, cost may be a more important consideration than quality. Thus, a lower QA rate might be established or QA may be accomplished via auto-mated tools. Regardless, the key is that the client makes these determinations and bears the cost or reaps the bene-fits of their decisions. This is supported by the general princi-ple of risk management is that risk should be allocated to the party best able to control the risk.

Not Understanding Costs Both Internally and for The Partner

Even with a commodity, which is by definition fungible, the price is not meaningful without specifying some key parameters. Consider oil - the volume, the location, and delivery date all have a huge influence on the price, sometimes even more than the actual index price of the oil. When a prospective client asks how much offshore staff costs, to some extent it is like asking "how much is the annual salary of a baseball player?" or "how much does an actress make?" The question is not meaningful without a relatively detailed discus-sion about what the client is trying to accomplish.

Key aspects of understanding costs include:

- Quality
- The times in which services are provided
- Location
- Availability
- Management and oversight
- Stability of the workforce
- Training
- Allocation of risk
- Other client or project specific factors

On the surface, most of these are self-explanatory; however, each factor has multiple layers. Each requires thoughtful consideration to ensure alignment with the overall strategy. Then, even when all the above is fixed at the team level, at the individual level, things like education, work experience, professional certifications, lan-guage skills, general aptitude and attitude all drive wage differentiation.

It should be clear that an assessment of cost, or more accurately value, can only be undertaken with an understanding of the factors listed above. Therefore, when first assessing costs, it is more relevant to understand the services provided and the pricing model of the prospective partner. It can be quite difficult to ascertain this from a website or a discus-sion with the average business development executive. The best strategy is to use the list above as a guide and continue asking a series of detailed questions until an adequate level of understanding and confidence is developed. If the prospective service provider is unable to do this, simply move on.

No Ongoing Management and Oversight Plan

No matter what any salesperson may say, outsourced cannot equal out of mind. It starts with incentives. Since it is impossible to have perfectly aligned incentives, there has to be a system or structure for managing outcomes. There are many ways to accomplish this, but the single biggest mistake is not having a system.

Most people will think about what it takes to get a remote team started. Initial considerations will include creating process designs, determining technology solutions and creating a training plan. After that initial planning, is when we see inconsistent implementation which separates the leaders from the laggards. The ramp-up of a remote team will likely be more difficult than adding one person to a local team. In most cases there is no one on the team that has experience with the client's processes, systems, geography and customers. These contextual factors are frequently taken for granted. If there are problems, blame is assigned to the people, the trainers, the partner organization or anything other than recognizing there should have been a structured ramp-up plan with increased quality assurance testing.

When ramping up a new team, there are two key things to keep in mind:

1) It is essential to create a ramp-up plan that specifies the rate at which new tasks will be layered on.
2) There must be higher than normal of levels of QA for each task until volume and quality are normalized. The focus should be on getting it right early before bad habits and frustration develop.

This phased approach to increasing task complexity coupled with high levels of QA allows the local manager to know how quickly to progress and builds confidence for both the local and remote teams. Many successful clients create a certification program in which team members are certified in certain processes or functional areas after reaching established quality and productivity goals for a sustained period.

As the team grows, this process will become self-replicating with the offshore team training new team members and conducting quality assurance.

Once the team has successfully ramped up and is meeting expectations, the “normal” ongoing management work still exists. The management program should include these considerations:

- Benchmarking against established standards
- Developing a continuous improvement program
- Developing a roadmap for increasing task complexity and team member development
- Establish and ongoing communication strategy
- Enforce accountability performance standards
- Motivate and retain employees
- Find and develop leaders and leadership structure
- Developing reporting and business intelligence tools

Regardless of strategy, location, operating model, and financial considerations, day-to-day operational requirements do not go away. Some of these will be retained in house and some may be transferred to a business process outsourcing partner. There is no "right" answer, but not having a well thought out approach in clarifying responsibilities will lead to failed implementations or at a minimum, lackluster performance.

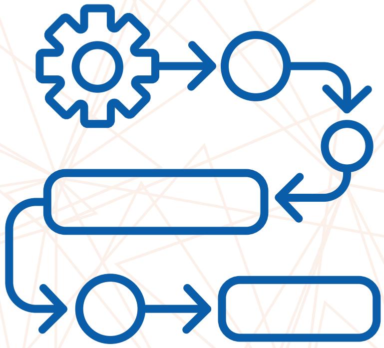
Lack of Process Clarity

Like so many things, everyone understands the importance of good processes and process clarity. However, it is much easier said than done. At small-scale, team members typically have multiple tasks and the assignment of tasks varies with volume of work and availability of team members. At larger scale, the teams become unwieldy and there is a larger group of inputs and outputs, both of which are compounded by volume.

The good news is that shifting work to a remote team forces process clarity and almost always, process improvement. Businesses should not wait until all processes are documented to begin developing a remote team. Complete documentation of processes is something that is too easy to put off and creates an unreasonable burden on getting started. More good news, the answer is quite simple. Clients can simply start with one or two team members who document processes as they learn. Consider the benefits:

- The person doing the training simply needs to explain the task via a screen share application just like they would in a local office.
- The person receiving the training has an additional incentive to be attentive because they know they are documenting processes and writing a manual.
- The process of documenting reinforces the learning.
- The process diagrams and the manuals allow the trainer to verify the person been trained has successfully learned the tasks.
- The client now has documented processes and manuals which can be used in both the local and remote locations.

The combination of a remote team and more available time allows the local manager to think and analyze the processes. This leads to a positive spiral of continuous process improvement.



Even with a relatively simple solution, companies are frequently too busy or too distracted to work on documenting and clarifying business processes. However, for those looking to improve their operations, taking the time to clarify business processes is the beginning of a positive spiral yielding benefits outweighing the initial effort.

Conclusion

Using remote teams can yield many benefits. However, capturing these benefits and avoiding pitfalls requires developing and following a plan consistent with the business's overall strategy and objectives. Anyone considering outsourcing, in any form, will benefit from thoughtful partner selection and a well-developed management plan.