

outsource Portfolio



BPO Feasibility Framework

1. Introduction

After the success of Business Process Outsourcing (BPO) in big corporations, [BPO trend](#) is slowly picking up in mid-sized and small businesses. [Nelson Hall](#), BPO research firm predicts the global BPO market will reach by \$450 Billion over the next four years. However, the BPO adoption in mid-sized and small businesses is very low compared to big corporations due to following reasons:

Mid-sized and small businesses are finding it difficult to identify what constitutes a business process within their company.

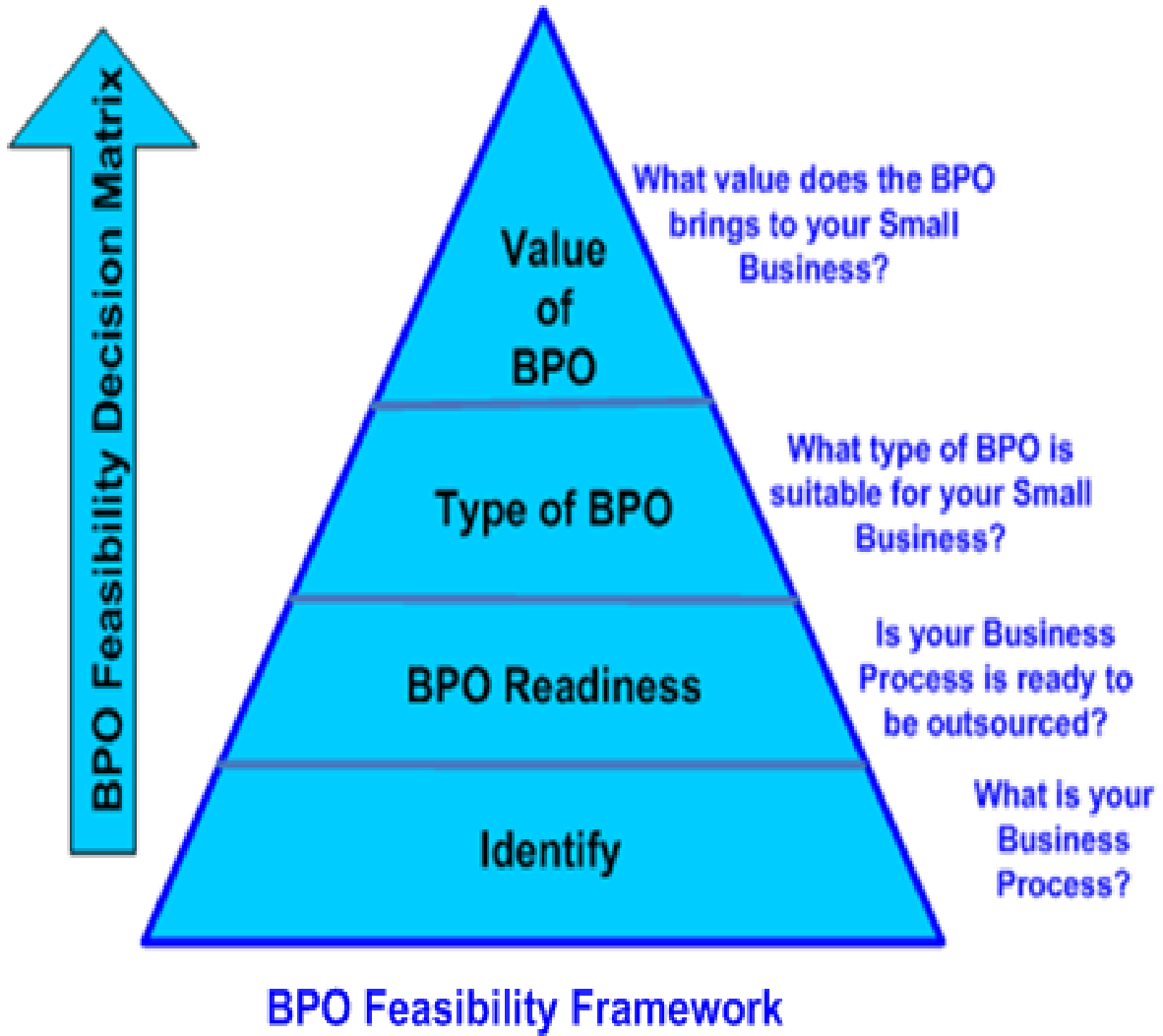
Even if they identify their business process, they do not have a mechanism to find out if they can benefit from outsourcing their business process or not.

For some small business owners, they know that they can save money by outsourcing, but they do not know whether they need to [outsource onshore, nearshore or offshore](#). As a result, small business owners are having difficult time embracing business process outsourcing in their companies. To simplify the issues and make the small and mid-sized businesses to understand and evaluate their BPO options I have developed a BPO Feasibility Framework that consists of following four steps:

- Identify the business processes
- Identify outsourcing readiness of the business processes
- Identify sourcing type and location for outsourcing
- Identify the potential value of outsourcing the business processes

2. BPO Feasibility Framework

The four-step BPO feasibility framework will provide mid-sized and small business owners a simple but effective filtering process to make right choices in their BPO decisions. Each step is built around key set of questions, and answers that will help business owners in making right outsource decisions. The answers for the questions are plugged into the BPO feasibility decision matrix that helps to short list the ultimate solution from the multitude of different business factors in the outsource options.



The BPO framework provides an easy way for the business owners to ask the right question at the right step and the answers will force them to think strategically about the short-term and long-term goals for their business growth. Any type of small and mid-sized businesses can use the BPO feasibility framework and it can adapt to changes in technology, business processes, and government regulatory requirements. Moreover, the BPO framework helps business owners to make decision based on facts rather than intuitions, past experience, or personal preferences.

Step1

2.1. Identify your Business Processes

First, you need to identify what constitutes a business process in their company, is it activities performed by a group of people in one department or multiple departments. They need to ask following questions and find answers to them:

What is the input for the business process and from where it comes?

What is the outcome of the business process and who consumes it?

Is it people or other business process that consumes the result of the business process?

Where are the people and the business processes located? Is it internal or external to the business?

By asking questions like this, you can identify and understand the business processes that exist in your company. As you perform the business process analysis, it is common to unearth low-level tasks that are happening to support the high-level business processes. You may notice the scope of your end-to-end business process is vast and you may find one or more business processes are potential candidates for outsourcing.

2.1.2. Identify core Vs non-core Business Processes

Within your business, you might have business processes that are visible and well defined and understood by your employees. For example, a manufacturing company may have following well-defined business processes for the following activities:

- Get raw materials from suppliers
- Store it in inventory
- Pay Invoices to suppliers
- Use raw materials to manufacture goods
- Sell the goods to customers
- Send invoices to customers
- Collect checks for invoices

These activities are core business processes and you may have many personnel dedicated to understand and monitor it for smooth day-to-day business operations. On the other hand, there might be other business processes needed to support these core business processes. These

processes are not well understood or documented by your employees. Your employees might have identified and performed the non-core business processes that would have evolved over a period. In the above manufacturing company example, the following activities may be non-core business activities:

- Handling missed invoices
- Identifying late payments
- Tracking the status of invoices

Generally, the non-core business processes are not well understood in small and mid-sized companies. One of your employees tried a process for the above activities, found success and that becomes the business process for that activity and adopted by the rest of the employees in your business. The non-core business processes are part of the cost of doing business, and do not add any strategic value to the business. All the non-core business processes can be a potential candidate for outsourcing, and there is a potential economy of scale when BPO companies perform similar type of activities to other companies potentially reducing the operating cost for you.

Step 2

2.2. Business Process outsource readiness

Once you identify your core and non-core business processes, the next step is to identify if any of the identified business processes are ready to be outsourced. The simple approach is to decide to outsource all the non-core business processes and keep the core business processes in-house. However, the simple approach will not work. Without analyzing the relationship between the business factors and the business processes, you cannot benefit from your BPO efforts. In short-term you may reduce cost, but in long-term you will have issues with your outsource initiatives. Instead, you should take each business process and find answers for the following questions:

- Can this business process be performed outside of your company?
- Is there any legal, security, or regulatory requirements, which need to be followed to fulfill the activities of the business process?
- How many different interfaces the business processes have?
- Can you write-down specific instructions on how to perform the tasks in the business process?
- Can you measure the performance of the business process?

2.2.1. Business Process Execution

Some business processes need deep business and technical skills that cannot be found outside of your company. Your employees have been working on various activities of that business process and it is not possible for someone else to do those activities. Whether it is core or non-core, these business processes may not be outsourced. On the other hand if it can be performed

by an outsource vendor as effectively and efficiently as your employee then it is a potential candidate for the outsourcing.

2.2.2. Business Process Interfaces

Any business process does not exist as a stand-alone entity; it takes input from other business processes or people, or both, and then produces results, that are consumed by some other people or business processes or both. As a business owner, you need to identify where the input is coming from and where the output is consumed. For example, if the input for the business process comes from customers or customer-faced business processes then that business process may not be a good candidate for outsourcing.

2.2.3. Business Process Instructions

Often times if you can write-down the steps for performing a business process then it may be a potential candidate for outsourcing. If a business process is complex or the rules changes dynamically every day then you may not write the instructions for that business processes. If you cannot write the instructions for business processes then it may not be outsourced.

2.2.4. Business Process Performance Measurement

Some business processes are easy to measure the performance and efficiency. For example, number of transactions entered in QuickBooks, number of outstanding invoices collected, number of successful lead generated in a marketing campaign etc. If you can measure the performance of a business process then you can compare how the outsource vendor is performing it compared with your own employees. If you cannot measure the performance of a business process then you cannot measure how the outsource vendor is performing it and you cannot get the true value of outsourcing that business process. Professor [Thomas H. Davenport](#), in Harvard Business Review explains the importance of business process standard s and performance in BPO projects. By asking these questions, you can short list the potential candidate of business processes that are suitable for outsourcing. Next you need to go through other two steps to identify business processes that are not suitable for outsourcing. For example, if a business process is complex, has many interfaces with other business processes and its efficiency cannot be measured, but gives maximum strategic value then it may be a potential candidate for outsourcing. In this case you should come up with ways to break-down the complex process into manageable chunks and then consider outsourcing it.

Step 3

2.3. Location and Sourcing Type of BPO

This step will help the you to identify the sourcing type and location in their outsource efforts. The sourcing type and location goes together and both give different choices for outsourcing their business processes. There are two types of sourcing available, insourcing and outsourcing. Most of the time big corporations use insourcing by using their own subsidiaries to do business processes. However, for small and mid-sized businesses outsourcing is the best option. Within outsourcing, identifying the location is an integral part and you must consider several business factors in making your decision.

2.3.1. Location Selection criteria

Determining the location where the business process has to be performed, you should assemble data on a number of business factors:

Cost: First, identify what type of rate structure is appropriate to pay to the outsource vendor. The rate can be, fixed rate (either hourly or monthly) or variable rate based on factors like number of transactions processed, number of new customers acquired, etc. You must also perform a detailed analysis to find out Fixed Cost VS Monthly Cost related to your business they will incur in the outsourcing initiatives.

Availability of Skills: Finding outsource vendors is easy for you if you are outsourcing generic business processes like accounting, data entry, telemarketing etc. However, any KPO type outsourcing like financial analysis, insurance policy verification etc needs careful analysis in finding appropriate outsource vendors.

Environment: Pay attention to government regulations, time difference, and knowledge in English and business environment in selecting the location. For example, some business processes may not be suitable for offshore outsourcing and in this case, you can consider onshore outsourcing or nearshore outsourcing. Timing difference, business, and political environment may not be favorable to outsource to certain countries and you should avoid these locations.

Risks: Several outsourcing risks are associated with countries and businesses should perform careful due diligence in assessing the pros and cons of it. Factors like political unrest, crime, terrorism, and IP protection laws have to be considered in assessing the risks of potential locations.

Perform analysis, and gather enough data for the above factors to compare various locations to outsource your business processes. During this process go back to previous two steps outlined in this BPO framework and shortlist the locations that suites your business and outsource needs.

2.3.2. Sourcing Type

Based on the location selection, you have following three types of sourcing strategy to consider:

- Onshore Outsourcing
- Nearshore Outsourcing
- Offshore Outsourcing

Each has its own advantages and disadvantages, you should collect enough data on sourcing types, vendor list and proceed to next step.

Step 4

2.4. Value of BPO for your Business

In this part of the BPO framework, you identify the value proposition of outsourcing the business processes. Cost saving is the main reason for businesses to use BPO. Apart from the cost savings, you should evaluate the value of the BPO efforts to your company.

2.4.1. What is the value proposition of BPO?

You must clearly understand and identify the value proposition BPO brings to your company. Identifying the value proposition is a complex initiative, and it varies from business to business. In addition, the value of outsourcing is not easily quantifiable just like cost saving. Nevertheless you must identify the value outsourcing brings to your business to achieve long-term strategic goals. You should go through previous three steps of this BPO framework to capture the value you get from the outsourcing your business processes. For example, following are some of the value proposition big corporations have been looking for in their outsourced projects:

- Speed to market
- Profit Increase
- Gain Market Share
- Increased Customer Loyalty
- Increased Process Efficiency
- Improved Management Focus

Above list gives a sample of value factors and it is by no means a complete list, you should come up with your own list based on your strategic business goals. Once the value proposition is identified, next step is to perform BPO feasibility matrix analysis to find out ideal business processes for outsourcing that gives maximum value for your company.

2.5. BPO Feasibility Decision Matrix

You can evaluate the best possible business processes for outsourcing by performing the [decision matrix](#) analysis for each step and finding the winner among all the business processes. In the decision matrix analysis, you identify the business factors; give weight for each business factor based on the importance of it for your business. For example, if a business factor has high importance then it will get five as its weight, and the lowest will get one. Then based on your analysis for the business processes give rating value (1-5, 5 being best) for each one of them. Now calculate the score for each process by multiplying the weight and the rating and put the value in the Score column. Finally add all the scores and put it in the total column.

2.5.1 Outsource Readiness Decision Matrix

List the business processes identified in Step1 as shown in Outsource Readiness Decision Matrix, for simplicity it shows only three business processes. Next list the business factors identified in Step 2 in the first column. Give weight for each one of the business factor based on the importance for the “business process readiness analysis”. For example, if you believe that execution is not important for you and anyone can perform the business process then give lowest weigh. By giving the lowest weight, you are making a decision that the execution business factor plays very less role in deciding the business process readiness. On the other hand, if the “Performance” of the business process is important for you and you want to measure it properly then give higher weight to it. Once you assign weight to each business factor, your next step is to identify individual rating for each business process under the business factor. For example, if the business process “Collecting checks” can be performed easily by an outsource vendor then give higher rating for it. On the other hand, if the performance can be measured easily for “Collecting Checks” then give lower rating for it. The final step in decision matrix analysis is identifying score

for each business process. The score for the business process is identified by multiplying the rating and the weight.

Business Factors	Business Process Outsource Readiness						
		Collecting Checks		Pay Invoices		Track Invoices	
	Weight	Rating	Score	Rating	Score	Rating	Score
Execution	1	3	3	1	1	4	4
Interfaces	2	2	4	2	4	1	2
Instruction	3	1	3	1	3	2	6
Performance	4	1	4	1	4	1	4
Total			14		12		16

Score = Weight X Rating

Outsource Readiness
Decision Matrix

Find the sum of all the scores for each business process and put it in the “Total” column. Now identify the business process that has the highest total and it is the winner among all the business processes. In our Outsource Readiness Decision Matrix example, Track Invoices is the winner.

2.5.2 Outsource Type Decision Matrix

Business Factors	Business Process Outsource Type						
		Collecting Checks		Pay Invoices		Track Invoices	
	Weight	Rating	Score	Rating	Score	Rating	Score
Cost	5	2	10	2	10	3	15
Skills	4	3	12	4	16	2	8
Environment	2	1	2	3	6	2	4
Risks	3	3	9	3	9	5	15
Total			33		41		42

Score = Weight X Rating

Outsource Type Decision
Matrix

2.5.3 Business Value Decision Matrix

Business Factors	Value of Business Process						
		Collecting Checks		Pay Invoices		Track Invoices	
	Weight	Rating	Score	Rating	Score	Rating	Score
Profit Increase	5	1	5	1	5	4	20
Gain Market Share	4	4	16	2	8	3	12
Management Focus	1	2	2	3	3	2	2
Process Efficiency	2	3	6	4	8	1	2
Total			29		24		36

Score = Weight X
Rating

Value Decision Matrix

Apply the same decision matrix analysis for the other two steps and identify the winner as shown in Outsource Type Decision Matrix and Value Decision Matrix examples. Based on the Outsource

Type Decision Matrix and Value Decision Matrix examples “Track Invoices” is the winner. The decision matrix shown are only examples and in typical outsource decisions; you may be using several business factors in each step of this BPO framework. You should use this framework as a reference model in coming up with your own business factors that are suitable for your business.

2.6. Conclusion

This BPO framework is designed specifically for small and mid-sized businesses and it is easy to use across all industries. Business owners can apply this BPO framework to all of the business processes in evaluating the outsource viability. All employees can participate and contribute to the BPO framework and that gives collaborative decision-making in evaluating the outsource initiatives. The BPO framework is easy to manage and administer. The simplicity of this BPO framework allows the all employees to use it by themselves rather than rely on outside experts and consultants. Also employees are more likely to believe in the outsource efforts and the value it brings to the company when they participate in outsource decisions. Several other side benefits come with using the BPO framework; by using the steps explained in this framework business owners can document and understand various business processes that are being executed inside their company. As the small and mid-sized business personnel uses the framework they understand all the core and non-core business processes and gives them an opportunity to redesign it for maximum efficiency. Of course redesigning the business process is a separate initiative apart from outsourcing but this framework gives an opportunity for all the employees to acknowledge the issues that exist in their business processes as they see the individual business processes and how it collaborates with all other business processes. The BPO framework does not make the outsource feasibility analysis easy. However, it makes the entire outsource feasibility analysis manageable and facilitates the small and mid-sized business owner to make the right outsourcing decision with their employee participation from start to finish.

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For more information contact

5786 Blackshire Path
Inver Grove Heights
MN 55706
USA

www.outsourceportfolio.com
info@outsourceportfolio.com