



From BPO to BTO

--A new buzzword

A large insurance company craved to enter the high-end market of selling life insurance policies of around one million dollars. One of the big hang-ups was the medical lab. The procedure was very tedious because each of the insured was to be medically examined and the lab tests took at least 45 days. The company had to rewrite this policy to transform itself.

The insurance company, after an arrangement with the service provider, reengineered the whole process in such a way that the lab could deliver the results in just 10 days. Moreover, the lab was not only able to reduce its cost by 30 per cent but also enhance its 'customer service' reputation.

The speedy delivery of service also helped the company increase its market share as well as its price. It moulded itself to become more responsive to its customers in comparison to its competitors.

Thus the company was able to increase its revenue without increasing its risk. How did the company achieve such efficiency?

Through what is termed the next buzzword in business-- Business Transformation Outsourcing, popularly known as BTO.

Why BTOs?

Outsourcing can be called a three-part-model. The first part involves 'Basic Outsourcing' services viz. hard-

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Business Transformation is not something that is totally new to the business world. It has been happening for quite a long time. Every company reengineers its business at some point or the other. But nowadays, it has started happening through third party players, under the buzzword in the biz world -- 'Business Transformation Outsourcing' (BTO). The Chartered Accountants can play a crucial role in this emerging scenario too.

ware and software maintenance, second part involves 'reduction of the Indirect Costs' viz. call centers, and the last but not the least part involves such a service by the provider that its clients are able to achieve their strategic goals and transform themselves to find a better position in the market.

The present day world is the world of ever increasing expectations. The buyers expect more than just outsourcing and consulting services. They expect

"Accenture defines BTO as a programme to transform the way a business works, enabled by outsourcing," says Marty Cole, managing partner- 'Outsourcing for Accenture'. "Through BTO, organizations can achieve rapid, sustainable, step-change improvement in enterprise-level performance."

the provider to be a partner who can help transform their business. This growing expectation has given rise to the emerging concept of Business Transformation Outsourcing.

The 'Business Transformation' is not something that is totally new to the business world. It has been happening for quite a long time. Every company reengineers its business at some point or the other. But nowadays, it has started happening through third party players.

A few companies are still using outsourcing as a dull tool to outsource unimportant activities and compress the costs, but many have now moved this concept to a much classier activity of transforming their businesses.

There is one thing that is fascinating to note in this market scenario. Now that the trend of BPOs are at the peak, which involves outsourcing of activities to India by overseas companies, the BTO is emerging in the reverse trend -- like the Bharti outsourcing its business transformation to IBM, Dabur to Accenture and so on.

In an interview, Mr. Kannan, AGM, Sundaram Business Services (SBS), says that one cannot actually call it as a coincidence though it looks so. He says this will happen because by accepting jobs from them, we are in turn generating more jobs that flow back into the US. When asked about the interest of SBS in entering the BTO segment, he mentioned that first of all what is needed is to get more business to compete with others.

"BTO is hot but pretty complicated, unless the companies involved are big ticket companies.

Normally captives and small companies will not go for it as it involves high risk," says Kannan. Even if you end up changing too much when you offshore the processes, that itself may be a reason for failures. Even processes that have been migrated under the supervision of 'the Big fives' have also failed, because they try to change things too much. It's like throwing one stone at two birds and killing no body.

One major aspect to be looked at is that the Indian companies have also started projecting themselves to be strategy-centered because the companies have started realizing that they need to go global and to emerge as winners or at least front-runners in globalization, they need to build a 'superior identity' for themselves.

Requisites of a BTO

The concept of 'first come first served' is common to all businesses. The first to adapt to the market changes survives. So one has to plan the contingencies that may arise and organize accordingly.

Now the tactic is 'innovation during improvisation'. The emerging scenario is such that one has to innovate new business arenas to establish a strong presence in the industry.

Even real time data capture is the main criteria to enhance decision support on an enterprise-wide level. The validity and reliability of data is always a matter of great significance.

Issues in BTO

One of the main critical issues concerning BTO is the lack of clear understanding of the criteria by many buyers, hence leading to misunderstanding in the relationships. At a major IT conference in 2002, for example, two outsourcing service providers claimed they do 'business transformation outsourcing'. In 2003, almost fourteen of the providers claimed that they had proficiency in handling BTOs. Most of them were only optimistic to do something while the others, although only based on standard BPO services, gave the image of a BTO.



'Improvisation' has been an old buzzword. The BTO tactic involves 'innovation during improvisation'.

The BTO set up requires investment of massive capital outlay in research and development for innovation, a factor which restricts the competition to a few. Moreover, though many providers claim themselves as prospective BTOs, only delivery of the transformation can measure proficiency.

Now it is the clients or the buyers who are left in doubts as it is not easy to differentiate the essence in outsourcing proposals. This situation is a blow to genuine players who have the BTO potential.

Since, this is an emerging concept, the paradox of distinction between a BPO and a BTO will sustain for some more time and this paradox will only pave way for lack of adequate skills to form a successful transformational relationship.

This is because, each provider feels that he has the expertise to transform a business without the understanding of the concept and the inherent risk involved.

Furthermore, the delivery of the transformation is a critical issue. Though many providers claim themselves as prospective BTOs, only the delivery of the transformation process will measure their proficiency.

Also, the BPOs themselves are now facing the restrictions of privacy and security laws when it comes to the context of outsourcing tax returns etc.

According to Mr. R Datar, Principal Analyst, Gartner, BTO is not very common though we have the recent Bharti and IBM deal. BTO is actually transformation of the entire organization taking IT as a platform.

Following risks are involved in BTO process:

- ▶▶ Vendor's adherence to agreements (SLA)
- ▶▶ Privacy ▶▶ Security
- ▶▶ Disaster Recovery ▶▶ Business Continuity

Recent tie-ups in India

Some of the recent BTO deals have been mentioned hereunder:

On March 26th, 2004 the Bharti Tele-Ventures Ltd., India's leading telecommunications conglomerate entered into a Business Transformation agreement with IBM India. According to the agreement there are three components-

(1) Initiative to consolidate, transform and manage comprehensive IT infrastructure and applications.

(2) Joint development and marketing of IT and telecommunications solutions and services for India.

(3) BTVL would be a preferred supplier of telecommunications services to IBM India.

The next deal of IBM was entered with the Goodyear Dunlop Tyres Europe for an estimated cost savings of 50 million Euros in the first two years alone. Another step is that the procurement-to-payment program for indirect supplies reduces the costs by \$1.5 million by the end of 2005. The initial implementation of the program has already started a review phase. The program is expected to be fully operational by 2005.

Another notable deal struck recently is between Bank of India (BoI) and Hewlett-Packard (HP) for IT-enabled transformation in a fully outsourced model. According to the terms of the contract,

HP will implement and manage a core banking solution across 750 branches of the bank.

Similar to the BoI and HP, there is another deal between Dabur India Limited and Accenture for outsourcing its IT infrastructure and application management functions.

What was common in all the above-mentioned deals was that all of them were struck for IT transformation.



Almost all BTO deals in India have so far been struck for IT transformation

BPO vs. BTO

BPO is the transformation of a function, which will result in betterment of the function. On the other hand, BTO results in a macro conversion at an enterprise-wide level that in turn results in a different value scheme that radically and strategically repositions the buyer in the competitive world. BTO arrangements are long-term ventures (generally 10 to 13 years) unlike a BPO. BTO is specifically designed to implement strategy at an accelerated pace. In other words, the BPO is aimed at improving a process that is outsourced, while the goal of a BTO is to improve the customer's position in the market and also his overall profitability.



The president of DASCO, Dr. David Andrew Scott, concurs and in his explanation he says that an individual could claim to have transformed himself through a haircut, or through a more extreme method. But though the appearance becomes different, the individual has not changed on the inside, i.e. the individual is not transformed. But in the case of a company, the conversion changes its value proposition viz. the profile of the company and the activities it does.

In a BPO set up, a project manager can direct the process or the relationship, but in the case of a BTO from the very concept, it is very dynamic and hence requires a C-level leadership.

Characteristics of a BTO

- 1 Services:** In a BTO, it is strategic result, unlike a separate offering or service in a BPO. The buyer expects a value added service from the provider, which will enable the buyers to reach their transformational goals.
- 2 It is a higher-level outsourcing engagement.** This is a core activity as the outsourcing involves total transformation of the business. For example, considering the Bharti Tele Ventures Limited deal with the IBM to consolidate, transform and manage comprehensive IT infrastructure and applications. By this deal BTVL will be able to take advantage of IBM's innovative technology coupled with BTVL's business expertise in working with telecommunication service providers worldwide.
- 3 How is it to be measured?** It is quantifiable not by just cost reduction but by strategic business outcomes which comes through reengineered functions.

The performance appraisal would be based on improvement in share price, market position and return on capital. According to Michael Whitacre, senior client executive with Acxiom Corporation the contribution of the provider to the transformation is not judged by IT or process service levels but by the business outcome metrics.

- 4 Objective of the buyer:** Buyer's objective is to gain some strategic competitive advantage on an enterprise-wide basis.
- 5 Relationship between parties:** The parties require the mindset of partnering to accomplish goal and a strong dedication to mutually impact business objectives.
- 6 Focus on the Industry:** The solutions that ought to be provided will be industry led unlike a BPO where it is process-centric.
- 7 C-Level Leadership:** For an enterprise-wide level transformation, what is foremost required is the enterprise-level support. Thus the first requisite is to seek 'C-Level Leadership'. Then go in for a bold radical agenda.
- 8 The Agenda:** The agenda should be a bold one and the same should be constantly reviewed. The agenda should not only aim at creating new capabilities but also employ the competence to realize the strategic goal.
- 9 Customized to the specific circumstances:** As far as the process is concerned, it needs to be tailor-made for specific circumstances, because, no business is the same in any aspect. Thus keeping in mind, the intricacies in the business, the transformation agenda should be clearly set out.
- 10 Managing the show:** Once the deal is signed, the next course of action is the transition of the people and processes to the provider's end. This is a very critical activity that requires stupendous leadership, control and communication skills.
- 11 Tapping new potential:** Critical processes, which are often the hurdles to leveraging new capabilities, could be made a part of a strategic solution.
- 12 Transforming the crucial processes:** Streamlining operations for cost effectiveness and reliability so that precious resources can be siphoned off to more profitable activities.

