

# Achieving results through BPR and BPO



Business Process Re-engineering (BPR) and Business Process Outsourcing (BPO) has become big business for organisations



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## Introduction

Business Process Re-engineering (BPR) and Business Process Outsourcing (BPO) has become big business for organisations; driven by the need to reduce costs in the supply chain and simplify processes has given P&SM professionals, and the rest of the business, more time to concentrate on core strategic activities.

## What is BPR and BPO?

Hammer and Champy (1993) define BPR as “the fundamental thinking and radical redesign of business processes to achieve dramatic improvements in critical contemporary measures of performance, such as cost, quality, service and speed.” This differentiates the process from small step changes and programmes of continuous improvement.

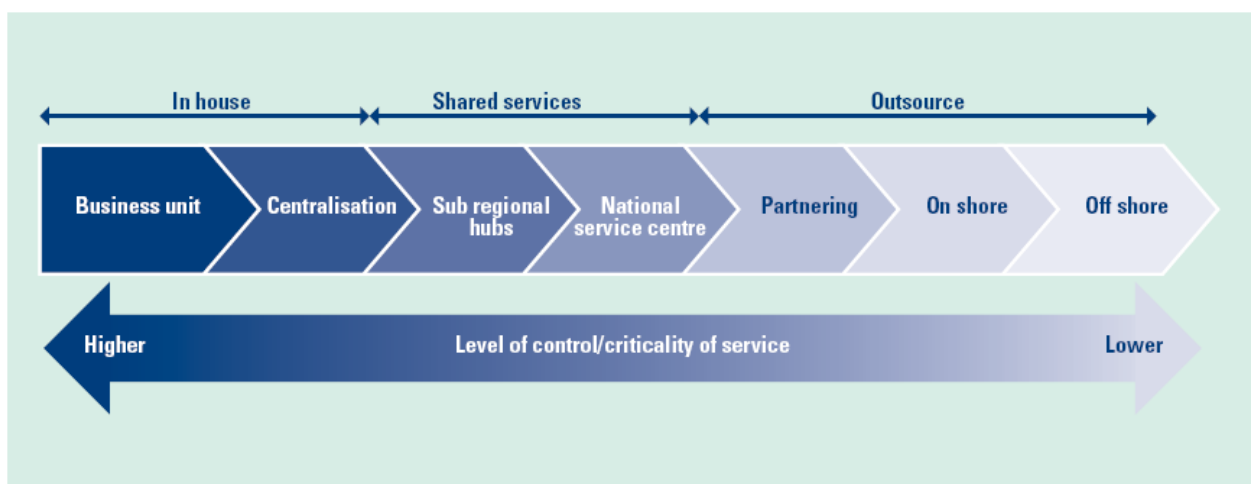
BPO is the contracting of a specific task to a third-party service provider. Usually, BPO is implemented as a cost-saving measure for tasks a company requires but does not depend upon to maintain its position in the marketplace. BPO is often divided into two categories:

- Back-office outsourcing, which includes internal business functions such as finance, HR and purchasing.
- Front-office outsourcing, which includes customer-related services such as marketing or technical support.

There are varying degrees of BPO such as co-location, shared services, through to offshoring, and each should be chosen based on the specific department and organisation. Each end of the spectrum will provide different levels of involvement, risk and benefits.

Figure 1 details the degrees of BPO.

**Figure 1**

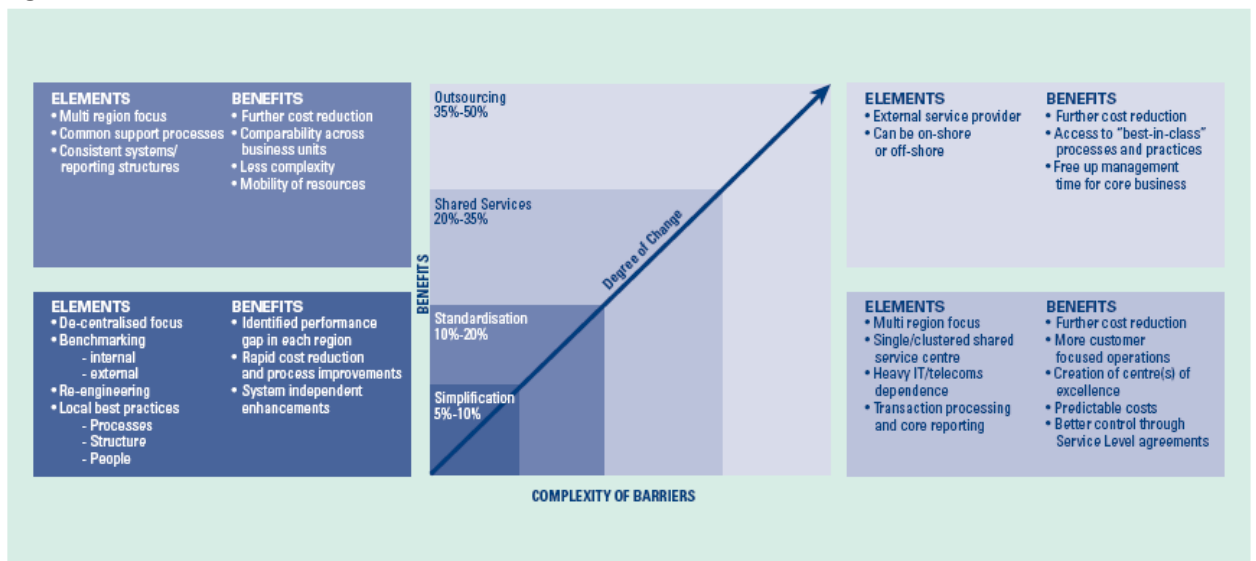


Both processes are closely inter-related and follow a considered decision making process. BPR can lead to simplification and standardisation of processes, but the higher cost savings and enhanced benefits are achieved through implementing shared services and outsourcing.

Organisations should see the two elements as a path to follow; it is inadvisable to go straight to an outsourcing decision when simplification and standardised processes may achieve the maximum benefits. Figure 2 charts this path from simplification through to outsourcing,

showing the degree of change required, as well as its elements and benefits.

**Figure 2**



This diagram was kindly provided by PA Consulting Group.

If a considered step-by-step approach is not taken, and an organisation jumps straight to an outsourcing decision, then some easy savings that could have been indemnified in the earlier stages may well simply be passed on to the service provider. It is also worth remembering that a problem should never be outsourced – you could just be handing a problem over to someone else who can't find a solution. These initial stages are important for the organisation to understand why processes are not working effectively and efficiently. For instance a communication misunderstanding throughout the organisation might not be resolved by simply handing over the day-to-day management to a third party.

A common example of this is often in accounts payable departments; invoices can often not be matched and processed as users in the business units are not receipting items in the system and/or are unclear of the importance of the process. Outsourcing the matching and payment of invoices will not resolve this internal process problem.

Why do organisations decide to do BPO?

Organisations decide to outsource business processes for the following reasons:

- Cost cutting, mainly through reduced headcount;
- Customer service – often an external provider has far more expertise than
- is available in-house;
- Non-core activity, therefore the business can concentrate on strategic business areas;
- Buying power – in some instances procurement itself is outsourced where an organisation has little buying power or knowledge in a particular market;
- Free up some capital and or assets – for instance a large call centre being outsourced will free up rent or result in the sale of a building as well as office furniture, PC's, telephony equipment etc.;
- To remain competitive in the marketplace – it is important to monitor what your competitors are doing to maintain or improve your position in the market

Why is it important for procurement to be involved in BPR and BPO decisions? BPR and BPO project improvements and efficiencies within the purchase-to-pay process will allow P&SM professionals to concentrate on more value-added activities. This gives P&SM professionals

the opportunity to get involved with strategic “make versus buy” decisions that BPR/BPO pose, that will shape the organisation. This will help to raise the bar for the procurement profession in making key business decisions and an opportunity to engage with senior management on a higher level.

Knowledge is king, and the procurement function needs to be the gatekeeper of the kingdom. A considered, well researched business plan is required, outlining the process steps with risks, benefits and opportunities as well as a thorough market evaluation including what the competitors are doing; what providers are available; what expertise, capability and capacity is in the market, as well as whether this is what the customers want and if the market will tolerate it. The recent trend to outsource customer call centres off-shore has seen a shift back to in-house as customer satisfaction levels plummeted. This could have been a result of a poor hand-over and management of the outsourced service, or that the market was not ready to deal with people in call centres across the globe.

The role of the P&SM professional is to lay out the key issues and ensure that the correct path is followed before making decisions on shared services or outsourcing. It’s important to analyse the direction in which the business wants to go and finding the most appropriate solution. It is also important to realise that BPR is only part of the process. Enabling technologies, skills, competencies and people development together with the tools and techniques that make BPR happen need to be considered before looking at BPO. A strong project management approach is required for what could be potentially large an organisational restructure. P&SM professionals have an opportunity to bring together the people, departments and functions to identify the risks, opportunities and barriers and to ensure that every decision is matched to the corporate aims, objectives and values.

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