

A Best-in-Class BPO Solution Leverages Multiple Providers

Although a single-provider approach is preferred in most deals executed today, don't discount the use of multiple vendors as a viable alternative. **By Mark Hodges**

Throughout its history, the BPO industry has seen a preponderance of single-provider agreements. There are many reasons for this fact: buyers gain additional cost savings, obtain a single point of accountability, and lower their governance costs. In the past 12 months, however, the merits of a multiple-provider approach have become more pronounced.

When making the single- or multiple-provider strategy decision, buyers must consider a wide range of factors. The following is an exploration of many of these factors.

■ **Governance.** It is more costly, and inherently more complex, to manage multiple outsourcing providers than a single one. The outsourcing management function must be professionalized. If the buyer does not create a world-class governance organization, a best-in-class multiple provider approach will fail. An effective outsourcing management operating model, skilled talent, and automated processes are necessary features to pass this critical gate. Many buyers do not possess, nor do they want to develop, this essential capability. If this is the case with your organization, do NOT attempt a best-in-class strategy. It is not for amateurs.

■ **Technology.** If a buyer organization has a relatively recent ERP software suite implemented, a best-in-class approach is possible. Typically, one provider will run the underlying technology platform, and one or more providers will run the business processes supported by that technology.

■ **Cost Savings.** Economics favor a single provider and broad scope. Parceling out the scope to multiple providers will reduce cost savings over the term of the agreement, usually on the order of 10 percent. The best-in-class BPO approach does not yield the same scale and transaction volumes that allow a single provider to offer a less expensive solution.

■ **Accountability.** A best-in-class approach forces the buyer itself to drive service delivery integration and is the party accountable for the integration. Finger-pointing is more common in best-in-class solutions.

■ **Provider P&Ls.** A best-in-class approach allows the buyer to deal with a single P&L of each selected provider. Often, when a single-provider approach is chosen, the

client must cope with different organizations, P&Ls, compensation drivers, and performance metrics—all within the same provider company! In theory, this is supposed to be invisible when the single-provider route is selected. But in reality, most large BPO providers are a confederation of different business units; hence, service delivery is not seamless across their P&Ls.

■ **Process Interdependencies.** A good process interdependency example is an HRO agreement in which payroll has been taken out of scope. The ramifications are significant because payroll processes are integral to managing the daily flow of employee information. For instance, the compensation process depends heavily on the payroll process for delivery of bonus plan payouts, stock options, performance share plans, annual compensation adjustment cycle, deferred compensation, etc.

■ **Leverage.** A multi-provider strategy gives the buyer more leverage and can increase the probability of healthy, competitive tension on their account over time. This works particularly well when the buyer is a well-recognized, global brand.

■ **Transition and Implementation Resources.** These resources are in short supply in the BPO provider community and often act as a “choke point” or delaying agent for rollouts, especially when they are multi-country or global. With multiple providers, you can allocate regions to those best equipped for that geography or allocate processes to the best BPO specialist.

■ **Concentration Risk.** Multiple BPO providers help avoid the risk of putting all your eggs in one basket. When a BPO provider exits the business, goes bankrupt, becomes difficult to deal with, doesn't perform as contracted, or gets acquired, the buyer can more easily switch out that provider for a suitable replacement.

As you can see, selecting the best BPO provider approach is not a simple exercise. The current strategy of choice—using a single provider—will continue in the majority of BPO agreements. Even so, BPO providers should not assume that the single-provider approach will continue to be the automatic default. A best-in-class, multiple BPO provider solution is increasingly making sense and is certainly a viable alternative to a one-stop shop or prime contractor approach. **HRO**



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