# BPO & Outsourcing Terminology

Compiled & Edited by Rod Jones

# Introduction

Outsourcing has become a hotly debated topic across all business sectors. On the one hand, 'outsourcing' to some means loss of jobs whilst to others it can mean greater efficiencies, cost savings and better customer service. Outsourcings isn't right for every business or every situation. There are advantages and disadvantages. Here are a just a few to consider.

## Advantages

1: Access to Expertise that may not be available from within your organization.

2: Getting things done fast may be extremely difficult – particularly in large organizations.

3: Focusing on core business. Outsourcing can free up valuable resources.

4: Risk can sometimes be shared with 3rd party our source providers. This is particularly true in the content of sales.

5: Significant cost reduction can be achieved. But there is a caution. Never outsource on the basis of "Take over our mess, but for less".

## Disadvantages

1: The organization will lose some degree of control. Although Trust and Contracting are major factors when outsourcing, the organization has to be extremely careful.

2: There will always be 'hidden costs', no matter how good the contracting process is. Plan and make provision for 'contingencies'.

3: Security is a massive issue. Organisations need to be 100% confident in the outsourcers' ability, resources and commitment to data and other security issues.

4: Quality Standards and Quality Control methods are often the core to an organisation's value proposition, its brand and its reputation. Outsourcing to an inappropriate provider can put your business at significant risk.

5: What your customers' think and feel about your organization when it becomes evident that you have outsourced certain business activities, can manifest as unfavorable public opinion. This can be particularly damaging if negativity reaches social media channels.

**Activity-Based Costing:** Activity-based costing looks at aspects of an organization's operations and attempts to answer the very simple, but sometimes hard to answer question, "How much does it cost to do *that*?" For example, how much does a company spend processing a receivable or taking a customer call? How much does it cost a city to fill a pothole? The term relates to outsourcing in that once an organization can answer the cost question at the activity level, it can more objectively compare the cost of internal versus external sourcing for performing it.

**ASPs**: Application Service Providers are companies that remotely host software applications and provide access to and use of the applications over the Internet or a private network. Typically, the service fee is usage based, for example, per user per month. Although the term itself has somewhat fallen into disfavor because of the number of ASPs that were formed and then failed at the end of the dot-com bubble, today almost all outsourcing service providers rely on the ASP model for linking aspects of their services to the customer organizations.

**Barriers to Outsourcing:** Companies often see resistance, especially from inside the organization, to outsourcing. Commonly referred to as 'barriers to outsourcing' the most common ones are: fear of loss of control, viewing an activity as too critical to outsource, loss of flexibility, concern over potential customer issues, and concerns over potential employee issues. All of these barriers can not only be overcome but turned into positives through properly structured and managed outsourcing relationships.

**Benchmark:** An objective measure of performance that can be used to compare operations across organizations. Most commonly used to compare the cost for an activity but can also be applied just as effectively to other aspects of an operation. For example, days sales outstanding would be used to compare the performance of companies to each other in their collection's activities. The comparison is often termed in quartiles, with the top quartile being the best 25 percent of companies and the bottom quartile being the poorest 25 percent.

**BPO:** Business Process Outsourcing puts together two powerful business tools - business process management and outsourcing. Business process management uses technology to break down barriers between traditional functional silos, such as those found in finance, order processing, and call centers.

Outsourcing uses skills and resources of specialized outside service providers to perform many of these critical, yet non-core activities. BPO means examining the processes that make up the business and its functional units, and then working with specialized service providers to both reengineer and outsource them at the same time.

**Captive Center:** A company-owned offshore operation. The activities are performed offshore, but they are not outsourced to another company.

**Case Study:** A case study is a more collaborative approach to defining a customer's requirements styled after a Harvard Business Review case. It is used to engage a small number of pre-qualified providers in the conceptual design, development, and proposal of an outsourcing solution.

**Commercialization:**
Outsourcing often provides an opportunity for an organization to 'commercialize,' that is, generate incremental revenue dollars or equity value, from its internal operations. This can be done in many ways, such as, selling existing internal assets to the provider, licensing intellectual properties, and entering into a strategic alliance or joint venture with a provider.

**Commoditization:** Power is essentially shifting from the producers of goods and services to the consumers. As a result, a company's ability to command a higher price for the unique value it offers lasts only for a shorter and shorter period of time. Once commoditized, a product or service can no longer be differentiated in the marketplace and is selected by the customer based almost exclusively on price.

**Core Competencies:** The unique internal skills and knowledge sets that define an organization's competitive advantage -- as seen by its customers. Core competencies are usually limited in number and are embodied in the organization's products and services rather than being the actual products or services themselves. For example, Microsoft's core competencies are software design, development, and marketing. Chrysler's are product design, process design, and marketing. These are the capabilities that enable these companies to produce and sell their uniquely competitive products for the customers they serve.

**Critical versus Core:** Many operations are critical to a business's operations but do not represent a differentiating competitive capability; that is, they are not core competencies. A classic example is payroll. Processing payroll accurately and timely is critical to the success of any organization, but is a core competency of very few organizations – mainly those that provide this service to other companies as their business.

**Disciplines of Outsourcing:** Outsourcing is a management discipline in its own right, just like personnel management, financial management, information technology management, strategic management, and the like. There are 12 elements to the disciplines of outsourcing; they are: Understanding Outsourcing's Value Proposition, Identifying Core Competencies, Selecting the Best Candidates for Outsourcing, Forming Successful Project Teams, Defining Requirements, Performing the Financial Analysis, Selecting Providers, Pricing and Contracting, Negotiating a Win-Win Relationship, Managing the People Dimension, Managing the Ongoing Relationship, and Making Outsourcing a Strategic Management Tool. (Note for our book, "The Outsourcing Revolution: Why It Makes Sense and How to do it Right" (Dearborn Trade Publishing, September 2004) the disciplines were compressed to eight.)

**E-Sourcing:** Internet-based outsourcing that takes advantage of the application service provider (ASP) delivery model. This approach enables the delivery of business process outsourcing over the Internet.

**Functional Process Outsourcing:** A company's business processes end at its true customers, the people paying the bills. There are, however, many internal processes that exist to support people within the company and are often performed within a single department. Human resources, finance and accounting, travel, and facilities services are examples. When these functional processes are outsourced, along with the supporting technologies and supply chains that feed into them, it is referred to as functional process outsourcing.

**Gainsharing:** A contract structure where both the customer and provider share financially in the value created through the relationship. One example is when a service provider receives a share of the savings it generates for its client.

**GBPOV:** The Global BPO Value Equation is an expanded value model for outsourcing where: GBPOV = [(Business case) x (Acceleration + Flexibility)] ^ Innovation. That is, the full value of global business process outsourcing is the traditional business case multiplied by the improvement to the organization's acceleration and flexibility, all raised to the power of innovation.

**Governance:** The oversight and management of all aspects of an outsourcing relationship. Areas of focus include: change management, communications management, performance management, operational management, risk management, strategic management, and others.

**Just-in-Time Sourcing:** The organization adopts a continuous sourcing planning process that takes place on a project-by-project basis. Sourcing decisions are considered to last only as long as the projects that created the need for them. Shared services centers are often managed this way, with the organization's internal customers free to take their business on a project-by-project basis to the source they believe can best contribute to the outcomes they seek, whether that source is inside or outside the organization.

**Make versus Buy:** Outsourcing is often referred to as a 'make versus buy' decision on the part of the customer. The question is, "Is it in the organization's best interests to continue to (or start to) perform the activity itself using its own people, process expertise, and technology or to 'buy' the activity from the service provider marketplace?"

**Market-Driven Sourcing:** A market-driven approach to sourcing means that the organization's sourcing decisions are in direct response to the capabilities of the marketplace of available providers. Where the organization's internal capabilities are superior to the marketplace of providers, the activity is performed internally; where they are not, the activity is performed externally.

**Offshore Outsourcing:** The outsourcing of any operation, be it information technology, a business process, or manufacturing to a firm whose principal base of operation is outside the country. Terms such as near-shore outsourcing or close-shore outsourcing are also used to indicate that while still outside the country, there is a closer proximity between the customer organization's primary operations.

For example, for a U.S. company Canada might be considered near-shore while India is offshore.

**Offshoring:** Performing or sourcing any part of an organization's activities at or from a location outside the company's home country. Companies create captive centers offshore, where the employees work for them, or outsource offshore, where the employees work for the outsourcing provider.

**Outsourcing:** A long-term, results-oriented relationship with an external service provider for activities traditionally performed within the company. Outsourcing usually applies to a complete business process. It implies a degree of managerial control and risk on the part of the provider.

**Outsourcing at the Customer Interface:** Outsourcing where a provider assumes responsibility for direct interaction with an organization's customers. This interaction may be in person, over the telephone, via email, mail, or any other direct means.

**Outsourcing Framework:** The outsourcing framework is a structure for mapping all of the activities of an organization in a way that allows consistent evaluation, planning, implementation, and management of sourcing decisions.

**Outsourcing Process:** A repeatable, multistage, management process for identifying outsourcing opportunities and moving those opportunities from concept though implementation and ongoing management.

**Outsourcing Teams:** Multi-disciplinary working groups that form for specific purposes throughout the outsourcing process.

**Performance-Based Pricing:** Contractual pricing mechanisms that link compensation to meeting specific performance objectives or outcomes.

**Process Enterprise:** A process enterprise operates its business as a collection of end-to-end business processes where executive leadership, education, responsibilities, measurement, and reward systems are all oriented to this view of the business's operations. This process orientation is in direct contrast to the traditional hierarchical view of an organization.

**Risk:** Risk refers to the chance for unexpected negative business outcomes resulting from internal or external factors. There are four major classes of risk associated with outsourcing: strategic risk, operational risk, result risk, and transactional risk.

**RFI – Request for Information:** A document requesting information from potential outsourcing service providers demonstrating their capabilities, resources, experiences, and overall approach to providing services.

**RFP - Request for Proposal:** A document detailing a customer's outsourcing requirements and the evaluation criteria that will be used for selecting the ultimate provider. RFP's are typically sent to a limited number of potential providers, around 3 to 5, that have been previously qualified as capable of delivering the needed services.

**Scope of Services:** The services provided under an outsourcing agreement.

**Scorecard (Balanced Scorecard):** A scorecard, or balanced scorecard, is a way of measuring how much value has been delivered through the outsourcing relationship. Scorecards attempt to look at benefits beyond the mere level of service (see Service Level Agreement, below) and may include measures of overall economic value achieved, such as revenue, share price, market share changes, or measures of business-wide achievements, such as, speed to market and innovation.

**Service Level Agreement (SLA):** Outsourcing is a service. The service level agreement, or SLA, defines the intended or expected level of service. For example, how quickly a service will be performed, what availability, quality and cost targets will be met, what level of customer satisfaction will be achieved. In essence, every outsourcing agreement is made up of three basic elements: a description of the services to be performed; a scorecard or SLA defining in objective, measurable terms the standards for the delivery of each service, and; a pricing formula for how the service provider will be compensated.

**Service Provider:** A company that provides outsourcing services. Terms such as provider, vendor, and partner are often used interchangeably each carrying a slightly different connotation intended by the user.

**Shared Services (Shared Services Centers):** Shared services are common activities that are used by more than one division or unit within the company. When these services are combined into a central operation they are often referred to as shared services centers.

**Sourcing-as-Strategy:** Sourcing-as-strategy is a powerful way to improve an organization's ability to serve customers, compete in its markets, and grow. It's a strategic approach to outsourcing that involves mapping the markets the organization plans to serve, the competitive advantages it seeks in each market, and then identifying the sources of those competitive advantages – whether they come from inside or outside the organization.

**Strategic Outsourcing:** Outsourcing to achieve better return on investment and accelerated growth. Strategic outsourcing is approached as a redirection of the organization's resources toward its highest value-creating activities — its core competencies.

**Supply Chain:** The interlinked chain of contractors and subcontractors that provide components, subcomponents, and services that become part of the company's deliverable to its customers. Typically used to refer to the chain of suppliers in a manufacturing company's operation, but is also used more generally in regard to any product or service.

**Tactical Outsourcing:** Outsourcing to achieve operational efficiencies. Tactical outsourcing is approached as a competition between existing internal operations and outside service providers.

**Transactions:** Business process outsourcing often involves transaction-intensive processes. Transactions, by their very nature, are clearly defined sets of related actions making them easy to describe, measure, and monitor. They are information-intensive and repetitive. While they are certainly critical to the operation of any business, they seldom offer much opportunity for creating competitive advantage.

**Sourcing:** Sourcing is generally the broadest term used in the field. It reflects the simple but essential point that everything the organization does has to be 'sourced' in some way – internally, externally, or a mix of the two.

**Transformational Outsourcing:** Outsourcing to take advantage of innovation and new business models. Transformational outsourcing is approached as a way to fundamentally reposition the organization in its markets. The term Business Transformational Outsourcing is also used to combine this idea with that of Business process outsourcing.

**Value Proposition:** What value is the organization looking to gain through outsourcing? Overall, about half of organizations state that reducing costs is their primary reason for outsourcing. This also means that something other than cost savings is the primary value sought in the other half of the cases. The other reasons most frequently cited are: focus on core competencies, a more variable cost structure, access to needed skills, grow revenue, improve quality, conserve capital dollars, increase innovation.

**X-sourcing:** There is an extensive list of prefixes put on the word sourcing to suggest a specific approach to outsourcing. Co-sourcing, smart-sourcing, e-sourcing, in-sourcing, business process outsourcing, strategic sourcing, strategic outsourcing, and multi-sourcing are just a few. Each has a slightly different meaning intended by the person using it to connote a slightly different approach to outsourcing.

**Zero-Based Sourcing:** Zero-based sourcing means that the sourcing decision for each and every aspect of a business's operation is re-justified every planning cycle from an assumed base of zero. This approach ensures that the organization is consistently and objectively re-testing its internal operations against the best available external solutions.

# Rod Jones

*Contact Centre Industry Specialist*

As an independent consultant with almost 40 years in the Cx, call centre, contact centre and customer management industry, Rod Jones is internationally recognised as a Thought Leader, Industry Analyst, Strategic Advisor and Subject Matter Expert in the extremely complex and specialised field of customer service delivery.

When it comes to the strategic issues of Call Centres, Contact Centres, Customer Experience Management (Including Cx, CRM, CxM and CEM) and BPS&O (Business Process Services and Outsourcing), the professional services he offers to clients draw extensively on his wealth of experience, to provide relevant and logical solutions to this multifaceted subject.

His passion for the industry extends to both in-bound and outbound calling and he thrives on assisting organisations to develop properly resourced contact centres that produce rapid, measurable results for the organisation. Jones' knowledge of the sector enables him to achieve quantifiable results by assisting organisations to address key strategic objectives of effective, efficient contact centres.

In addition to his longstanding commitment to the contact centre industry in general, Jones further demonstrates his passion for the sector by having served on the South African Bureau of Standards National Contact Centre Standards Technical Committee (TC99) and advising the SABS SANS990 Standards Review and Development sub-committee and the ISO International Standards Committee.

He was also the founding chairman of The Independent Customer Contact Centre Association (ICCCA) and he has served as Chairman of the Direct Marketing Association of South Africa TeleServices Council.

In 2017 Rod served as Vice President of the Gauteng Chapter of the Professional Speakers Association of Southern Africa. In March 2018 Rod was inducted as a Fellow of the Chartered Institute of Customer Management.

ROD© JONES
CONTACT CENTRE CONSULTING

"I help Decision Makers
***make Good Decisions about Contact Centres***"©

rod@rodjones.co.za
+27 (0)82-568-9976
www.rodjones.co.za