

FORWARD THINKING

by Lynn Blodgett, 

Achieving Operational Excellence

To be a market leader in today's competitive, fast-changing marketplace, companies must determine what they do well and focus their energy in that discipline. In fact, with very few exceptions, today's successful organizations excel in one of three areas: Customer Intimacy, Innovation, or Operational Excellence. Fortunately, because many industries lend themselves to a particular area, determining which one best suits an organization is not difficult.

Know All, Master One

While Customer Intimacy and Innovation are key components of ACS' business strategy, as a Business Process Outsourcing (BPO) provider, Operational Excellence is critical. The nature of BPO efforts—high volumes of work, often spread all over the globe—calls for streamlined processes and functions. By achieving Operational Excellence, ACS allows its clients' to reach their business objectives more efficiently and for less money.

Over the next several issues of ACS EXEC, we will explore different components of our Operational Excellence model and show how they add value to your organization.

The primary focus of this column is "offshoring," or what ACS refers to as a global sourcing strategy. I have decided to lead with this component of our Operational Excellence model because it is so topical. It has received tremendous media attention of late, and should at least be considered by senior executives.

Balancing Competing Priorities (Show triangle graphic with the competing factions)

As corporate officers at our respective organizations, we all serve three distinct factions: our customers, shareholders, and employees. At all times, we must balance the interests of these three competing priorities. However, at the end of the day, we have to operate our organizations as efficiently and profitably as possible.

For today's organizations, especially those in Western Europe and North America, achieving those objectives often means having work performed in another country, where it can be done for a fraction of the cost. While many executives struggle with the decision to eliminate domestic jobs, responsibilities to increase shareholder value and offer customers the best prices and service can trump such considerations.

Although always difficult, these judgments are made easier by the increasing quality of work performed in places like India, Asia, Eastern Europe, Latin America, and the Caribbean. These benefits are significant and difficult to ignore. As such, the use of global resources is fast becoming an operational reality; it is no longer a question of if, but when and how.

[SIDEBAR:] Impact of Offshore Outsourcing on the US Economy

A recent study by the McKinsey Global Institute (MGI), "Offshoring: Is It a Win-Win Game?" published in August of 2003, refutes many of the purported disadvantages offshoring creates. In fact, according to the report, outsourcing may actually bolster the US economy in the short and long term.

American companies in every industry are using offshoring to trim costs and enhance profits. However, many politicians deride the practice because it eliminates their constituents' jobs and has a negative effect on the US economy. In fact, that may not be true. The MGI study found that outsourcing is as beneficial to the US as it is to the country to which work is shifted—in all probability, it is even more beneficial to the US.

Forrester, the technology research and trend analysis firm, says that by 2015, 3.3 million American jobs will be sent offshore. However, MGI's research indicates that the US will benefit in a variety of ways. For example:

- Reduced costs—Savings from lower costs can be reinvested, or passed on to consumers.
- New revenues—Outsourcing creates demand for US products in countries that perform the work, especially high-tech items.
- Repatriated earnings—Many outsourcing providers are incorporated in America. As such, this money ends up back in the US.
- Redeployed labor—Displaced US workers will take up other, more strategic jobs, creating a more valuable work environment.
- MGI estimates that \$1.45 to \$1.47 is created globally from every dollar spent by an organization that sends work offshore; the US captures \$1.12 to \$1.14 (78 percent), while the receiving country gains about 33 cents. In other words, the U.S. captures 78 percent of the total value and therefore it is a net gain for the economy.

For more information on this topic, the entire McKinsey report can be found at <http://www.mckinsey.com/knowledge/mgi/offshore>.

Offshore vs. Global Sourcing

"India fever" is sweeping across corporate America. For many executives, the term "offshore" has become synonymous with India. At ACS, we believe India is an excellent location to include in a global sourcing strategy. The country's educated workforce, familiarity with English, and strong work ethic provide tremendous advantages. However, it is never prudent to put all your eggs in one basket. Focusing on any single country is risky, especially when one considers the potential for political unrest and natural disasters, which can shut down operations indefinitely.

Additionally, the type of work being sent offshore can influence the preferred geographic location. For instance, if the work entails character recognition, it may be sent to China, where that skill is abundant. For English-based call center work, India or Jamaica might

be the preferred location. If a company features a significant Spanish-speaking market, its work might be best performed in Guatemala or Mexico.

There is no utopian answer for developing a global sourcing strategy. Most of the time, from a client's perspective, the best solution depends on the type of work required, and where it can be performed optimally—on time, within budget, and properly. Obviously, the ability to shift work quickly and uneventfully delivers gains in cost reductions, productivity, and comfort level. However, it also requires superior technology and a sophisticated, streamlined, and robust global infrastructure, such as the one ACS has developed over the past several decades.

For these reasons, we advise all of our clients to employ a global sourcing strategy—one that uses a blend of onshore, nearshore, and offshore resources—to accommodate their unique business objectives. The ability to shift work quickly, to a variety of global markets, provides all the benefits of a single site, but mitigates the risk.

Labor Arbitrage: A differentiator, but for how long?

While exploiting a global sourcing strategy can reduce costs dramatically, it is not a true long-term differentiator. *The secret's out.* In time, most companies will take advantages of global resources. Instead of a differentiator, it will become the standard way of doing business. To gain a significant long-term competitive edge, companies will require their service provider offer benefits beyond labor arbitrage-generated cost reductions.

For this reason, ACS has developed its use of global resources in both BPO and IT operations and refined its Operational Excellence model to provide clients with a sustainable competitive advantage. (SHOW GRAPHIC OF OPERATIONAL EXCELLENCE MODEL NEXT TO TEXT).

When used together, these six components enable true Operational Excellence even in the most unpredictable environments. With ACS managing your non-core operations, your organization will gain true BPO value long after most "labor arbitrage" benefits have diminished. Our processes, organizational skills, and economies of scale transcend borders, and cannot be copied by any other company. As a result, you will be able to focus your energies on excelling in Customer Intimacy, Innovation, or your own Operational Excellence model.

[SIDEBAR]

Build risk tolerance to gain all the advantages of a global sourcing strategy

Despite the potential for significant benefits, many executives are still reluctant to send their operations offshore. To overcome these concerns and gain the advantages of a global sourcing strategy, wary executives can choose from among several options that will help them build more tolerance for risk.

Depending on a company's comfort level with surrendering certain tasks, proximity may play an important role in its sourcing strategy. Rather than send work across the globe, where language barriers, time zone differences, and sheer distance can seem daunting, a mixed onshore/nearshore solution might be a more palatable alternative. With their work only a few hours away, people often feel as though they have a better view of operations, and thus more control. In time, with acceptable performance, risk tolerance may increase and other more cost-effective locations may come into play.

Another option is building tolerance through work level. Often times, a hesitant business leader will be willing to outsource so-called "Level One" work, such as transaction processing to an offshore location. After the provider demonstrates its capabilities and produces gains in efficiency, cost, and quality, the executive may be willing to hand over more strategic functions.

For example, after its accounts payable and accounts receivable tasks have been handled effectively by its service provider in India for several quarters, an organization should notice increases in efficiency and cash flow optimization. If so, its leaders may be more willing to allow the provider to manage the General Ledger work, too. By gradually increasing its risk tolerance for global sourcing, a company can effectively increase its bottom line and ultimately improve its market position.