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ROI Research Note

Business Process Optimization Through Business Process Outsourcing

Topic: Business Process Optimization

Issue:
How will IT vendors compete with outsource service companies?

While the notion of outsourcing the management of non-core business processes such as payroll or accounts receivable is not new, the concept of expanding the outsourcing of entire business processes has gathered momentum over the past 12 months.

Driven by pressures to control costs and a renewed focus on the core business, the outsourcing of selected business processes is now perceived to be a strategic decision for the proactive **optimization** of business processes that will improve enterprise performance. In other words, business process outsourcing as a business process optimization mandate is being viewed as a strategy for improving business performance metrics – which is what business process management is all about.

Growing enterprise focus on business process outsourcing (BPO) has important implications for IT enterprise solution vendors whether they license on-premise software applications or provide hosted off-premises managed services. Business process outsourcing firms will increasingly cut directly into the target markets of the traditional IT players like PeopleSoft, Oracle, SAP, and others. These outsourced solutions offer cost reduction in two ways: 1) by significantly relieving enterprises of IT management and maintenance of related information systems and, 2) offloading administrative tasks associated with the business process. Other value drivers include reduced upfront implementation and lower capital costs.

Enterprises that have already made a major investment in on-premises IT solutions may have a lower propensity to embrace outsourcing the business processes automated by those solutions but this all depends on the comparative ROI. If the ROI of the existing IT investment – including ongoing costs and net benefits – is less compelling than a demonstrated ROI for outsourcing, even enterprises with sunk IT costs may change course. To win over such customers, some BPO vendors are actually waiving upfront implementation costs, making the switching costs a non-issue.

Those businesses that opted for a hosted off-premises solution will also compare their current ROI with the likely return of outsourcing. The decision in favor of outsourcing is easier for these companies since they are not “invested” in their service provider.

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Two functional areas leading the growth of business process outsourcing are human resources and finance. Possibly because these two functions have historically outsourced at least portions of their business processes (such as payroll and retirement management), there is accelerated interest in outsourcing of:

- Healthcare benefits enrollment and administration
- Healthcare vendor management
- Benefits call centers and communication
- Defined contribution and defined benefits management
- Employee development
- Employee training
- A/R and A/P
- Transaction verification

Companies that have successfully outsourced one or more functional business processes believe their outsourcing partner is an extension of the company. Not only have they eliminated the expense of IT involvement, they have also decreased departmental operating expenses through reduction of FTEs, overtime, and temporary staffing.

How will traditional enterprise IT solution vendors compete?

One answer again lies in ROI. As enterprises are increasingly using ROI to measure the expected **and ongoing** success of implementations, IT solution vendors will have to prove – repeatedly – that investment in their offering generates a more compelling economic return than BPO. To demonstrate this, IT solution vendors may have to improve their own efficiencies (such as implementation processes) to reduce a customer's investment to the point where the ROI is competitive with an outsourced service provider. Alternatively, they can improve the feature/functionality of their offering to make customization and maintenance easier (e.g. less costly), again effectively reducing the Total Cost of Ownership.

Gantry Group expects to see an increase in partnerships between traditional IT vendors and business process outsourcing firms. Migration from on-premises perpetual solution licenses to off-premises hosted solutions will continue to grow as long as the economic advantages are sustained.

Finally, there will always be core business processes that must be kept in-house. This means that enterprises will manage business processes that are external in combination with those that are internal. This requirement offers a strategic opportunity to IT systems vendors with business performance management solutions. In order for executives across the enterprise to make real-time decisions, they must be able to access actionable information that may come from disparate business process systems. Business Performance Management solutions that integrate business process data – no matter where the transactions are executed – will be a key requirement for executives focused on timely, ongoing performance improvements.



About Gantry Group

The Gantry Group is the only management consulting firm specializing in technology ROI. The Gantry Group's ROI impact analyses are validated by primary market research to ensure accurate capture of the real value drivers and costs. With over 200 technology clients, 3,000 business process interviewers and profiles in their knowledge base, and more than 1,000 ROI business processes and value drivers modeled, Gantry offers its clients the greatest depth and breadth of ROI experience and invaluable objectivity. Since 1997 Gantry Group has provided ROI Calculators, Benchmark Studies, White Papers, Case Studies and ROI Sales Training Materials for hundreds of technology companies in healthcare, financial services, mobile/wireless and business process optimization. Gantry Group's client list of technology vendors includes leading IT vendors such as PeopleSoft, McKesson Health Solutions, Thomson Media, palmOne, Xerox, Politzer & Haney, and Best Software.

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