Outsourcing: ADDING VALUE TO THE MODEL

Outsourcing has become a standard worldwide business practice and management imperative and stakeholders are looking for more than cost-savings.

Outsourcing has becoming a more complex endeavor, going deeper into the value chains of companies. That means the bar is being raised in terms of what companies are expecting from their BPO providers.

Outsourcing is big business, according to Accenture, accounting for several hundred billion dollars in direct and indirect revenue each year. Within the research space alone, the CRO market was valued at $13.6 billion in 2012. This was a 10.2% increase year-to-year, from $12.4 billion in 2011, driven mainly by greater demand for outsourced clinical services as drug makers look to contractors as a strategy to off-set the high cost of bringing new therapies to market, according to GlobalData.

Until recently, companies were looking for something relatively straightforward from a BPO relationship: greater efficiency, streamlined operations, and lower costs. Today, according to a recent Accenture report, companies expect more: business insight, innovation, industry expertise, solutions adapted to more individualized needs, a commitment to continuous improvement and more. That is, the BPO industry today is moving to a "cost-plus-value" proposition focused on delivering strategic business impact, not just operating cost reductions.

Managing that value proposition across the life cycle of a BPO relationship is complex and can be accompanied by insecurities that stem beyond the precarious traditional sponsor-vendor relationship.

Deloitte acknowledges that new risks and challenges are surfacing with today's outsourcing initiatives, including complex outsourcing options, integration issues, and governance requirements. If these risks aren't managed effectively, Deloitte analysts say, they can adversely impact an organization's financial performance, operating model integrity, and reputation.

They suggest that organizations should consider risks and challenges at each key phase of the outsourcing life cycle, from defining the strategy to managing ongoing operations.

As companies continue to divest more and more noncore functions, their portfolio of service providers continues to grow and managing these relationships becomes increasingly more complex.

This broad range of emerging service providers, engagement models, technologies, and delivery locations are presenting new and significant trade-offs and interdependencies, Deloitte analysts say. At the same time, as organizations are extending outsourcing to a broader set of business processes — beyond IT services and back-office functions — stakeholders are demanding higher value beyond labor-cost arbitrage.

Today, companies expect more from their outsourcing relationships; they want business insight, innovation, industry expertise, solutions adapted to more individualized needs, a commitment to continuous improvement, and more.

Accenture, in conjunction with the Everest Group and the Outsourcing Unit at The London School of Economics, determined there were eight characteristics that separated typical BPOs from high-performance BPOs, and these best practices produce business value for a company that exceed that of its industry peers in a way that can be sustained over time.

High-performing BPO relationships were determined by satisfying a dual criteria test: they meet several minimum requirements, including financial objectives, service level objectives, and deliver consistent and predictable service; they also capture value beyond cost-savings. The seven potential sources of additional value include: provide flexibility for changing volumes, prepare for changing business conditions, improve the entire process, improve performance in other parts of the organization, create additional sources of value in the future, deliver business outcomes not originally expected, and increase top-line performance.

Achieving High Performance in BPO

A relatively small number of BPO clients — 20% of those participating in Accenture's research study — have succeeded in extracting greater business value from their BPO relationships than the majority. These are practitioners of high-performance BPO. These organizations demonstrate best-in-class behaviors and practices in several areas.

1. **End-to-end approach:** A holistic approach to managing the scope of the BPO relationship
2. **Collaborative BPO governance:** Adopting a partnership attitude
3. **Change management:** Managing the effects of change during transition and beyond
4. **Value beyond cost:** Focusing on benefits beyond cost reduction
5. **Business outcomes:** Targeting strategic outcomes, not just more efficient transactions
6. **Domain expertise and analytics:** Contextualizing data to create business value
7. **Transformation of the retained organization:** Enabling the retained organization to perform effectively in the new environment

Source: Accenture. For more information, visit accenture.com

It's No Longer a Question of Core Versus Noncore

As outsourcing has become an accepted management practice across most companies and industries, companies' comfort levels about what functions can be outsourced has increased based on initial successes. Accenture analysts say the entire issue of core competencies that once dominated discussions about the outsourcing industry — what's core, what's noncore, what should be retained and what should be outsourced — has been turned almost on its head. The key question being asked today is less, "How much should we keep?" and more, "How much can we assign to a provider that can perform processes for us better now, and even improve them in the future?"

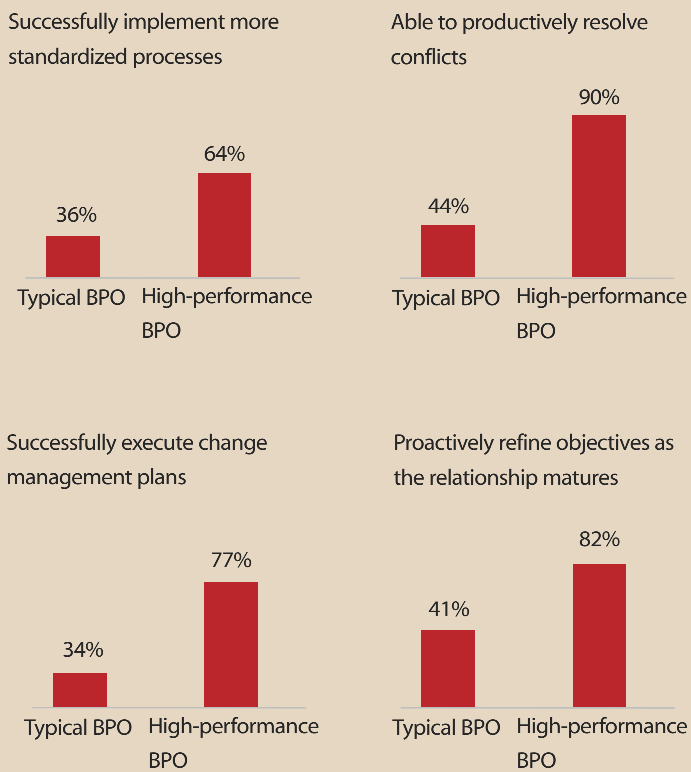
Because many organizations are using a portfolio of vendors and a hybrid operating model that combines internal shared services, outsourcing, and cloud-based solutions, the challenges associated with vendor governance and service integration are compounded. In addition, according to Deloitte, many organizations aim to foster healthy competition among internal and outsourced service providers, leading to processes with elements delivered by multiple parties. Such environments may lack a single point of control and accountability. A fragmented multi-vendor environment and the absence of an effective service integrator can undermine alignment, generate inefficiencies, erode cost savings, create control issues, and hinder innovation.

Accenture analysts say because BPO is becoming a more complex endeavor, going deeper into the value chains of companies, this means the bar is being raised in terms of what companies are expecting from their BPO provider. Until fairly recently, a company was looking for something pretty straightforward from a BPO relationship: greater efficiency, streamlined operations, and lower costs.

Because the performance bar of BPO is being raised, some companies and providers are clearing that bar and some aren't. According to Accenture some companies and providers are creating BPO arrangements that are driving better business value — extracting more value from deeper relationships, producing more extensive analytics-based insights, and leveraging the scale and experience a provider gains within and across multiple industries. In short, Accenture analysts say, some companies are driving toward high-performance BPO, leaving their peers — at least for now — in the rearview mirror.

High Performing BPOs

Across a broad range of practices, attitudes and behaviors, the disparity between high performers and typical performers in BPO was often great.



Source: Accenture

Managing the Risk

Deloitte analysts warn that regulatory developments are increasing the liability exposure that organizations may face in outsourcing. Senior management and the board may be held accountable for noncompliance associated with third-party operations. For example, the U.S. Office of the Comptroller of the Currency (OCC) has emphasized controls used by financial services organizations to manage risks associated with outsourcing, and the Consumer Financial Protection Bureau (CFPB) has investigated inappropriate marketing tactics of organizations and outsourcing partners.

Apart from complexities and risks, improperly planned and managed initiatives typically fail to deliver the anticipated benefits. In Deloitte's OAS Survey, 48% of respondents had terminated an outsourcing contract in the past, primarily due to concerns with service quality. Additionally, a total of 24% indicated a less than satisfactory rating for their most recent outsourcing initiative, and many respondents reported lower-than-expected cost savings.

Addressing the risk issues involved with outsourcing calls for an approach that recognizes and manages risk at the global enterprise level. This approach should — also at a global level — help align business objectives and internal and external resources, implement sound governance and controls, and address all relevant regulatory and compliance matters, according to Deloitte. They suggest as a critical first step to consider in any outsourcing initiative is to identify key risks at each phase of the outsourcing lifecycle. The next steps are to measure, track, and manage all risks associated with specific outsourcing strategies and across the organization's outsourcing activities.

A Global Perspective

Within the clinical research arena, BRIC and other emerging regions are seeing a flood of investment and business activity from CROs. In 2012, combined CRO peer group revenue in the BRIC regions increased 14.6% above 2011 levels to $394 million. GlobalData expects this trend to continue into the near term, with CROs looking to increase their share in these lucrative markets.

Adam Dion, GlobalData's analyst covering healthcare industry dynamics, says Asia, Central, and South America, as well as Eastern Europe, have become attractive regions for pharmaceutical outsourcing as a result of easy access to a large number of treatments, low labor and manufacturing costs, and highly skilled medical workforces.

"Having an on-the-ground regulatory support and local infrastructure are key to implementing a successful product commercialization strategy in these emerging markets, particularly in China and India, where approval timelines are considerably protracted," he says.

In its recent OAS survey, Deloitte found that more organizations are adopting a global delivery model for their outsourced services. Their analysis found that more than half of the respondents plan to offshore or nearshore the majority of their outsourced functions, such as finance, human resources (HR), information

VIEWPOINTS

JOHN HUDAK
President
Criterium Inc.

Matching Talent to Business Needs

Outsourcing has an undeserved reputation. When businesses hear the word outsourcing, they imagine lost revenue or expensive consultants. Neither of those defines the outsourcing paradigm properly. At its very best, outsourcing is a channel to match the best talent with specific business needs. The shift from a pure vendor-buyer transaction to a true business partnership relationship requires that staff members develop relationships that are transparent and based on commitment and trust. Too often the buyer and vendor court each other based on cost rather than capabilities, similarity in values, and common goals. When done right, an outsourcing strategy that stresses these values reduces expenses and increases the bottom line, providing a dynamic working situation that brings out our best.

RAJ INDUPURI
Executive VP, Principal Partner
eClinical Solutions

Having a Partner Mindset

Shifting from a pure vendor-buyer transaction to a business partnership relationship starts with a partner mindset. We follow four best practices. The first is build relationships and understand the client's business and needs, and work collaboratively on solutions. The second is think team, and by that we mean trust and respect each other's core competencies to develop innovative solutions and minimize risks. The third best practice is have transparency — share updates on milestones, progress, and challenges regularly. Finally, keep it simple and strive for deliverables to be easily understood. Our goal is to clarify and simplify the process.

JEN OHME
VP, Client Services
MedNet Solutions

E-clinical Outsourcing Considerations

E-clinical solutions outsourcing can have multiple meanings. It's therefore important for sponsors and CROs to be aware of the specific e-clinical responsibilities that could be outsourced, and weigh the pros and cons of each. E-clinical outsourcing typically starts with the hosting of the e-clinical application, eliminating the need for customers to install or support any hardware or software. Responsibility for e-clinical solution configuration, testing, and validation may also be transferred to the technology vendor, or to one of their accredited partner organizations. Even though today's leading e-clinical solutions are relatively easy to configure, leveraging outside experts may lead to faster and more cost-effective deployments for low study volume customers, and can be an excellent workload overflow mechanism for do-it-yourself sponsors and CROs. Finally, end-user training and support may also be outsourced to experienced professionals highly familiar with the system. Carefully weigh outsourcing alternatives and select a partner that accommodates your unique requirements.

MARK SCULLION
Senior VP
Strategic Resourcing
inVentiv Health, Clinical

The Right Mindset

The vendor should, of course, have the necessary capabilities and be a good cultural fit with the sponsor. Beyond that, a vendor's suitability often comes down to mindset. Vendors entering into such long-term, strategic partnerships must be willing to share the sponsor's goals, concerns, and risks, recognizing that they go well beyond the financial. Vendors must also demonstrate an ability to be proactive in identifying issues, making recommendations, and innovating to add value continually.

Complexity Comes at a Price

They should expect pricing design to reflect the complexity of clinical trials. If it doesn't, the vendor may be inexperienced in it, or not understand all the drivers. The vendor will have to consider a multitude of variables — related to the scope of work, the quality required, and the risk involved — even if the deliverables are simple units of work. Overly simple pricing may result in later confusion, or additional costs.

MARK WHEELDON
CEO
Formedix

Management Standards

With the rapid, and continuing increase in CDISC/NCI/TransCelerate standards — 45 new standards since 2010 — the amount of time, cost, and effort being devoted to standards management is becoming overwhelming. Where do you start with standards? How do you keep up-to-date and manage content changes when a newer version of these standards is released? To ensure your studies are always standard compliant, we suggest you investigate an outsourced standards management service and invest in automated compliance.

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technology (IT), procurement, and operations. This trend is driven by demands for integrated global delivery solutions that fit specific requirements for regulatory compliance, talent, cost, proximity, language proficiency, tax efficiency, sustainability, and business continuity. While the benefits of "right-shoring" can be substantial, if not properly designed and managed, a global delivery footprint can lead to significant geopolitical, foreign exchange, inflation, and reputational risk.

Trends to Watch

According to Datamark Inc., trends expected to shape the business process outsourcing industry in 2014 and beyond include robotic process automation technologies, a focus on the midmarket for business opportunities, and a surge in the "mobile-app-for-business" revolution.

Datamark has identified five top BPO trends. In no particular order, the first is pioneers and new entrants gain traction in the robotic process automation/autonomics space.

Automated systems, such as forms classification and data capture, have been around for years, but these new platforms purport to be the second-generation of business process automation. Because these software robots operate at a fraction of a cost of a human, and can work 24/7/365 without any breaks, industry analysts predict this technology will completely transform BPO.

Datamark predicts that there will be more BPO movement onshore and nearshore.

Several factors continue to work together to shift outsourcing activity back to the United States and its nearshore neighbors: rising wages in China and India; consumers demanding contact-center service from agents who speak American-accented English and Latin American Spanish; and companies preferring to work with outsourcers who are geographically close and within familiar time zones.

Mature client-outsourcer relationships will lead to a gradual shift to outcome-based pricing models, Datamark analysts say.

Outcome-based pricing — paying for a predetermined business result — can be very complicated, so expect to see this happening among highly experienced clients and outsourcers who have built mature relationships. Partners who have developed a good sense of trust and fairness for both parties will develop contracts that have a sliding-scale of rewards for approaching desired outcomes — they won't lock providers into an adverse all-or-nothing scenario.

The fourth trend cites that customer contact center services will reach higher levels of sophistication.

The world will recognize the evolution of "human-powered" customer service. Once a customer has exhausted self-service options — FAQs; intelligent, web-based CSR robots; interactive voice response (IVR); etc. — and needs a "real person," the customer will likely speak to a highly skilled agent trained to handle complex problems in more than one language and through multiple communication channels.

The last trend identified by Datamark is that BPOs will engage the midmarket for opportunities.

According to their analysts, BPO providers love the big fish — Fortune 500 companies with scores of outsourceable FTEs and straightforward labor-arbitrage deals with attractive margins. But in a saturated market, these plum deals are harder to come by. So BPO is turning to the midmarket, which presents a different set of problems. Smaller companies often are not mature outsourcers, so it takes time to build trust and good relationships. The labor economics are smaller, which means companies seek pricing based on outcomes — a tough proposition for big BPOs comfortable with transactional pricing. PV

Outsourcing Checklist: Phases of Deployment

Phase 1: Define strategy and operating model

1. Articulate and prioritize outsourcing objectives, and align them to overall business strategy and target operating model.
2. Understand the scope, requirements, and constraints early in the process to support the outsourcing strategy and key design decisions.
3. Build a business case to provide a baseline for evaluating potential sourcing scenarios.

Phase 2: Develop solution and request for proposal

1. Invest sufficient time and resources to build a comprehensive RFP document and process.
2. Engage stakeholders with deep subject matter expertise and process knowledge to develop and review the RFP document.
3. Build a rigorous RFP evaluation process which includes predefined evaluation criteria.

Phase 3: Evaluate deal and manage transaction

1. Engage a well-qualified stakeholder group to objectively evaluate the vendor proposals based on agreed-upon criteria and weighting.
2. Conduct reference checks to validate each finalist's track-record, service delivery capabilities, values, and reputation.
3. Assess risks through onsite due diligence visits to the service locations once finalists have been selected.
4. Mobilize an experienced negotiation team with defined roles, authorities, communication protocols, and escalation mechanisms.

Phase 4: Execute transition and transformation

1. Develop a detailed transition plan to migrate the service operations to the target operating model.
2. Establish a robust TMO as a part of the overall VMPO to lead and govern the transition to steady state.
3. Work jointly with the vendor to conduct PCV to validate and refresh the critical solution assumptions.

Phase 5: Manage ongoing operations

1. Develop and institutionalize a structured, responsive governance model to continuously align interests and jointly manage risks, enhance performance, and maximize value creation beyond service delivery.
2. Create a strong VMPO that brings process disciplines to strategic outsourcing programs to reduce cost, improve productivity and overall performance, preserve savings, and manage risks.
3. Create assessment programs for setting measures of success, and monitoring performance and risk
4. Conduct audits and onsite inspections to verify performance and compliance with contract provisions.

Soure: Deloitte. For more information, visit deloitte.com.

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