Competing for the Future with Business Process Outsourcing

By Howard Smith and Peter Fingar

Change occurs at many levels within an organization. Some change takes place on a grand scale, some on a small scale. Some change is gradual, some radical. Employees come and go, teams morph and take on new roles, existing processes evolve, new processes are introduced and the company responds to the market by honing its products and services to expand its market share. Change is everywhere.

What about the process of entering brand-new markets, or shifting business models 180 degrees, adding new lines of business, or other forms of truly radical *business model* change? The costs and difficulties involved in such strategic change, if it is to be accomplished with reengineering, are well known. Companies have to deal with new channels almost as new businesses, transferring core competencies with superior process design so that the company can attract, motivate and retain the right people. The unfavorable cost/benefit curve of traditional reengineering precludes a good number of the desirable strategic options to achieve this. And reengineering focused on improving processes one by one, mostly inside a single company. There is another way.

What if a company could reinvent itself without painful reengineering? Instead of reengineering its existing processes and building new processes from scratch, what if it could simply *acquire* the best practice and best-in-class business processes it needed to transform its business to the extent of radically redefining what the company is and does? What if a company could use plug-and-play business processes to aggregate completely new lines of business—to establish new market channels, to cross-sell new goods and services that complement their current line, to expand their product line without additional capital investment—what some have called "competition by outguessing links in the supply chain"? Business process management makes a whole new world of Business Process Outsourcing (BPO) not only possible, but also practical, manageable and cost effective.

Under last decade's reengineering model, a company could rebuild selected business processes—with BPO it can restructure its *entire* business. BPO becomes a new form of "mergers and acquisitions." What BPM adds to BPO is the capability it gives to partners to retain control of business processes even if they reside partly or wholly with others. With this ability, companies can both produce and consume numerous business services. They can acquire new "virtual" processes, as represented by assets such as people, skills, machines and intellectual property, which makes it a totally different proposition from *reengineering* existing in-house processes. Instead of

process design, the emphasis is on process combination and the construction of a *managed virtual enterprise*.

Building and managing process-based relationships shifts boundaries and introduces new capabilities without diverting capital, time and organizational energy. A classical example is contract manufacturing. Cisco doesn't *make* routers, Levis doesn't *make* jeans, Boeing doesn't *make* airplanes. Their contract manufacturers do. The key tools for importing business resources are business process management, outsourcing discipline and value-chain integration.

The traditional distinctions between outsourcing, value-chain integration and process management are blurring. Where once companies outsourced well-defined, bounded, functional business domains (and the associated stovepipe IT applications) process management lets companies slice and dice *end-to-end* processes they choose to outsource in different ways and with finer granularity. Outsourcing is becoming more collaborative, and value-chain integration is growing more dependent on business process management. Collaboration is literally *defined* through processes, and companies can be both consumers and providers of outsourced business processes. Many companies who have already integrated their value chains have unbundled services for distribution to others, and process management will make it possible to further progress along these lines.

Shared process management, using a standards-based language for process representation instead of a "standard, one-size-fits-all process," will allow processes in different companies to collaborate more easily, and a wide range of outsourcing and service models will emerge. Industry gorillas in sectors as diverse as chemicals, aerospace, retail and high tech already understand this. As BPM technologies mature, industry vocabularies will be used in conjunction with process modeling languages to empower change as never before. Already, some BPM vendors are producing vertical BPM templates for supply chain management. Companies with such BPM capabilities will be able to serve their customers better and faster. They will be able offer higher quality at a lower cost with greater economies of scale, increasing their profitability. They will be able to respond to new marketplace opportunities more readily by bundling or unbundling business relationships in both demand and supply channels. In its various forms, business process outsourcing, enabled by process management, changes the rules of engagement on the battleground of business competition.

Companies must aggregate products and services into total solutions by pioneering complete value chains to deliver those solutions. Customers are demanding total solutions. A plane ticket is not a vacation. Customers in both business and consumer markets want complete solutions. Companies must change their focus from the products and services bundles they now provide to the coherent processes their customers expect to fulfill their complete requirements. Buying a home, for example, requires many ancillary resources such as a mortgage, appraisals, and title and property insurance. By aggregating and combining many resources of various kinds in a complete value chain around a complete home-buying solution, a company can gain significant competitive advantage. It's no longer company versus company; it's value chain versus value chain, where the "average" value chain may involve twenty or more discrete participants. It's no longer Sears competing against J. C. Penney; it's

Sears' value chain competing against J. C. Penney's value chain. It's Home Depot's value chain competing against Lowe's value chain.

If you are, let's say, a realtor, tucked away in your tidy real estate industry, watch out! The "home" in Home Depot, once just a building and improvements supply store, may soon refer to a *total solution*—providing the customer with the finished house and the land it sits on, by establishing new trading partner relationships and developing totally new value chains. This *process of process acquisition, aggregation and combination* is the new way companies will offer total solutions to their customers, disrupt incumbents and dominate new markets.

This column is dedicated to those at work every day building the company of the future, the process-managed enterprise. We look forward to your feedback that will help shape this discussion. Like the third wave of BPM itself, this column will be built not just to last, but also to adapt to your needs and interests. Write to us at authors@bpm3.com

About the Authors
Howard Smith is CTO (Europe) of Computer Sciences Corporation and co-chair of the Business Process Management Initiative (BPMI.org). Peter Fingar is an executive partner with the Greystone Group. They can be reached at authors@bpm3.com. Smith and Fingar are the co-authors of Business Process Management-The Third Wave. Preview the book at www.bpm3.com.