

• Joint Venture

- In this engagement model, the customer organization and offshore supplier set up a joint venture entity that will predominantly service the customer's business. The offshore supplier brings the local expertise and service skills while the customer brings its knowledge of the existing business function while maintaining greater management control.

• Build Operate Transfer

- Through this model, the outsourcing provider helps the client set up the contact center from start to finish. The association covers establishment of the location, acquisition of facilities and staff and extends to actually running the center for a defined period. Once the center and services are well established, management and ownership is transferred to the customer. This proven service transfer platform is designed to ensure process integrity and minimize inherent migration risks.

• Traditional Outsourcing

- In the traditional outsourcing an entire business process is moved offshore in order to leverage the expertise and cost benefits offered by the outsourcing partner. This model works well for routine, non-critical business processes. The outsourcing company takes complete responsibility for carrying out the business process. The company makes quality measurements on process outcomes, but does not directly manage the process.

• Co-Managed Outsourcing

- Co-managed outsourcing follows the traditional outsourcing model; the only difference is that a manager from the customer organization is located at the offshore center. This approach provides an added level of confidence because of the presence of an experienced company manager, while it takes full advantage of the offshore partner's knowledge of local laws and culture.

• Assisted Build Out

- The Assisted Build Out model works well for organizations that require assistance with specific processes associated with captive operations. Some of the processes include recruitment, training or quality initiatives.

• Reserved Capacity

- The reserved capacity model, primarily meant for captive operations enables the purchase of enough outsourced capability, in terms of staff and infrastructure, to perform a certain amount of work. This capacity is kept in place, regardless of the workload. When this option is employed, the captive center does not have to adjust staffing to meet workload demands - thus avoiding the expenses associated with constant staffing readjustments.

BORING!!

- Have one.
 - Appoint someone in charge of analyzing BPO opportunities. Charge this person with developing, documenting, and ultimately executing BPO strategy.
 - Similar to the development of e-Commerce departments (which have gradually assimilated into more generic business/IT divisions) BPO departments must have single purpose to start with – once your LOB managers are experienced in managing whatever models you have in place, then ownership of BPO can diffuse back to them.
 - Too often we reach firms where there is ambiguity regarding outsourcing ownership. These decisions are too politically and financially charged to leave in the hands of organizational inertia.
- Outsource it.
 - High level feasibility and cost-benefit analysis of your processes need not be time or resource intensive.
 - Gather the documentation you have on your current processes, pick 2 or 3 reputable firms, and have them provide you their opinions.
 - Invite your vendors into brainstorming/strategy development sessions –they have servicing AND BPO experience, you get free consulting for the day, and they'll buy lunch.
- Update it.
 - If you haven't updated your BPO strategy since entering this new credit and default environment – it's time to do so.
 - You might be surprised at the breadth and complexity of services being outsourced/offshored today.
 - Retrenchment and status quo reigned in H2 07' – However, Dec 07' and Jan 08' have seen some major operational initiatives, including BPO, being executed by mega-lenders/servicers – what are you doing?

- **Top 10 Drivers Behind Today's Outsourcing Decisions (in alphabetical order) SOURCE: The Outsourcing Institute www.outsourcing.com**
- **Accelerate reengineering benefits**
Reengineering aims for dramatic improvements in critical measures of performance such as cost, quality, service and speed. But the need to increase efficiency can come into direct conflict with the need to invest in core business. As non-core internal functions are continually put on the back burner, systems become less efficient and less productive. By outsourcing a non-core function to a world class provider, the organization can begin to see the benefits of reengineering.
- **Access to world class capabilities**
World class providers make extensive investments in technology, methodologies, and people. They gain expertise by working with many clients facing similar challenges. This combination of specialization and expertise gives customers a competitive advantage and helps them avoid the cost of chasing technology and training. In addition, there are better career opportunities for personnel who transition to the outsourcing provider.
- **Cash infusion**
Outsourcing often involves the transfer of assets from the customer to the provider. Equipment, facilities, vehicles and licenses used in the current operations have value and are sold to the vendor. The vendor then uses the assets to provide services back to the client. Depending on the value of the assets involved, this sale may result in a significant cash payment to the customer.
- **When these assets are sold to the vendor, they are typically sold at book value. The book value can be higher than the market value. In these cases, the difference between the two actually represents a loan from the vendor to the client, which is repaid in the price of the services over the life of the contract.**
- **Free resources for other purposes**
Every organization has limits on the resources available to it. Outsourcing permits an organization to redirect its resources, most often people resources, from non core activities toward activities which serve the customer. The organization can redirect these people, at least the staff slots they represent onto greater value adding activities. People whose energies are currently focused internally can now be focused externally -- on the customer.
- **Function difficult to manage or out of control**
Outsourcing is certainly one option for addressing this problem. It is critical to remember that outsourcing doesn't mean abdication of management responsibility nor does it work well as a knee jerk reaction by a company in trouble.
- **When a function is viewed as difficult to manage or out of control, the organization needs to examine the underlying causes. If the requirements expectations or needed resources are not clearly understood, then outsourcing won't improve the situation; it may in fact exacerbate it. If the organization doesn't understand its own requirements, it won't be able to communicate them to an outside provider.**
- **Improve company focus**
Outsourcing lets a company focus on its core business by having operational functions assumed by an outside expert. Freed from devoting energy to areas that are not in its expertise, the company can focus its resources on meeting its customers' needs.
- **Make capital funds available**
There is tremendous competition within most organizations for capital funds. Deciding where to invest these funds is one of the most important decisions that senior management makes. It is often hard to justify non-core capital investments when areas more directly related to producing a product or providing services compete for the same money.
- **Outsourcing can reduce the need to invest capital funds in non-core business functions. Instead of acquiring the resources through capital expenditures, they are contracted for on an "as used" operational expense basis. Outsourcing can also improve certain financial measurements of the firm by eliminating the need to show return on equity from capital investments in non core areas.**
- **Reduce operating costs**
Companies that try to do everything themselves may incur vastly higher research, development, marketing and deployment expenses, all of which are passed on to the customer. An outside provider's lower cost structure, which may be the result of a greater economy of scale or other advantage based on specialization, reduces a company's operating costs and increases its competitive advantage.
- **Reduce risk**
Tremendous risks are associated with the investments an organization makes. Markets, competition, government regulations, financial conditions and technologies all change extremely quickly. Keeping up with these changes, especially those in which the next generation requires a significant investment, is very risky.
- **Outsourcing providers make investments on behalf of many clients, not just one. Shared investment spreads risk, and significantly reduces the risk born by a single company.**
- **Resources not available internally**
Companies outsource because they do not have access to the required resources within the company. Outsourcing is a viable alternative to building the needed capability from the ground. New organizations, spin-offs, or companies expanding into new geography or new technology should consider the benefits of outsourcing from the very start.

- Costs

- LOWER COSTS

- Despite a weak trending dollar, there are still significant labor arbitrage opportunities – 20%? 30% -- or even more for complex or value judgment services like loss mitigation and collections.

- VARIABLE COSTS

- Variable cost structures – not just lower per unit costs, but cost structures that are more closely correlated to revenues / volumes.

- Quality

- For most services, vendors will structure deals where quality is guaranteed financially.

- What do you do when internal resources make a mistake? Do you dock their pay? Do you fire them? How do you recoup the costs of lost quality?

- A swelling class of mortgage professionals now exist in other countries, especially India.

- Technology enablement, improved on-line training, excess experienced capacity exists offshore just like here in the states – it is a buyer's market...

- Shareholder accountability

- Similar to the way that “Software as a Service” has disrupted traditional technology implementations; BPO is disrupting traditional operational tactics.

- The vanguard have entered the phase where their BPO partnerships have intrinsic value beyond costs and quality – where BPO enables entirely new operating models, where BPO is consumed almost like a utility or technical web-service. Technology and global socio-economic evolution will continue to flatten operations.

- Lender/servicer hold outs will be adversely selected and/or marginalized into niche market services.

- The stigma of outsourcing/off-shoring has normalized – your customer and shareholders want cheaper (costs) and better (quality) service/products. They truly don't care how you do it – stop allowing a vocal minority to drive your bottom line.

- **Unclear scope / scope creep:**
 - Start small – talk to your peers at this conference...talk to your vendors...replicate the successes of those who have beaten you to market.
 - Once your general rules of engagement (IT, Security, HR policy, Reporting, AR) are proven, additional services may come online very rapidly. Moving too quickly without proving the foundation will result in failure.
 - IF you are experienced, large complex deals involving entire departments/operations centers are feasible and can provide fundamental shifts in capital and human resource allocation and accounting
 - Measure your current costs/performance FIRST. You cannot defend a business case nor measure BPO ROI if you do not have a measure of the current state.
 - Get the vendors that cold call you all the time to pitch in – ask them to show you their SOP's for a service. Get a quote on cycle time and quality benchmarks. Compare this to internal or use this as the jumping off point for internal analysis.
 - If the vendor or your internal staff cannot produce a well documented process flow in very short order – then chances are you want to look at a different service and/or vendor.
 - Do not underestimate the level of granularity in which a service can be broken down and outsourced. Think sub-process level analysis not process level.
- **Indecisiveness,**
 - Appoint or assume leadership of developing, defending/disputing, and executing the business case for BPO. Who is going to make this happen?
 - Are your shareholders satisfied with the status quo? Are you sure your department's work cannot be done *significantly* cheaper/faster/better?
- **But we have this other big technology/facilities/process engineering/finance project underway...**
 - We hear this story all the time...we'd love to talk to when things calm down a bit....catch me next month...
 - It's like starting a healthy diet or exercise program – it's never going to be a good day to start...just start...
- **Parkinson's law, Murphy's law, and US mortgage regulatory law are all in full effect...Any or all of which could de-rail your project.**
 - Transitioning services to a third party has the same risks as most internal process re-engineering or technology projects.
 - Mitigate the risks through adequate planning and documentation -- there is no magic process nor is there any substitute for smart and experienced people running your project.