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BPR Triggers Outsourcing Demand

The interrelationship between Business Process Reengineering (BPR) and outsourcing is in its infancy. The popularizing of the BPR label for consulting services can be traced to the publishing of *Reengineering the Corporation*...by Michael Hammer & James Champy in 1993. The concept of BPR, whatever the label, has been used for many years but the Hammer & Champy book brought the concept to the business masses. The book also clearly separated process from function and defined technology's role as an enabler to change. The clear BPR message is to focus on core processes and use technology to accelerate the process redesign, development, implementation and operation. What is implied is the noncore process must be subordinated in terms of resource and priority. These processes and the systems that support them must either be discarded or delegated. One source of delegation is outsourcing vendors.

Another effect of the "BPR-ing" of corporate America is the need to migrate to new technologies to support the reengineering effort. This requires additional resource during this period with a demand for transitional outsourcing a common result. But much of the BPR activity is just beginning. Is it too soon to see the impact of the BPR demand on outsourcing? Is it possible that outsourcing has triggered demand for BPR? This Research Bulletin investigates the demand for outsourcing services derived from BPR projects and the timing between BPR and the potential demand for outsourcing services.

Introduction

In the Spring of 1994, INPUT conducted 56 telephone interviews with major corporations and government institutions in the United States. In each case, these entities have conducted at least one BPR study. In addition, INPUT also conducted extensive interviews with 12 BPR and outsourcing vendors. Typically, there were multiple interviews with each vendor, reflecting the different perspectives of the consulting and outsourcing organizations.

Demand

Nearly 80% of vendors and users believed the BPR projects directly led to outsourcing contracts. BPR projects can provide the following results that encourage the outsourcing decision:

- BPR projects identify reasons to delegate functions and processes to external resources.
- BPR projects may redesign processes that cross organizational functions as well as the IS applications that support those functions. This redesign may require not only new system development but the operation of the legacy systems environment during the development and conversion phases. The systems activity could trigger demand for outsourcing the legacy environment and/or the development and operation of the new systems environment.
- BPR helps the client focus on the customer and the processes that satisfy the customer's demand. Once the client agrees the customer is their priority, the barriers to outsourcing processes and functions that do not directly support the customer are removed.

Exhibit 1 lists the ways BPR impacts the outsourcing decision.

Exhibit 1

BPR's Impact on The Outsourcing Decision

- Breaks the Barriers to Outsourcing
- Creates Demand for IS Services
- Focuses on the Customer

Source: INPUT

Two-thirds of the users believed BPR impacted the outsourcing scope and the decision making process. BPR affected these processes by:

- Changing the decision making system by establishing tangible vendor selection criteria.
- Identifing noncore processes that expanded the number of processes that were candidates for outsourcing.
- Identifing cost saving areas that were incorporated into outsourcing vendor performance measurements.

BPR also impacted the outsourcing contract process as follows:

- Simplified the outsource agreement
- Caused more in-depth decision making
- Improved understanding of the business requirements

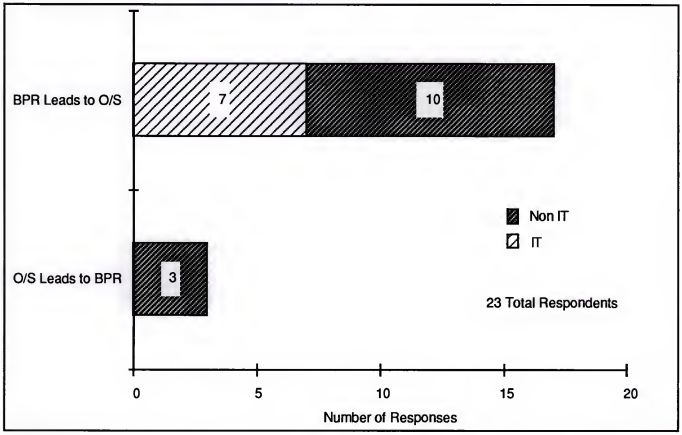
The study also concluded that outsourcing has very little influence on the decision to launch a BPR project. Although there were instances where this occurred, the influence of outsourcing on the BPR decision was:

- To demonstrate the benefit of using external suppliers.
- To trigger questions about the business process/function being outsourced.

Exhibits 2 and 3 indicate the perceived relationship between BPR and Outsourcing services

Exhibit 2

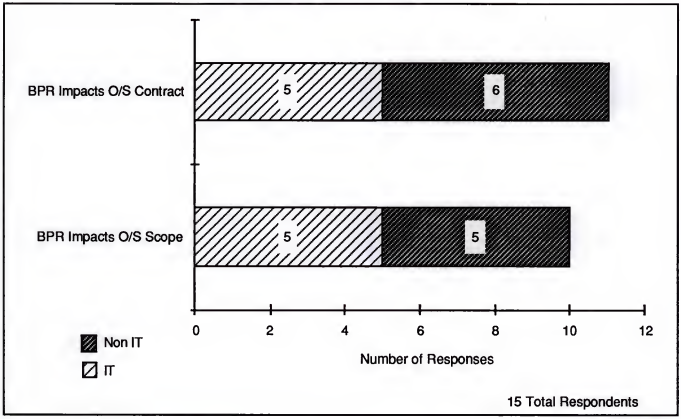
The Interrelationship Between BPR and Outsourcing



Source: INPUT

Exhibit 3

BPR Impact on Outsourcing Content



Source: INPUT

BPR provides focus. Users believe they understand their business objectives better due to BPR. This insight allows them to translate these business requirements into more effective outsourcing contracts.

Exhibit 4 lists the most popular outsourcing projects launched by BPR studies:

- Information System functions/ processes were the obvious leader. These ranged from outsourcing the EDP Audit function to the more traditional systems support and communications outsourcing.

- Order-to-Collection process was the most frequently identified non-IT-specific process. Included in this process were: order fulfillment, transportation, billing and collection.

- Procurement/Supply Chain outsourcing included various purchasing and systems functions.

Exhibit 4

BPR Driven Outsourcing Projects

1. Information Systems
2. Order-to-Collection
3. Procurement / Supply Chain

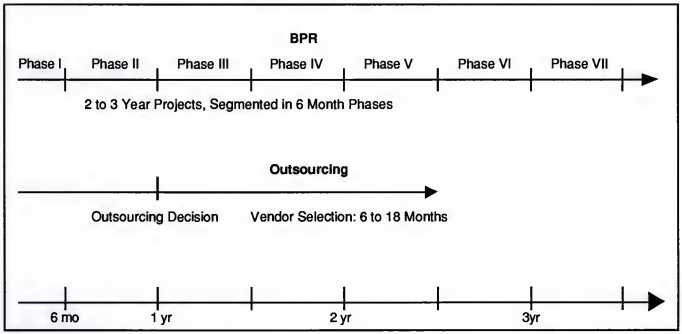
Source: INPUT

Timing Between BPR and Outsourcing

BPR projects typically last from two to three years but are constructed in three to six month phases. The reason for the segmented approach is to provide dramatic results quickly. In many cases, subsequent phases are financed by the savings/increased revenue generated by the initial BPR phases. The users in the study that had their outsourcing contracts driven by their BPR studies found there was a six-month lead time between the start of the BPR study and the decision to outsource a process. In addition, INPUT's research has found the outsourcing selection and contract negotiation process can take from six to eighteen months depending on the scope and complexity of the outsourcing engagement. Given this timing (see Exhibit 5), the time from the start of a BPR project and the start of a resulting outsourcing contract can be two years or more. Since BPR as a separate practice is less than three years old, it is very early in the process to see the true impact of BPR on outsourcing.

Exhibit 5

BPR/Outsourcing Timing



Source INPUT

However, at this early stage of BPR development, indications are that there is a causal effect on outsourcing created by BPR. BPR can be viewed as an education process for the corporation and also a means to focus on the important areas of the company without regard to organization and functional structures. Once the education process is completed, many companies will find themselves reconstituted into a virtual entity that includes external suppliers for not only selected IS services but also for inventory management, accounts receivables and possibly even customer services. BPR can not only reinvent the company but it can also reinvent the "sourcing" of operational processes and functions. The major impact on "the sourcing" model is one of the few items that vendors and users agreed upon during this study.

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