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Getting SMBs Acquainted With BPO

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In 2006, small and medium-sized businesses accounted for just 7.8 percent of a \$50 billion business process outsourcing market, according to Gartner. Those numbers are expected to grow; however, many SMBs are still wary of farming out parts of their businesses. Some BPO specialists are trying to change perceptions as they cater to smaller firms -- businesses which may need their services the most.

Good news for the economy: Small business outsourcing has gone mainstream thanks to the increased use of automation technology -- computers, software and the Internet powering cost-efficient outside service provider teams.

Bad news for outsourcing service providers: Small and mid-sized businesses (SMBs) are proving to be slow on the uptake.

The basic premise of business process outsourcing (BPO) is that companies focus on their core competency and move their non-core business processes to outsourced services providers, thus allowing for optimal use of a company's time and resources. Outsourcing reduces the costs involved in maintaining trained employees in-house as well as the costs of systems and software needed to process various functions.

Outsourcing is a familiar practice to corporate America. For example, enterprises have been outsourcing some or even all of their information technology (IT) functions for years. And beginning with payroll in the 1960s, sub-contracting internal (back-office) processes to outside third parties has been a fixture of corporate business strategy, one readily adopted by SMBs -- companies with 100 or fewer employees (though the U.S. Small Business Administration counts all business with up to 500 employees as small businesses). After payroll, the most commonly outsourced business processes among SMBs are human resources (HR) and accounting.

In addition, other areas that are highly outsourceable include research and development (R&D) and customer support. Both of these areas have been outsourced successfully for decades by mid- to large-sized companies, which means that SMBs can take advantage of mature processes -- they simply need to find the right partner to begin moving that work.

Tasks that are repeatable or generate high labor costs can be outsourced with ease, according to Shekhar Chitnis, CEO and President of Chisk, a provider of outsourced support services for law firms and corporate legal departments.

“The process that’s going to be outsourced, if proprietary, needs to be well defined. If not, then the end result needs to be clearly identified,” Chitnis told CRM Buyer. “All processes that are not core competency and can be managed remotely should be outsourced. Another aspect is the skills available outside of the company. If these skills are rare, then the cost benefit may not be attractive. If the above criteria are met, all departments can outsource to some extent.”

Significant Cost Reductions

Properly implemented, Chitnis said, an outsourcing program can provide anywhere from 10 to 80 percent in cost reductions. However, SMBs need to understand the outsourcing service provider’s needs as well, and success depends on what Chitnis considers to be the most important issue regarding SMB outsourcing:

“From the perspective of the outsourcer, the need to manage the transition and developing remote management skills are the main issue,” he said.

Outsourcing costs can vary depending on the functional area, said **David Zahn, COO of Consero Global Solutions**. With locations in Austin, Texas, the UK and Bangalore, India, Consero Global provides dedicated offshore employees to U.S.-based companies in search of finance and accounting (F&A) expertise. With two engagement models -- augmenting existing customer teams or taking ownership of entire F&A functions -- Consero delivers to SMBs and mid-sized companies a range of services that includes financial modeling, budgeting, forecasting, variance analysis, general ledger accounting and accounts payable processing.

“For F&A, the net savings are as high as 60 percent when compared to what local hires can cost for the same work,” said Zahn. “These savings are significant and can fuel other investments that drive top- or bottom-line growth. Examples of these investments include hiring another sales person or implementing automation systems.”

SMB BPO 2.0 -- Automated Outsourcing

Gartner (NYSE: IT) estimated in 2006 that companies with 100 to 499 employees accounted for just 7.8 percent of a US\$50.5 billion BPO market. That number, however, was expected to grow to more than 8 percent of a \$78.8 billion market by 2009.

“For most SMBs, there is an unfamiliarity with outsourcing that dictates that when they make technology buying decisions, the first thing they are going to think about is buying hardware and software, and then trying to integrate those through internal resources and staff, as opposed to turning to an outsourcer to help,” said Robert Brown, a research director at Gartner.

Enter “next-generation” BPO -- BPO 2.0. Combining elements of BPO and ITO (information technology outsourcing), BPO 2.0 essentially means driving innovation and introducing new services based on using technology to better deliver support services to clients. BPO 2.0 focuses on the utilization of cost-effective, advanced technologies, stressing quality of deliverables and customer satisfaction through the use of multi-channel communication systems and fully automated customer interaction hubs.

On the SMB level, Robert Chandler is a BPO 2.0 innovator, and he has bet his company on the validity of the BPO 2.0 model of automation in SMB outsourcing.

Chandler is CEO of online bookkeeping firm ManageComm. Since 2000, ManageComm has provided outsourced online QuickBooks bookkeeping services to hundreds of SMB clients nationwide. ManageComm hosts the QuickBooks files on servers in its data center, and its bookkeepers maintain client accounts and keep systematic records of money transactions.

In 2004, the outsourcer began outsourcing. ManageComm moved low-end client data-entry work to offshore back offices in India. (Or more precisely, he gave offshore bookkeeping teams in secure facilities password-protected remote Internet access to client QuickBooks files hosted on servers in ManageComm’s San Diego, Calif., data center).

“I wanted to better utilize my bookkeeping staff,” Chandler told CRM Buyer. “Outsourcing offshore meant that I was able to have bookkeepers earning less than (US)\$10 per hour do the data entry and bank and credit card statement reconciliation work. This freed up my local bookkeepers for higher-end, more profitable tasks like cash flow management, budgeting and client advisory.”

In 2007, Chandler took things one step further with the RealTime Bookkeeping (RTB) System for professional bookkeeping and accounting practices. The system was designed to increase accounting firm billings and reduce their costs by completely automating the QuickBooks bookkeeping process.

In addition to a hardware component of dual-screen monitors and programmable scanners (for source document capture), the RTB System features the “e-Dashboard,” an organizing software sub-system that enables accounting firms to monitor and run client financials in real time. The e-Dashboard features remote QuickBooks access, a personalized, interactive Graphical User Interface for accessing financial administrative resources, and an integrated, paperless document system for storage, retrieval and distribution of the complete library of documentation related to each client account.

“I designed the system to create a ‘virtual office’ for both the bookkeeper and the client based on an integrated suite of applications accessed via the Internet and available 24/7,” explained Chandler, who said that more than 100 accounting firms across the country are currently using the system.

Communication among RTB international team members is done through e-mail and Skype VoIP and instant messaging. Help desk troubleshooting is provided through an outsourced first-contact call center and through an online support system complete with trouble ticket escalation and knowledge center, backed up by RTB’s IT department.

Resistance to Outsourcing and Offshoring

Though Chandler offers to his accounting and bookkeeping firm clients offshore bookkeepers to do low-end data entry and reconciliation work, only a relatively small number of them have as yet utilized this resource.

“Small business owners and their accounting firms are very sensitive about who sees their financial information,” Chandler explained. “They don’t mind having their accountant going online to access their QuickBooks files, but many are still reluctant to have a stranger on the other side of the world seeing their bank account, credit card and Social Security numbers.”

Many professional service providers -- even though they themselves provide an outsourced service -- have a built-in resistance to doing any offshore outsourcing, according to Chisk’s Chitnis.

“It is a perception issue,” Chitnis said. “For service providers, at first glance, an ‘opportunity’ to outsource seems more like a threat to their livelihood -- and under their present business model, it is. At present there is no limit to the markup to their internal costs and tends to be 300 to 400 percent of their costs. On the other hand, the ‘ethical markup’ for outsourced services is a lot less than 100 percent. So unless that changes, or unless they can learn to leverage lower costs into significantly larger business volume, many service providers are resistant to outsourcing (offshore).”

One of the major roadblocks to realizing the benefits of SMB outsourcing are outsourcing “detractors” -- people in an organization who are used to doing things a certain way, fear the effects of change, or have simply accumulated bad information on outsourcing, according to Consero Global’s Zahn.

“In these tough economic times, SMBs will need to look for every competitive edge they can gain,” said Zahn. “There are obvious steps they can take such as streamlining processes and slowing headcount growth, yet true gains will come through adoption of proven business practices like outsourcing that provide significant benefits. But detractors can utterly derail outsourcing initiatives. Executive commitment is essential to achieving outsourcing success. Some of the most successful outsourcing projects we have seen are ones where executive leadership drove and, in some cases, forced adoption. The

good news is that as outsourcing initiatives gain traction and demonstrate tangible benefits, detractors invariably become supporters.”

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