



The need for innovation and best practice for outsourcing

Chinese BPO Market

Starting from 1998, China's BPO industry has experienced a CAGR growth rate of 35.8% and has expanded to a \$12 billion business. China has recently announced its plan of creating 1,000 BPO outsourcing firms in 10 cities by 2010. The ten designated cities include Shanghai, Xi'an, Dalian, Chengdu, Shenzhen, Beijing, Tianjin, Hangzhou, Wuhan, and Nanjing. According to Foreign Direct Investment, the Chinese government is driving long term improvements by recently announcing plans to spend more than \$5 billion on language training targeting the BPO market. The Chinese government recognizes the need to aggressively adopt the latest innovation and best practices in outsourcing.

About CSIP

The Ministry of Information Industry (MII) of the People's Republic of China is a cabinet level ministry overseeing the electronics, telecommunication, and information technology industries, which combined is known as the Information Industry in China. The National Software and Integrated Circuit Promotion Center (CSIP) is a non-profit organization under the direct guidance of the MII. CSIP's mission is to promote the Chinese information industry and enhance the innovation capability and competitiveness of the Chinese enterprises. Since September 2006, high level officials in the Chinese government realized the strategic value of software and information services outsourcing. The mandate of promoting the outsourcing industry became a critical new mission of CSIP.

Context:

In 2007, a group of students at Stanford University carried out an intriguing analysis where they predicted that if Chinese BPOs blindly follow the path taken by India, such as adopting CMMI as the quality standard, then they would always remain a step behind Indian BPOs. At the same time, India's significant existing investment in Quality methodologies like CMMI could also be a strategic liability: like most incumbents, larger Indian BPOs are less likely to aggressively adopt newer quality improvement technologies. The Stanford students thus predicted that if the young but rapidly growing Chinese BPO industry adopts these latest quality technologies, they could actually leapfrog the Indian incumbents. CSIP broadly agrees with this analysis and is thus focusing on finding, evaluating and promoting new BPO enabling technologies that could significantly speed up the growth of the Chinese BPO industry. This whitepaper describes two such technologies developed by a Silicon Valley based company named BeyondCore. CSIP worked with Chinese BPOs to evaluate both of these technologies and we believe Chinese BPOs should strongly consider including both these technologies in their arsenal.

BeyondCore Insight:

Insight is the flagship offering of BeyondCore. This solution rapidly analyzes the error rate and error patterns of a transactional business process (such as claims processing, applications processing or HR recordkeeping) and helps identify the system-process-training root causes of the errors, thus enabling rapid quality improvement. Insight is delivered either as a Software as a Service (SaaS) solution or as business consulting which includes the SaaS solution at its core.

When we first started researching BeyondCore we quickly came across a whitepaper by Forrester analyst Bill Martorelli entitled "Creating An SOA-Enabled BPO Platform" which states:

The quality with which an outsourced process is being performed is critical to BPO customers, particularly as standards for accuracy are escalating. Providers are turning to quality control tools like BeyondCore, which help identify which data entry fields are subject to recurring errors and which individual BPO agents are most error-prone, to help optimize delivery of BPO processes.

The BeyondCore website was also full of quotes from various BPOs, with one Indian CMMI Level 5 BPO vendor claiming that they saw 80% quality improvement in one week and was able to transition newly outsourced processes from their clients six times faster than they could by using traditional methodologies. While these claims were certainly intriguing, CSIP wanted to directly evaluate BeyondCore's claims before publishing this whitepaper.

CSIP partnered with a leading Chinese BPO to conduct a detailed Proof of Concept (POC) test for the BeyondCore Insight solution. In just a couple of days, BeyondCore analyzed 20 operators of this Chinese BPO who were working on an Insurance Claim process. The analysis revealed that the First-Time-Quality (quality before any quality control is done) of the Chinese BPO was on par with that of a similar process at a Fortune 1000 company, but the quality was not yet at par with that of a CMMI level 5 Indian BPO. However, the analysis also revealed detailed error patterns and root-causes that could help the Chinese BPO rapidly improve its quality. Some of the interesting insights from this POC included:

- Of the 20 operators, the worst operator's error rate was 6.6 times higher than the best operator's error rate.
- Just 5 document fields (out of a total of 69 fields) counted for 49% of all errors.
- For the field with the highest error rate, 27% of all errors came from a single problem exhibited by a small subset of the operators. The operators were supposed to type in the name of the person who signed the claim. However, some claims were not signed by hand, and for these claims next to the automated signature there was a label saying "SIGNATURE ON FILE" or "AUTOMATED SIGNATURE." Some of the operators were incorrectly typing in the text "AUTOMATED SIGNATURE" rather than the name of the signer. This was a clear specific example of a training problem that was counting for 4% of overall errors for the process.

- In another case 71% of errors in a specific date field and 60% of errors in another date field were due to a system problem whereby if the operator entered the year as 00, it was defaulting to 1900 rather than 2000. Once again 2.7% of overall errors were due to this specific, easily fixable problem.

The BeyondCore solution identified other operator and field specific error patterns, each backed up with complete context specific error details. As CSIP reviewed the report delivered by BeyondCore, it was clear that with the help of such detailed error root cause analysis the Chinese BPO would be able to rapidly improve its output quality to easily match or even beat the output quality of the CMMI Level 5 Indian BPO vendor. What impressed us further was that unlike traditional methodologies like CMMI or Six Sigma, the BeyondCore solution required minimal training (less than 30 minutes for supervisors and no training for operators) and could generate significant quality improvement results in just one to two weeks.

The quality improvement delivered by BeyondCore would also directly affect the profitability of the Chinese BPO. Before BeyondCore, the BPO vendor was using 100% double entry as its quality control methodology. Thus, every insurance claim was independently typed by two different operators, compared to identify discrepancies, and then the discrepancies were reviewed by a third operator. Thus, more than 50% of the direct labor expense of this company was spent on quality control. The final output quality of a process is a product of the first-time-quality and the quality control effort.

Final Output Quality = First-Time-Quality X QC effort

Thus, if the BeyondCore solution helped reduce the first-time-error-rate by just 30% then this would translate to 30% reduction in quality control effort which would imply a more than 15% reduction in direct labor costs (as quality control counts for more than 50% of direct labor expense in this case). Based on the analysis provided by BeyondCore, a 30% quality improvement and thus a 15% labor expense reduction seems easily achievable for this process. Other BeyondCore clients claim to have experienced 80% quality improvements which in the case of this BPO vendor could have translated into a 40% direct labor expense reduction. As direct labor expenses are usually the greatest expense of BPOs, such a labor expense reduction would significantly affect the profitability of the company. Thus, BeyondCore has the potential of delivering significant competitive advantage to early adopters of this technology.

The BeyondCore technology also claims to help BPOs transition new processes significantly faster than possible using traditional methodologies. One Indian BPO

claimed they were able to transition processes up to six times faster than usual. Obviously, faster process transitions can significantly affect the profitability and risk profile of a BPO project. At this time CSIP has not tested this capability, but the BeyondCore website contains Case Studies and further details on this capability.

OperatorEvaluator:

OperatorEvaluator is a web-based solution developed by BeyondCore to help BPO companies evaluate individual operators that they are considering hiring. This solution evaluates both the productivity and the accuracy of the operator and combines this into a Total Cost of Ownership measure of the operator. It also provides detailed benchmarks that can help BPO vendors compare a specific operator against his or her peers.

CSIP highlighted the OperatorEvaluator solution in the China Sourcing Alliance newsletter dated July 30, 2007. We are very excited to work with BeyondCore to help establish an important standard for BPO. With the objective of promoting the Chinese BPO industry, we strongly encourage BPO companies to get operators tested through the online operator evaluator test at www.operatorevaluator.cn. The underlying technology behind OperatorEvaluator seems sound because it is a simplified subset of the BeyondCore Insight technology. Moreover, the Total Cost of Errors framework (details at www.totalcostoferrors.com) that BeyondCore uses to derive the Total Cost of Ownership of the BPO operator has been highlighted by Business Week (www.businessweek.com/globalbiz/blog/bangaloretigers/archives/2007/03/post.html) and Outsourcing Journal (www.outsourcing-journal.com/sep2006-barnard.html).

Recommendations:

Based on CSIP's evaluation of BeyondCore Insight and OperatorEvaluator we strongly encourage Chinese BPOs to use OperatorEvaluator to evaluate new hires. We further recommend that Chinese BPO vendors should seriously evaluate whether or not BeyondCore Insight should be a key part of their operations strategy.

Details of these solutions are available at :

www.beyondcore.cn and www.operatorevaluator.cn.