Examining Business Process Outsourcing

Ten questions utility executives need to ask to achieve improved business performance.

What does next-level utility performance look like? The energy industry may be one of the most complex business environments, as it is capital-intensive, regulatory-constrained, ROI-managed, environmentally challenged, often unionized and accountable for near-perfect reliability.

Utilities that achieve “next level” performance in such a challenging environment are skilled at balancing asset portfolios with regulatory constraints. They understand that all assets must contribute to business performance and actively seek effective partners and strategies.

Today, most utilities recognize the value of business process outsourcing (BPO) to decrease customer service costs. However, some are beginning to consider BPO to unlock the value of underperforming assets, assist in M&A integration, enhance revenue, achieve cost certainty in rate recovery and act as a safety net for skills lost to retirement.

With this in mind, we explore 10 questions that executives should consider regarding business process outsourcing. As a number of North American utilities have proven, a comprehensive approach can yield substantial performance results.

1. Core Processes vs. Noncore Processes: Which Are the Best Candidates for Outsourcing?

When utilities evaluate business process outsourcing, the question often arises – “Which processes are most advantageous to outsource – core or noncore?” Perhaps the more critical questions utilities should ask are:

- Are our key processes performing well?
- Are they cost-efficient and effective?
- Do they enhance or inhibit corporate performance and customer satisfaction?

If the answer to these questions is “no,” then perhaps it is time that business process outsourcing be considered critical and therefore core, to a utility’s performance – not ownership of the processes.

2. Should We Outsource Entire Processes or Leverage Stand-Alone Services?

The more a utility participates in end-to-end process outsourcing, the greater the ability to increase performance, capture synergies and mitigate risk across functional areas, revenue processes and technology investments. Fortunately, the transition can be a stepped approach rather than an “all or nothing” decision.

Outsourcing single services allows the utility to incrementally reduce costs and gain outsourcing experience – scaling the scope only after achieving tangible value and quantified success. However, the transactional nature of the “start small” outsourcing model provides few opportunities to add strategic value across functional operations. In contrast, the greatest advantages in outsourcing entire processes come from process synergies which result from control of related upstream and downstream functions.

Without the constraint of operational silos, the outsourcer can redesign ineffective or outmoded business processes that are inhibiting performance. Legacy processes become standardized, often reducing or eliminating redundant functions and data inaccuracy. Labor-intensive manual processes are often automated, allowing personnel to be reallocated to more high-value tasks. This “hands on the wheel” control enables the utility to gain synergistic improvement in process execution across the entire organization.

3. Beyond Cost Savings, What Performance Advantages Can We Gain From BPO?

Most executives understand the cost-saving advantages that business process outsourcing can provide. Others recognize BPO for its ability to transfer IT risk. Beyond cost savings, there are five distinct advantages that business process outsourcing provides utilities:

- **Stranded Assets – Unlock the Value:** For utilities that rely on legacy platforms or those who possess GIS assets that have not performed as expected, transferring outdated and underperforming systems to a proven outsourcer provides both balance sheet and capital investment relief – without Wall Street scrutiny or the need for rate recovery.

- **Revenue Enhancement:** In recent years, gain-sharing has emerged as an important means to capture value. Structured properly, gain-sharing agreements allow the parties to consider opportunities that may be too risky to pursue individually. Good candidates for gain-sharing include bad debt, call volume, IVR utilization and field crew efficiency.

- **Risk Mitigation:** Most utilities have interfaced dozens of disparate applications to legacy and secondary systems. This complexity leaves them vulnerable to escalating maintenance costs, upgrade constraints and technology currency risk. In contrast, business process outsourcing allows the utility to transfer the operational and financial risk of large-scale IT initiatives to the provider.

- **IT Business Partner:** Outsourcers use continuous improvement methodologies to identify improvement opportunities, measure

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performance against goals and forecasts and leverage best practices to standardize process performance. Typical service-level agreements reward or penalize BPO providers for contract performance, while scorecards assure the utility that service levels are achieved or exceeded.

**Change Agent:** As a change agent, the outsourcer ensures that the right people, processes and technologies are aligned to the utility vision. This change in roles, responsibilities and practices often increases service accountability.

More than a cost-cutting tool, business process outsourcing accelerates utility performance through financial engineering, risk transfer, continuous improvement, cultural accountability and revenue enhancement such as gain-sharing mechanisms.

4. **Workforce Retirement, Unions and BPO: Is There a Middle Ground for Our Employees?**

   Leading providers have deep experience in utility processes, practices and platforms. They can often fill application integration and project management gaps, manage revenue cycle (meter-to-cash) process requirements and provide scale for fluctuating call center and IT demand. In a time of dwindling resources, this support allows utility employees to focus on more high-value activities.

   For unions concerned with employee displacement, many business process outsourcers offer the ability to re-badge utility personnel as their employees. As members of the outsourcing team, many of these utility employees gain exposure to new technologies and process improvement skills that may advance their career options.

5. **Can Business Process Outsourcing Benefit Rate Cases?**

   In regulatory environments where prudent expenditures are of concern, business process outsourcing may enhance the success of rate-case initiatives by demonstrating to regulators that escalating service costs are better handled by providers whose efficient operations directly benefit rate payers. Some commissions are evaluating business process outsourcing for its ability to protect rate-payer interests.

   Yet, considering business process outsourcing as a rate-case contributor is a paradigm shift for most utilities. Historically, rate cases have focused on capital improvement and cost recovery – rather than demonstration of operational savings. Viewed through an alternate lens, however, rate cases provide an opportunity to align rates more closely with a utility’s current market conditions and with changing customer expectations.

   For those utilities that are considering business process outsourcing as a means to manage ratepayer assets, we offer the following suggestions for engaging regulators in going beyond “standard service” definitions: \[
   \begin{itemize}
   \item Be prepared with solid data on current service costs rather than relying on historical and inaccurate data;
   \item Engage analysts and leading outsourcers to provide data on service benchmarks, cost models and the improvements customers may be willing to pay for; and
   \item Seek agreement from regulators on outsourcing goals, then communicate your outsourcing strategy and business case with them before the rate-case horizon.
   \end{itemize}
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6. **Does Increased Performance Demand Offshore Outsourcing?**

   With all the publicity, it is easy for executives to assume that offshore outsourcing means offshoring.

   Onshore outsourcing is often the best option for utilities, as it combines increased business performance with local control, community involvement and the matching of cultural demographics. Near-shore outsourcing combines the benefits of geographical proximity, time zone convenience and bilingual capabilities with cost savings. Utility executives have typically shown little enthusiasm for offshore outsourcing – particularly for front-office activities like customer care. However, overseas providers are increasingly being evaluated for large-scale programming or commodity processing.

7. **What Should We Look for in a Next-Level Outsourcing Partner?**

   To determine the qualities that are effective in an outsourcing partner, it is important to define your outsourcing strategy and the results you expect. Leading outsourcers must demonstrate robust business continuity practices, mature disaster recovery strategies and processes for contract disentanglement.

   **Financial Strength and Stability:** Successful business process outsourcing is capital-intensive. The provider should demonstrate solid financial performance and stability over time, a history of regular technology investment and the ability to acquire needed resources.

   **Broad Technology Experience:** BPO providers should demonstrate a track record of enhancing legacy systems, solving implementation and migration challenges, streamlining and automating business processes and providing strategy for future IT needs.

   **Utility Experience/Cultural Aptitude:** In regulated markets, a business process outsourcer should be highly familiar with regulatory requirements, jurisdictional rules, rate recovery issues, customer care processes, union concerns and shareholder expectations. Conversely, for those utilities operating in retail markets, the outsourcer should demonstrate experience with market transactional processes, provider-of-last-resort requirements, retail billing practices and oversight agencies.

8. **What Is the Most Effective Outsourcing Governance Structure?**

   Creating the appropriate governance structure is as essential as choosing the right service provider. Be prepared to give your agreement the importance it deserves by considering the following 10 criteria.

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1. **Outsource provider captures first $200K savings from improvements**
2. **Utility captures second $200K improvement gain**
3. At breakeven, follow-on savings are shared according to a percentage allocation such as 60-40%
4. Utility captures second $200K savings from improvements
5. **Service Provider**
6. **Utility**

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**Figure 4** | An Example of BPO Gain-Sharing Allocations

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1. **Governance Strategy:** Build an agreement that is tailored to your strategic goals.

2. **Collaborative Management:** Define the expected savings, process improvements, performance outcomes and “actionable” changes you hope to capture.

3. **Roles and Responsibilities:** Define the key roles, responsibilities, business processes and intersections between each organization.

4. **Compliance Reporting:** Include requirements for examining the provider’s process compliance.

5. **Tracking Mechanisms:** Identify every measurement that is important to success and the methods and tools that will be employed.

6. **Issue Resolution:** Create a formal resolution process that defines when an issue should be escalated and who should be responsible for resolving the issue.

7. **Communications Plan:** Build a communications plan that includes daily measures, weekly reports and regular presentations to an executive steering committee.

8. **Service-Level Agreements:** Define key performance indicators (KPIs) for evaluating SLA performance, the frequency of measurement and whether performance rewards or penalties will be enacted.

9. **Change Control:** Describe change control procedures, when a change should be recommended, how it will get approved and how it will be deployed through the organization.

10. **Business Continuity/Disentanglement:** Establish a continuity plan that defines what will occur if the provider is in default or unable to meet service-level agreements.

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9. **How Should We Conduct an Outsourcing Evaluation?**

A thorough business process sourcing evaluation is a complex, time-consuming undertaking that demands a collaborative approach. There are many variations to sourcing studies, but most evaluation approaches contain these basic elements: planning, discovery and design. Each phase encompasses several steps. How these are bundled or ordered is less important than simply ensuring that they are completed successfully.

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**Phase 1: Planning**

The planning phase is critical to conduct thoroughly because it determines the nature of the evaluation, its scope, duration and effectiveness. Essential questions should be addressed, such as what services should be considered, what business objectives must be achieved and what financial targets create an attractive alternative. This phase typically requires one to two months.

**Phase 2: Discovery**

The goal of the discovery phase is to determine whether outsourcing makes sense for your organization. Two distinct work streams must occur in this phase. The first is focused externally on gathering information from potential partners via RFI s or RFPs in conjunction with interviews, site visits and reference checks. The second work stream is focused internally on verifying internal costs and service levels – both as they occur today and as they are expected to in the future. By the end of the discovery phase, multiple providers may be identified as good candidates to move on to the design phase. A thorough discovery phase typically lasts two to four months.

**Phase 3: Design**

The design phase encompasses the substantial activities needed to tailor the provider’s solution to your needs. By this point, the buyer and potential providers should have moved beyond the guarded exchange of information to open conversations that expose the true opportunities to create value and share risk. The goal of this phase is to reach executable agreements with one or more potential providers. The time frame for completing design is two to four months.

10. **What If Our Organization Isn’t Ready for Full Outsourcing?**

Are There Other Options We Can Leverage?

Business process outsourcers offer utilities multiple options for increased system performance without committing to full outsourcing.

**Outsourcer as Consultant:** Outsourcers often inherit complex legacy systems and process problems that require innovative approaches to resolve. Hence they have a heritage of improving the utility assets they assume. When utilized in a consulting capacity, outsourcers often bring a more pragmatic approach to resolving real-time problems than strategy firms.

**Managed Services:** Utilities can engage an experienced outsourcer through a managed service agreement. In this scenario, the IT assets and the utility’s knowledge of legacy operating environments remain with the utility while the outsourcer fills internal resource gaps on an as-needed, cost-effective basis.

**Service Performance:** Alternately, a utility may choose to use the outsourcer for targeted, short-term business services. For instance, the utility may opt to use the outsourcer’s expertise in operating call centers to lower costs and improve customer service quality. Call centers are excellent candidates for this type of approach, as outsourcers often employ automation and process-improvement methodologies that bring costs and quality in line with utility objectives.

For More Information

This article is an excerpt of “Business Process Outsourcing: 10 Questions Utility Executives Should Consider.” To obtain a complimentary copy of this 25-page white paper, please contact Kim Kanady via email at utilitieservices@alldata.net.