

The Brave New Disruptive World of BPO

— Paul Burton | Chief Executive Officer, Mastech InfoTrellis

It is well established by Clayton Christensen. A new player storms onto the scene with a new product or service that results from an innovative process enabled by technology.

The disruptor's offering typically re-segments an existing market establishing the firm as a leader in the new segment, or it enlarges an existing market by bringing new buyers off the sidelines by creating an offering that is "good enough."

The cost structure the disruptor achieves through the re-imagined, novel use of process enabled by technology acts as a barrier against copycatting by existing firms.

This lower cost structure also acts as a prophylactic, giving the disruptor the time and space it needs to mature and perfect its operating model before encroaching up market, destroying mal-adaptive firms, and transforming the industry for the better.

Sound familiar? Disruptors use analytics and technology to break old paradigms and create new ones.

Key Takeaways

- Adapt your processes to fully leverage and exploit technology and reduce cost.
- The paradigm of the future should focus on an application of analytics and technology that creates and informs new paradigms.
- A new paradigm and the adroit use of analytics and technology is the only way to produce discontinuous change.
- BPO is dead! Smart automation will replace it. Winners will be those who are first to commit to this new paradigm - going all in without reservation.
- All CEOs must be technology leaders in this new world.

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Every Industry has a Disruptor

A global taxi company that owns and operates not a single taxi; a global telephone company that possesses no communications infrastructure; a bank that has no money; or even a movie house that does not own a single cinema. These are all examples of where a single firm has disrupted its industry with the application of novel process, enabled by technology. As a result of the disruption, each of these firms transformed their industry, and in so doing created new rules for competition and value creation. The resulting synthesis is truly Hegelian in character.

Old World Paradigm BPO Industry

Every industry is susceptible to being disrupted. Let's look at Business Process Outsourcing and our experience.

In the beginning the value proposition was straight forward. Lift and shift existing workload to a low cost location where the reduction in labor cost was reason enough to make the change. The only problem with this was that it was easily copycatted by competitors.

In and of itself, this strategy erected no barriers to competition, so as competitors emulated it, something more was needed to sustain the advantage. So we evolved from "lift and shift."

We employed our process and domain expertise to re-engineer business process so that as process was moved off shore, it could be operated more efficiently with fewer people. We now had two levers of value to pull for our clients:

- Productivity realized through fewer people operating more efficient, streamlined processes and,
- Lower unit labor cost.

But there was one step left to complete the evolution. As clients matured in their journey with their BPO partners

- They insisted that the efficacy of processes operated offshore improve.

This third lever of value was provided through the application of industry benchmarks used to buttress claims of comparative performance against peers. This basic model of labor arbitrage and process efficiency and effectiveness continued to evolve incrementally as depicted above.

Nevertheless, the fundamental truth was undeniable. We were clearly operating completely within the paradigm of an off shore, labor based, process operations model. Even when we introduced robotics, we were simply introducing technology to mimic what a person would do, albeit somewhat faster and more accurately.

The salient point here is that our entire paradigm was premised on the application of human resources (or technology that mimicked human resources).

By 2015 we were clearly ripe for disruption and inevitably we would be disrupted, if not by ourselves, then certainly by another. But what would be the character of the disruption? What do the examples above tell us?

The Paradigm Shift

We believe that disruption in our industry will result from a fundamental shift in the BPO paradigm. No longer will we (or our competitors) ask how we can operate a particular process more efficiently with fewer, less expensive, human resources.

Instead, our point of departure will be from a new paradigm where the framing question is this: how do we operate this particular process with no human resources? When you start with this proposition, everything about the way you approach the problem changes.

I have become fond of a particular metaphor that I think illustrates this quite nicely. We have all ridden (or at least attempted to ride) a unicycle, bicycle, and tricycle. So we can readily relate to the characteristics of each.

A unicycle is extremely maneuverable, allowing you to change direction very quickly. But this characteristic of maneuverability is also what makes it particularly unstable, and slow.

Compare this to a bicycle that is comparatively both fast and stable, but not nearly as maneuverable. The characteristics of a tricycle place it in between these two, because a tricycle is more stable than either a unicycle or bicycle, but certainly not as fast as a bicycle or as maneuverable as a unicycle.

The thought experiment that I will engage in here to drive my point home is this: what if we want a vehicle that is agile, stable, and fast? What combination of these wheeled vehicles helps me achieve that outcome? Pretty clearly, the answer is none. I can't imagine

any combination that helps me achieve that outcome. But that is because I am stuck in a paradigm that prevents me from imagining all the new possibilities that exist because of advances in analytics and digital technologies.

As long as my point of departure is a paradigm premised on leveraging human resources to pedal a vehicle, I won't be open to seeing the possibilities presented by these new technologies, which also present the possibility for discontinuous change. The paradigm I need to use as a point of departure is one where analytics and technology inform and create the possibilities.

The F-35 Joint Strike Fighter is a flight platform that should not be able to fly. It is inherently unstable and it evinces a characteristic that aeronautics engineers call static instability. The air frame, without something to help it overcome its inherent architectural design deficiency, would wobble uncontrollably as it moves through the air, making any reasonable level of performance impossible. Yet it is an extremely high performance aircraft because its design leverages a very specific advanced technology.

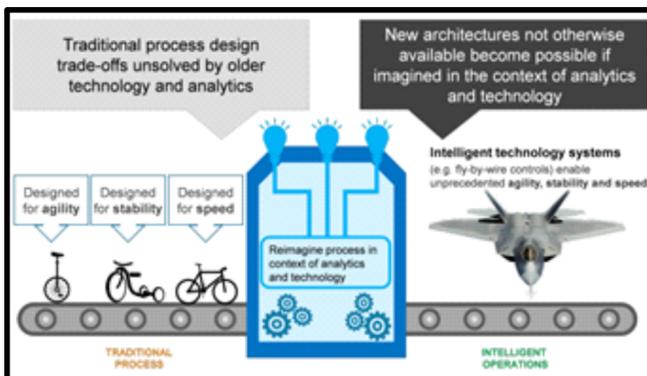


Figure I: New Architectures

The F-35 (and, indeed, most modern aircraft) utilizes a technology called fly-by-wire. This technology involves actuators, directed by a flight computer, that control the movement of the aircraft's control surfaces.

Further, sensors and gyroscopes on the aircraft report movement changes along the pitch, roll, and yaw axes to the flight computer, which allows the flight computer to automatically control the aircraft's control surfaces to stabilize the aircraft - all without pilot intervention.

The point here is that the fly-by-wire technology takes an air-frame that is inherently unstable by design and makes it stable when it needs to be, e.g., for speed, or adjusts the control surfaces of the aircraft to make it unstable when it needs to be, e.g., when the airplane

needs to be highly maneuverable (think of what makes a unicycle so maneuverable).

Without the existence of the fly-by-wire technology, the F-35 air-frame would not be practicable. Without the fly-by-wire technology a totally different air-frame would be required and the performance possibilities would be greatly constrained.

Admittedly, there is a huge difference between wheeled vehicles that you pedal and fighter jets that fly at supersonic speeds. But the point is that in this age of disruption you have to force yourself out of the paradigm from which you have historically operated, where incremental, evolutionary change is comfortable and reasonable - and foreseeable! Sustaining innovation can be increasingly viewed as life support for the chronically ill. The patient may continue to live, but what will be the quality of life?

If this metaphor does not work for you, find one that does. I like this metaphor precisely because it paints a stark contrast between the paradigm of wheeled vehicles where you must make a trade-off between agility, stability, and speed, and the paradigm of flying vehicles where you can have agility, stability, and speed all in the same platform because your point of departure is from a totally different paradigm that is enabled in the first instance by analytics and technology. If fly-by-wire technology did not exist, the metaphor would not hold; we would not be operating from an efficacious paradigm. We would not have discontinuous change.

Beyond Bleeding Edge Technology

I suggested above that the BPO industry will be disrupted by a new paradigm that frames the issue to be resolved much differently than has been the case until now. No longer will the issue be framed as "how do I operate this process with fewer, less expensive people?" The issue will be framed as "how do I operate this process with no people?"

Just as technology allows an inefficient F-35 air-frame to perform amazingly, technology will soon dominate the BPO industry vis-a-vis human resources. We will all quickly learn that an inefficient process operated perfectly with no human intervention is much better than a perfectly efficient process operated imperfectly by humans."

Interestingly, when this is the case, the "O" in BPO becomes superfluous. After all, if processes are being executed with no human resources, is it necessary, or

even desirable, to take the process offshore? The technology operating the business process can easily, and appropriately, sit in the firm's data center along with all of the firm's other systems.

Why relocate it anywhere? Imagine the cost advantage accruing to BPO providers who operate their client's processes with minimal, or no, human resource and without taking it offshore. That's disruptive!

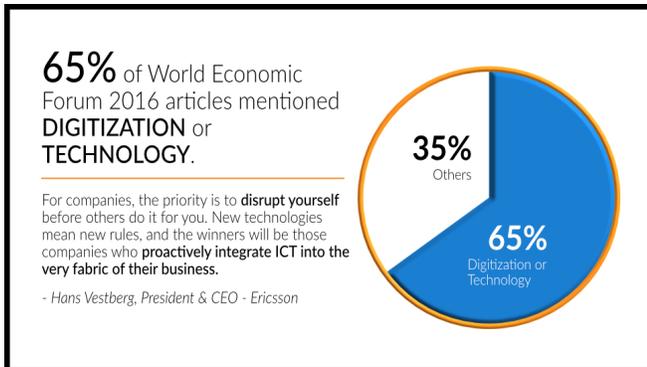


Figure II: Disruption Should be Your Priority

Digital technology is clearly a disruptive force. It's on everyone's mind. It will create new possibilities for those that are able to dislodge their thinking and imagination from existing paradigms and step into a new paradigm which in all likelihood they will have to create de novo.

New paradigms will be created that leverage and exploit the capabilities of these new technologies to produce discontinuous change. It's for this reason that technology and analytics skills will increasingly differentiate the winners from the losers. The winners will disrupt themselves and their industries. The losers will be mal-adaptive and quickly be forgotten.

It was Tyler Cowen (Average is Over) who said that the successful workers of the future will be distinguished by their ability to collaborate with computers.

As we embark on this journey of pulling labor out of process operations and truly and fully digitizing processes, I expect that the opportunity for BPO providers will be increasingly up the value chain.

Instead of producing work, since that will be increasingly automated, I expect the role of BPO increasingly to be that of interpreting the output of processes; of consulting with clients on the telemetry from their core business processes; and, on model building, hypothesis testing, and predictive and prescriptive analytics to suggest courses of action to clients as well as report on courses of action already

taken.

All of these activities require a more highly skilled work force, schooled in the domain appropriate for their particular client, and capable of much greater creativity and discretion than we find on average today in the industry.

And, it will require these knowledge workers of the future to be analytics and technology savvy unlike never before.

So Tyler is correct. To be successful going forward, human-computer collaboration is an imperative, especially for BPO operators lest they vacate this emerging opportunity to others less strategically situated.

It's a brave new world!

Author

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About

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