Business Process as a Service: An Increasingly Relevant Value Generator in a Fast-Changing Ideas Economy

Abstract

Digital disruption is at its peak and enterprises are constantly looking for new revenue streams including servitization of products, which involves infusing next generation smart products with consumer relevant services. Moreover, existing markets are rapidly changing, backed by the rapid proliferation of the Internet of Things (IoT). Staying relevant today requires greater agility in responding to changes in this dynamic business environment where enterprises across industries place a significant premium on opportunity costs. Enterprises are therefore embracing an asset-light model whereby investments are prioritized in core competencies and focusing on staying ahead of rapidly shrinking product life cycles. Non-core enabling capabilities, typically categorized under general and administrative activities, are increasingly centralized within global shared services centers or in a few cases ‘carved out’ to strategic partners.

Over the last several decades, consulting and IT services organizations have, and continue to, provide talent to help enterprises remain at the forefront of productivity and efficiency through process optimization and technology deployments. These organizations have also provided human capital at near-shore and offshore locations for executing both back-office business processes and increasingly, knowledge capital for processes requiring higher cognitive skills. IT service organizations have innovated with productization of services with ‘as-a-service’ delivery models, such as Database as-a-Service (DaaS), Platform as-a-Service (PaaS), Software as-a-Service (SaaS), among others. This approach offers next generation solutions that combine one or more elements of IT hardware, software, and business process services. One such solution that takes the various ‘as-a-service’ offerings to the highest level of ‘carve-out’ and value realization is the Business Process-as-a-Service (BPaaS) delivery model. BPaaS has the potential to play a significantly larger role in a rapidly changing ideas economy.

However, the potential of the BPaaS delivery model through wider reach and adoption remains largely untapped because its value proposition and sources of value creation are not well understood. This paper addresses the three key sources of value creation from the BPaaS delivery model - sharper management focus, synergies from ‘productization of services,’ and reduced wastage with lean services.

Key Sources of BPaaS Value Creation

A BPaaS solution allows enterprises to consume end-to-end capability by engaging a strategic partner under a managed services delivery model. BPaaS delivery covers the entire stack of vertically integrated components of hardware infrastructure, database, middleware and business application software, optimized processes, and people, that in unison, deliver functional capability to an enterprise. BPaaS models in several general and administrative areas have now reached a maturity level with demonstrated successful outcomes.

However, in some cases, the change impact of large scale transformation on the enterprise seems overwhelming, while in others, the value proposition of the BPaaS model is viewed with skepticism because of the limited understanding of how this value gets created. Three key sources of BPaaS value will help enterprises gain superior business outcomes.

Sharper management focus

Enterprises have long known the economic reality of limited resources that precludes them from doing everything on their own. The need to prioritize areas of focus and investment is even greater in the ideas driven economy. Customer intimacy, new product and services development, distribution channels, vendor relationships, and employee productivity are some of the critical aspects of enterprise operations that generally require undivided focus. Back-office transaction and information management for functional areas such as procurement, talent and payroll, and finance and accounting are essentially support processes, and therefore viable candidates for BPaaS delivery. Enterprises can consolidate the planning and execution of these functional areas under a single provider and a managed services BPaaS delivery model with appropriate governance. This will help an enterprise significantly sharpen its management and talent focus on market facing, strategic capabilities in an ideas economy. At the same time, BPaaS delivery allows enterprises to lock in efficiency, effectiveness, and productivity gains in these non-core functional areas.
For success in a new business venture, in addition to rapid time to market, laser sharp management focus on consumers, marketing, and operations ramp-up is critical. A new airline based in Asia needed a tier 1 ERP package to support its critical functions of finance and accounting, procurement, and human capital management. It decided to deploy a pre-built and configured BPaaS cloud platform with integrated analytics. The BPaaS coverage and support of ERP enterprise capabilities helped the airline management maintain its focus on mission critical launch priorities and enabled successful achievement of business objectives. The BPaaS delivery approach also helped minimize initial cash outflows into technology investments and freed up working capital from engaging multiple vendors to build the general and administrative capabilities internally. Further, the speed to market enabled by the rapid on-boarding of 1,500 users within just two months helped the airline meet its ambitious launch dates.

BPaaS providers also help improve transparency into non-core but important enabling functions through provider assured Key Performance Indicators (KPIs) and tightly managed Service Level Agreements (SLAs). Contractual obligations, SLA monitoring and reporting provide the impetus for BPaaS providers to continually maintain high service levels and performance quality. Most BPaaS providers also comply with security standards and international guidelines including SSAE 16, ISO 27000, and financial control audit standards. These standards and guidelines are equivalent or in some cases, more rigorous than an enterprise’s internal security guidelines.

**Synergies from ‘productization of services’**

Building robust business capabilities requires people, process, and technology to work in unison. Enterprises have historically done this - for the most part themselves - within their premises by selecting and assembling each building block, often painstakingly and over long periods of time.

The traditional approach to business process consulting, shared services or business process outsourcing, and IT services outsourcing typically does not fully meet management expectations and financial objectives or tap the full potential of vendor capabilities. The BPaaS delivery model provides significantly greater value through synergistic vertical integration of technology infrastructure, proprietary software applications, and people for business process services delivery. The BPaaS synergies come from multi-tenant cloud technology, investments in automation and productivity enhancing applications, globally optimized and scalable shared services, and a flexible pay-as-you-go pricing model. Enterprises can eliminate the need for multiple vendor relationships with varied contractual terms and timelines. This, in turn, reduces the switching costs across the capability building blocks and over the capability delivery life cycle. The BPaaS synergies help realize the classic value drivers of economies of scale and scope.

At the core of the BPaaS delivery model is high volume transaction processing such as purchase orders, invoices, payroll, supplier inquiries, and employee support. By executing extremely large transaction volumes, significantly higher than any single enterprise, BPaaS providers gain economies of scale. Over the years, BPaaS providers have specialized in creating agile methodologies, grown their program management expertise, perfected quality assurance tool kits, trained their employees, and amassed a variety of accelerators. These efforts result in provider efficiencies and productivity that are then factored into flexible pay-as-you-go pricing and lower Total Cost of Ownership (TCO).

A joint venture global Quick Service Restaurant (QSR) chain of a U.S. parent company operating in Asia adopted a BPaaS provider’s retail analytics solution. As a result, the QSR was able to process extremely large data volumes from the Point of Sale (PoS), supply chain and ERP marketing, and external consumer loyalty systems for timely and deep insights. These data-driven insights enabled the QSR to make timely decisions. For instance, it was able to make changes to its menu offerings with greater localizations. The QSR also improved its marketing and customer loyalty campaigns, employee engagement, inventory and supply chain management, and financial performance.

Some BPaaS organizations also provide offerings for two or more functional areas that allow them to realize economies of scope. These savings come from the fact that costs related to data center, application development and maintenance as well as procurement of IT related assets are shared across their offerings. Costs associated with legal services, program management, quality assurance, and HR are also spread across clients and multiple functional offerings.

Many global BPaaS organizations also work across industries and geographies, regardless of the size of the enterprise. This helps them glean cross-industry process insights to deliver continuous improvement and process innovations for incremental value. Further, it provides BPaaS providers the ability to cross-pollinate best practices. One of the largest retailers in the U.S. processing millions of invoices per month relied upon its BPaaS procure-to-pay provider to ensure more than 97% straight through processing. The innovative rules-based automation built into the provider’s BPaaS platform helped the client efficiently and effectively process such large invoice volumes.

The BPaaS provider organization also leverages its investments in globally optimized delivery centers to efficiently distribute a certain process among various geographies. This helps balance an enterprise’s business needs with local talent to understand the nuances of operating in local markets.
Reduced waste with lean services

Manufacturing enterprises have benefited significantly from the principles of lean manufacturing and avoidance of waste. The same principles can be applied to lean services. For example, the BPaaS offering helps enterprises become lean by addressing five most common types of waste:

**Unproductive and under-utilized human resources**: The BPaaS model challenges the traditional approach of fixed people related investments in non-core or enabling back-offices. Enterprises often build an organization to address peak volumes. With BPaaS delivery capability, the onus is shifted to the strategic partner to manage resources to address changing transaction volumes due to business seasonality or cyclicality. With shared services engagements across multiple clients, a strategic BPaaS partner has better ability and flexibility to maintain optimum levels of human resources, through cost optimized delivery centers around the world.

**Errors, inaccuracy, and inefficiency**: Sub-optimal legacy applications fail to leverage the full potential of automation and digital technologies such as cloud, mobile, social, analytics, and robotics or machine learning. This can lead to several inefficiencies and inaccuracies. Investment in processes that impact customer facing, revenue generating capabilities is essential to remain competitive. Typically, below the line mid- and back-office systems used by employees compete for investments for upgrading to new technologies. In such a case, an enterprise can utilize the mid- and back-office related BPaaS offerings of the strategic partner. This will help enterprises achieve high quality, error free, accurate, and efficient processes in areas starved of investments.

**Excess capacity**: Enterprises often deploy excess hardware and infrastructure environments and other resources designed to address peak transactional volumes. These are rendered obsolete within a few years given the rapid technology advances. Soaring maintenance costs of outdated infrastructure also contribute to sub-par return on investment. IT organizations providing BPaaS models have had a long history of procuring, installing, upgrading, and managing hardware, infrastructure, and applications. They are aware of the latest technology trends and have close alliances with suppliers of these IT assets. As a result, a BPaaS provider with a proven track-record in IT consulting and services, is well positioned to plan, design, procure, manage, and continually leverage advances and innovations in IT. These include, for example virtualization and in-memory processing. The multi-tenancy approach to BPaaS solutions allows enterprises to reduce excess capacity and optimally use IT infrastructure.

**Delays in service performance**: Sourcing, purchasing, invoicing, process performance, as well as employee recruitment, onboarding, and performance assessments are critical components of highly interlinked processes, which have a multiplier impact on the enterprise performance. Without an end-to-end process view, automation, and ownership, delays in these processes often go unaddressed. With the BPaaS provider taking ownership of - their top line impacting - process performance, under tight SLAs, such delays become rare. This helps enterprises ensure a consistent and high level of process performance, deeper supplier commitment, and employee engagement.

**Suboptimal capital allocation**: Enterprises no longer have to allocate large amounts of capital to multiple vendors under a license and customize approach for ERP, CRM, SRM, ERM, and other applications. SaaS and BPaaS delivery models now allow companies to onboard and consume instead of buying and building both core and non-core enabling capabilities. The BPaaS model however takes the SaaS model to the next level by allowing for a single monthly recurring invoice for the entire capability that takes out peaks and troughs for generally flat cash outlays, and affords much greater cost predictability. Over the course of the entire BPaaS engagement including onboarding, transformation delivery, and the five to seven year service delivery phases, the typical double digit percentage TCO advantage also becomes apparent.

**Case Study: A US-based Fortune 500 Industrial Enterprise Adopts BPaaS to Modernize Its Accounts Payable Function, Enabling Savings worth USD 40 Mn**

Organic and inorganic business changes had a significant impact on a U.S.-based Fortune 500 industrial enterprise’s Accounts Payable (AP) function. It had morphed into an inefficient, unproductive operation with sub-optimal performance. The overall AP function had considerable ‘waste’ from being executed independently by business units across the world. It was also based on fragmented processes and involved multiple disparate legacy systems with support from a variety of service providers. To consolidate, simplify, and modernize its AP function, the enterprise adopted the BPaaS model on the business partner platform under a single end-to-end provider relationship. This enabled transformation of the enterprise’s globally fragmented invoice-to-pay process through restructuring of Post Office (PO) boxes and centralizing of invoice digitization in a couple of global locations. The invoice processing task was then distributed across the BPaaS provider’s network of cost-optimized delivery centers across the globe. The BPaaS technology platform helped streamline the AP process with deep automation such as invoice scanning and OCR, rules-based three-way matching engine, intelligent workflows, and analytics.

As a result, the Fortune 500 enterprise now processes over 3.5 million invoices every year under a single set of AP policies, practices, and processes on a single instance of their partner’s modern and automated platform. The enterprise also enjoys round the clock people support in execution of AP activities including invoice scanning, validation, matching, approvals, payment processing, and vendor inquiry support. The BPaaS solution enabled USD 40Mn of TCO savings for the enterprise by harnessing synergies from ‘productization of services’ and eliminating ‘waste’.
Why Build and Manage When you can Consume and Compete

The BPaaS path is well paved. Large IT service organizations have already made significant strategic investments in next generation infrastructure and applications that fully leverage digital technologies and infrastructure innovations for transaction processing, support, and actionable business insights. To ensure sustained value generation, large BPaaS providers continually apply lessons learned across client engagements to fine tune their solutions and sharpen transformation and service delivery.

Early visionary enterprises that saw the potential in - and adopted - BPaaS solutions for non-core enabling capabilities are now reaping substantive benefits by bringing management focus back to core competencies to innovate and lead in today’s ideas driven marketplace. The time is right for enterprises of all sizes, across industries globally to push the envelope and take a strategic portfolio view of how they architect and build their core capabilities while orchestrating and consuming non-core enabling capabilities.

About the Author

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About TCS’ Platform Solutions Unit

TCS has been one of the earliest providers of Business Process as a Service (BPaaS) cloud solutions that combine business process services, applications, and infrastructure. Our platform solutions help large and mid-sized enterprises worldwide achieve greater efficiencies, standardized processes, and improved performance on business metrics and service level agreements (SLAs).

We offer CHROMA™, TAP™ and ERP on Cloud platforms. The solutions are hosted on reliable, scalable, and secure infrastructure.

We deliver transformational value through digitization, standardization and consolidation of fragmented processes. Our clients benefit from faster time to market and lower upfront investment as well as total cost of ownership.

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