The Business Process Utility

An Outsourcing Path to Economies of Scale

Insurance, Financial Services and Communications

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Executive Summary

The Business Process Utility (BPU) represents an evolutionary leap in business strategy. Eliminating billions of dollars in wasteful, duplicated spending, the BPU provides a model for the delivery of massive economies of scale in processing routine business activities.

Supply- and demand-chain outsourcing trends point to wide spread recognition of the inevitability of corporate dis-integration. Organizations can no longer maintain competencies in every field of business, and the benefits of functional specialization are immense. The BPU leverages this trend. Extending the advantages of conventional outsourcing, the BPU aggregates the non-core, yet critical business activities of multiple companies, generating the capacity needed to substantially reduce unit costs.

Insurance carriers, Financial Service Providers (FSPs) and Communications Service Providers (CSPs) are in desperate need of the scale economies available from the BPU. As the sweeping changes brought about by globalization, deregulation and advanced technology remake the competitive landscape, business survival can hinge on an executive team's ability to reduce operational expenses, maintain corporate valuation, and focus management attention on core business activities. The BPU's ability to directly impact Earnings Per Share (EPS), and give first-movers a chance to recognize the latent, potentially fleeting, value of in-house operational assets, offers immediate improvement in the financial health of an organization.

This paper details the circumstances that have led to the development of the BPU model, and offers executives a road map to dramatically reducing the total cost of ownership of non-differentiating business processes. With case studies from the Insurance, Financial Services and Communications industries, the paper details how the BPU delivers a significant and permanent downward shift in the cost curve, and rewards early participants with continually declining transaction costs and increasing shareholder value.

Exigen is in the vanguard of vendors committed to delivering on the promise of the BPU. Offering the experience of industry leaders, a comprehensive, multi-tenancy platform, and a business model that places total emphasis on customer value, Exigen is leading to change the way companies in the Insurance, Financial Services, and Communications industries do business.

The Growth of Outsourcing

In 1984, General Motors (GM) made a daring and visionary business decision. With a sprawling technology division sapping management attention, and under intense competitive pressure, GM outsourced all Information Technology (IT) to Electronic Data Systems (EDS)[i]. In the same year, GM awarded a significant portion of its car seat production to two competing seat manufacturers, Lear and Johnson Controls. The two outsourcing decisions created new markets, propelling the GM suppliers to stardom. It also contributed more to GM shareholder value than the company achieved from producing and selling automobiles.

GM's decision to outsource IT to EDS proved catalytic, both for EDS and the outsourcing industry as a whole. Six years later the market valuation of EDS was almost the same as that of GM, and outsourcing market growth had profited a host of other companies. Lear and Johnson benefited from a similar seismic shift in business practices. Contracts from other auto manufacturers quickly followed the GM deal, leading to a significant change in attitude across the industry. Today, barely 20% of car seats are manufactured by in-house facilities, and the auto industry has embraced external suppliers like no other sector.

These two cases spotlight the evolution of supplier communities. Once the catalytic event of moving processing outside the enterprise is achieved, the supplier's capabilities quickly mature, surpassing in-house operations. As the supplier market grows, the industry finds the need to outsource unassailable. Actions viewed as aggressive when the market was forming are considered essential when outsourcing offers a significant competitive advantage.

Non-Differentiating Business Processes

Today, companies in the Insurance, Financial Services and Communications industries face similar competitive and economic pressures to those encountered by GM in the early 1980's. Reduced barriers to international trade, the elimination of legislative hurdles to competition, and a downturn in the economy are rocking corporate profitability. These three key industries are now ripe for the same innovative reengineering that benefited auto manufacturers. And like the auto industry, these sectors are replete with duplicate business activities.

Looking at Insurance carriers, FSPs, and CSPs through the lens of outsourcing clearly identifies opportunities for externalizing business processes. Companies in each of these sectors maintain back-office functions that are routinely replicated across the industry. Often mundane, and part of the administrivia of corporate life, these base infrastructure activities provide no competitive differentiation.

Examples of replicated activities abound, from the claims processing of the Insurance industry, and loan origination at FSPs, to the service fulfillment of CSPs. And, no matter how efficiently these back-office processes are automated, they will never contribute to the core competency of the organization. As such, they are ideal candidates for outsourcing. As David Ricardo observed, in his landmark 1817 economic treatise[ii], specializing in areas that garner the organization maximum competitive differentiation, and outsourcing areas that do not, brings the greatest possible advantage.

From ITO to BPO

The maturing of the technology market, and the ease of delivering information-based services over high-speed networks, has brought about a surge in the outsourcing of IT functions. Rather than devote resources to maintaining complex technical infrastructures, organizations are finding that they have the freedom to get out of the technology business, and can refocus attention on core business activities. Business Process Outsourcing (BPO) takes these advances in technology delivery to the next stage.

Targeting information intensive business activities, like call center and help desk operations, BPO service providers deliver immediate and scalable access to a fully integrated vertical business function. With people, process and technology expertise, the BPO provider is able to generate efficiencies in infrastructure maintenance and the hiring, training and retaining staff. The basic business model for both IT outsourcing (ITO) and BPO, however, is one of infrastructure costs plus profit markup. This model limits the scope of cost savings available to customers.

Economies of Scale

Absent technological breakthroughs, the most direct path to reducing operational costs is through scale. Whether accomplished by the accumulation of assets, business acquisition, or increasing sales the apportioning of infrastructure expenses across a higher volume of transactions results in lower unit costs.

Deceptively simple on paper, economies of scale can be difficult to pull off in practice. Companies pursuing an organic growth strategy rarely deliver the dramatic increase in volume needed to significantly lower transaction costs.

A strategy of mergers and acquisitions (M&A) can provide the capacity needed to generate economies of scale, but is no guarantee of success. M&A's have a high failure rate. The inevitable internal politics and organizational problems, arising from joining dissimilar corporate structures, can easily derail an M&A strategy, negating all the potential benefits. Without pinpoint accuracy in execution M&A's can be a high-risk approach to reducing unit costs. Business Process Reengineering (BPR) offers a less traumatic route.

Business Process Reengineering

Whether growth is organic or by acquisition, organizations have a natural tendency to develop self-contained silos of operations: each silo housing a self-contained suite of business activities. Evaluating opportunities to consolidate processing, through a BPR analysis, can eliminate process duplication and produce significant savings. The aggregation of all processing under one infrastructure will often deliver internal scale economies, as well as ongoing maintenance and management savings. When Citibank and Travelers conducted a post-merger BPR analysis, for example, they were able to consolidated 200 data centers down to 6, saving an estimated $1 Billion.[iii]

Just as BPR analysis is used to identify candidate processes for consolidation within a company, a similar value assessment can be made across an entire industry. The aggregation of industry-wide duplicate processing of non-core, yet critical business activities offers the potential for unprecedented scale-based cost savings. This is the domain of the Business Process Utility.

The Business Process Utility

The BPU takes the outsourcing of business processes a giant step beyond the BPO. Aggregating and outsourcing the commonly duplicated activities of all companies in a target industry, the BPU delivers a shared service, accessible to competing businesses.

Just as Communications companies developed telephony as a utility, delivering high quality, reliable, and standardized dial tone access. Non-core, yet critical business functions can be offered as a shared service. And, as with dial tone, the BPU delivers the advantages of standardization, and the dramatic cost benefits from economies of scale.

Standardized Business Functionality

The BPU changes the model for outsourcing business processes. Rather than shifting people, assets and infrastructure to a service provider, the utility replaces in-house processing with a suite of vertically integrated shared services. Using a systematic approach to standardization, the BPU customizes the common business process for an entire industry, rather than for an individual client.

Continually Declining Unit Costs

Possibly the most significant benefit of the utility model is the long-term impact on cost of operations. The BPU provides the structure needed to deliver scale advantages at the operational level, permanently altering the cost equation for non-differentiating business processes. These advantages are achieved without the organizational upheaval of an M&A approach.

The BPU offers the only business model that can deliver the economies of scale without requiring sales, asset or infrastructure growth. Aggregating the processing of multiple companies within an industry drives down transaction costs for each utility subscriber. And as the BPU matures, each new subscriber adding capacity, unit costs decline further.

Reducing Risk

The seed for each BPU is a vertically intact business process spun-off an existing organization. The BPU service provider automates, standardizes, and multi-tenants this process enabling the functionality to be delivered to multiple companies simultaneously.

Using a tried and tested catalyst process, from a leading industry player, significantly reduces implementation risks for subsequent users of the utility. This can be an enormous benefit for companies embarking on business process automation. Gartner report that over 60% of all technology implementation projects fail to meet their objectives, with 30% failing outright.

Setting the pace for the industry, by choosing which processes are initially outsourced, the BPU's first-mover gains a very real time-to-market advantage. Budgets and management focus can be effectively realigned, in pursuit of new revenue opportunities, ahead of competitors.

Recognizing Latent Asset Value

Developing internal capabilities to support a business process that cannot be obtained externally has been the method of operation for every business. As external suppliers become adept at producing satisfactory results, however, the cost effectiveness of in-house facilities rapidly declines. This transition invariably results in a massive dissolution of value as once state-of-the-art internal infrastructures lose ground to the dedicated focus, investment and expertise of an external business specializing solely in that functionality.

The loss of value built up in non-core, yet critical business processes is by no means inevitable. Taking active steps to externalize the processes, while they are still competitive, can bring long-term shareholder returns, even as the functionality is made available to competitors.

The BPU model offers a road map for unleashing the latent value accumulated in internally processed routine business functions. Standardized and multi-tenanted, these state-of-the-art processes, along with the best practices of an industry leader, can be made available to all industry players as a shared-service. The organization providing the catalyst is able to convert internally valued assets into solid shareholder value.

Transforming the Cost of Technology Ownership

The growing commodity nature of service offerings from Insurance carriers, FSPs and CSPs is placing a conflicting requirement on the technology needs of the organization. The lion's share of every corporate technology budget, over 80% according to Gartner[iv], is spent, and re-spent, maintaining existing systems. These systems are essential to delivering current product offerings, but do nothing to move the company into new revenue-generating market opportunities. Finding the budget dollars needed to innovate requires streamlining the cost of existing systems.

The BPU transforms the cost of technology ownership by externalizing the non-core, yet critical business processes that consume much of the IT budget. Substituting the variable cost structure of the utility for the fixed cost of in-house IT, along with continually declining transaction costs, frees the IT budget of the weight of legacy system maintenance, allowing greater scope for new investment. New technology initiatives, made available through the utility, also gain from having development and implementation costs amortized across the industry.

Fast Response to Changing Markets

The globalization and deregulation trends sweeping the Insurance, Financial Services and Communications industries offer a case study in how quickly markets change and disrupt competitive positioning. As new and well-capitalized competitors are introduced into previously stable markets, existing players are left to question how best to respond. And, in responding, not only maintain competitive position, but maintain a viable business model. Staying ahead requires flexibility and focus.

The BPU gives organizations the ability to quickly adapt to changing market demands. Rather than build experience and best practices over time, the BPU enables an organization to rapidly deploy a comprehensive suite of tried and tested business functionality. Microsoft demonstrated this effect, recently entering the gaming console market. With no prior experience in the industry, Microsoft was able to become a significant competitor, with their first product offering. Outsourcing the production of hardware to external suppliers, Microsoft focused on areas of the business it new best: specifically, the marketing of technology to consumers.

Case Studies

Looking at specific industry examples best highlights the effectiveness of the BPU model. The case studies below track the market forces prompting a review of operational cost structures, and examine specific processes available for outsourcing to a BPU.

Insurance Industry Case Study

Market Forces Driving Cost Cutting

Despite huge advantages in distribution, branding, access to technology, and shear scale of operations the Big 15 US personal, auto and home insurance carriers face a marketplace in flux, and there are no assured winners. Globalization, deregulation and demutualization are introducing competition from existing, and non-traditional players powering an ongoing dance of acquisition and consolidation.

With market share and profitability the yardsticks of success, the pressure to cut operating expenses and improve return on equity is constant. Executives increasingly look to return organizational focus to core competencies, in order to gain maximum leverage from competitive differentiation. The BPU offers companies in the highly competitive insurance market an ideal model for trimming operational costs, reclaiming management focus, and boosting shareholder value.

Non-Differentiating versus Competitive Processes

Claims processing, policy administration, broker management, payment management and underwriting are each part of the common policy-writing infrastructure deployed by companies across the Insurance industry. These back-office processes account for much of the cost structure within a carrier. And because the processes are duplicated throughout the industry, they are viewed as the cost of doing business, offering no competitive benefit to any carrier.

These replicated processes represent billions of dollars in wasted spending. Aggregating this infrastructure into a utility, shared by all carriers, provides the basis for enormous savings.

The Insurance industry already has an example of a common process that has been outsourced to the benefit of all industry players. The Medical Information Bureau (MIB), in existence since 1902, is a common database helping life, health, disability, and long-term care carriers eliminate fraudulent insurance applications. By externalizing this common process as a utility, Insurance carriers prevented the duplication in spending that would have occurred should all members have created the business process internally.

The Advantages of a Business Process Utility

Massive economies of scale

The back-office functions of the Insurance industry exhibit an expense curve that shows unit costs declining as transaction volume increases. The BPU leverages this cost-volume relationship to deliver substantial cost savings.

Aggregating the processing of multiple Insurance carriers, the BPU generates the capacity to provide huge economies of scale, without requiring the dramatic organizational overhead of an M&A strategy. As more carriers subscribe to the utility, unit costs decline even further, making in-house processing uneconomic and uncompetitive.

Reduced Risk

The commodification of products in the insurance market is sharply curtailing profit margins, leading carriers to re-evaluate product-based strategies in favor of customer-centric business models. Offering sustainable long-term growth, the mining of the customer relationship, and the leveraging of the organizations deep understanding of customer risk-management needs, requires investment in costly and complex applications of advanced technology. Developing the necessary technology and expertise in-house takes time, and is not free of risks. A third of all new technology projects fail outright, according to Gartner[v]. The BPU can help minimize these risks.

The utility model encourages leading companies to spin-off catalyst business activities to a BPU. For other industry players this provides fast access to tried and tested business processes that have been successfully put through their paces in at least one other company. This dramatically reduces the implementation risks associated with process automation and eliminates the requirement to build in-house process expertise.

Recognizing the Value of Latent Assets

The first carrier to embrace the BPU is able to choose which internal processes are initially outsourced. This conveys a significant advantage. Not only is the carrier able to align themselves with the BPU service provider ahead of competitors, ensuring a tight working relationship during the turbulent process of moving processes to the outsourcer, but the first-mover is also able to recognize the latent value of in-house assets that perform the existing process. By transitioning assets, infrastructure and head-count to the utility, in exchange for equity, the first-mover benefits from a long-term increase in shareholder value as the utility expands.

The maturing utility delivers continually declining unit costs. As each new utility subscriber adds capacity, the economies of scale increase. And while all subscribers benefit equally from the reduced transaction cost associated with the business activity, the first-mover gains a significant time-to-market advantage in reapportioning budget and management focus ahead of competitors.

Three Insurers Study

Process	% Process Costs Addressable by the Utility	A		B		C	
		Old Cost	New Cost	Old Cost	New Cost	Old Cost	New Cost
Sales & Distribution	54%	$ 75	$ 45	$ 104	$ 65	$ 87	$ 51
Risk & UW / Policy	45%	$ 8	$ 6	$ 23	$ 12	$ 9	$ 6
Policy Admin	66%	$ 38	$ 24	$ 126	$ 54	$ 44	$ 26
Claim Admin	26%	$ 68	$ 56	$ 120	$ 98	$ 77	$ 62
Overhead/Other	8%	$ 44	$ 42	$ 106	$ 96	$ 52	$ 49
Total Cost/Policy		$ 233	$ 172	$ 479	$ 325	$ 270	$ 194
Savings Per Policy		$61		$153		$76	
Number of Policies		30.0M		1.7M		12.7M	
Impact*		$1,827M		$223M		$961M	
				$3,011M			

* Assuming annual policy turnover for P&C

In a detailed study of three large personal lines, property and casualty Insurance carriers, end-to-end business process maps for sales and distribution, risk and underwriting, policy administration, and claims processing were produced. The investigation determined that in excess of 90% of the processes and sub-processes in each company overlap. Subsequent analysis revealed that the formation of a common utility providing shared access to these services would decrease the cost per policy in force by 26-32%.

In Scope and Out-of-Scope Processes

Not all business processes studied were appropriate for moving to a utility. Combined, the sales and distribution, risk and underwriting, policy administration, and claims processing activities make up 36% of Gross Written Insurance Premiums (GWP). Of these activities 54% of sales and distribution processing, 45% of risk and underwriting processing, 66% of policy administration, and 26% of claims processing were viable candidates for the utility. The remaining processes were candidates for outsourcing but no particular advantage would be achieved from developing multi-tenant capabilities.

Summary

For the three carriers in the above study, the formation of a utility providing common services for back-office functions would offer considerable benefits. Using conservative estimates of cost savings the industry could achieve benefits of $3B per year.

Market Forces Driving Cost Cutting

The Gramm-Leach–Bliley act is changing the face of modern banking. Reducing legislative barriers to competition, the act is bringing FSPs new challenges from well-capitalized, non-traditional businesses. Adding to this increase in competition is the trend towards greater globalization. Weakening barriers to international trade are prying open once secure local financial services markets. In the midst of this competitive uncertainty, FSPs are also facing a multi-year slump in revenues.

The implosion of the commercial real estate market in the 1980's spurred many banks to shed troubled debt from their books, and to develop greater rigor in new loan approval. To compensate for the ensuing decline in spread-based loan revenue, banks have emphasized new, fee-based services. However, the more volatile fee-based revenue is putting banks at the mercy of the economy: demand for services being influenced largely by the health of the financial markets.

The combination of revenue uncertainty and greater competition is placing tremendous pressure on the operational cost structure of financial institutions. The efficiency ratio, measuring the marginal cost of making money and a function of cost and revenue, is an indicator of an FSP's financial competitiveness. As income drops, a heavy burden of fixed costs negatively affects the ratio. Trimming these costs, and where possible moving fixed costs to variable, is the only way to ensure efficiency ratio stability.

Non-Differentiating versus Competitive Processes

Recognizing the potential for cost savings in duplicated internal processes, many institutions are consolidating activities across multiple business units. The traditional product-orientation of FSP infrastructures has led to the development of silos of operations, with each line-of-business performing its own processing. Loan origination, for example, is a process frequently performed independently in several different units throughout the FSP. Combining origination processing in an internal shared-service – a utility - reduces the associated infrastructure expenses and lowers per transaction unit cost.

Demonstrating the effectiveness of eliminating duplicate processes, Washington Mutual, one of the countries top mortgage lenders, has pursued a strategy of aggressively acquiring other lenders, while simultaneously building internal utilities to perform common activities. Although the acquisition strategy is part of a multi-faceted drive to boost market share, the tactic is also delivering significant economies of scale.

Viewing the entire Financial Services industry with the same eye to aggregation shown by Washington Mutual clearly highlights opportunities for eliminating process duplication across multiple companies. Many of these common processes offer no competitive differentiation to the FSP, and are ideal candidates for outsourcing to an industry-wide utility.

The Advantages of a Business Process Utility

Shifting Fixed Costs to Variable

Variable expenses provide companies with a tremendous degree of flexibility when weathering market turbulence. By allowing expenses to closely mirror the business environment, companies are able to respond quickly to market weaknesses, and recover faster when the economy shows strength.

With no physical inventory to produce or distribute financial institutions rely on technological innovation to differentiate their, fundamentally virtual, products from competitors. The IT organization is responsible for delivering this competitive edge, and represents one of the most significant fixed costs of any FSP. However, the IT budget is spent predominantly on maintaining and managing existing systems, leaving little scope for new technology innovations.

The BPU alters the equation of business activity cost. Outsourcing non-differentiating business processes, the utility off-loads the maintenance burden, freeing the IT budget of these non-core expenditures. The BPU not only converts the fixed IT costs to variable, but by applying the economies of scale, reduces the cost of processing transactions. Liberated from the drag of maintenance spending the IT budget can be allocated in areas of the business that best benefit from new automation.

Scale as a Competitive Advantage

The Boston Consulting Group reports a 20% reduction in costs for FSPs able to double transaction volumes[vi]. The traditional route to scale for financial institutions has been through incremental growth or acquisition. As fixed costs are distributed across greater sales volume, reduced unit costs provide the organization with significant competitive advantage. But organic growth and acquisition are not the only means of achieving scale.

Access to the shared services of a BPU provides an FSP with the benefits of scale without the need for increased sales volume. By aggregating the activity of multiple organizations, the BPU develops the transaction volume needed to lower unit costs across an entire industry. The economies generated by the BPU surpass those possible with in-house processing, leaving those companies that maintain internal facilities at a competitive disadvantage.

Amortize the Cost and Risk of IT Ownership

As more companies enter the financial services market, product offerings are being distilled down to basics, leaving little room for competitive differentiation. Recognizing the commodity nature of their services, companies are moving from a product-centric view of the world to one centered on the customer. Able to provide a broad view of a customer's financial universe, the FSP can offer a range of new associated services. This approach relies on the application of complex technology, increasing both the cost and the risk to the FSP.

IT projects have a dismal rate of success, whether completed by in-house teams, external integrators and consultants, or via off-the-shelf applications. One third of IT projects are cancelled outright, with many more projects failing to meet user expectations. Complexity is to blame. The convoluted coupling of multiple legacy systems, necessary to develop new customer-centric solutions, creates a patchwork of software that compounds the difficulty of developing new initiatives.

The BPU model transforms the risk and total cost of IT ownership. Deploying the best practices of industry veterans, and the most efficient operational systems in current use, the BPU offers industry-wide improvements in efficiency. Solutions delivered by the utility have already been integrated, implemented, and debugged in at least one company, eliminating the development risk for others. The utility provides a platform for developing new initiatives that are of use to the entire industry. Just as banks joined forces to develop credit card payment technologies (see below), other joint developments can amortize the cost of the initiatives across multiple companies in the industry.

Industry Examples

The financial services sector has long recognized the advantages of cooperating on joint development of functionality benefiting the entire industry. Both MasterCard and Visa began as joint membership organizations with the aim of promoting alternative methods of payment. More recently, the Electronic Bill Presentment and Payment (EBPP) initiatives propose to similarly consolidate processing across the industry.

MasterCard and Visa

MasterCard International and Visa were both started by groups of banks needing to facilitate a new form of payment. In the late 1940's several US banks began experimenting with forms of payment other than cash and check. New York's Franklin National Bank introduced the first real credit card in 1951, and the franchise grew with the participation of banks throughout the country. By the time MasterCard International was formed around 1966, member committees were setting rules for authorization, clearing, and settlement of the shared credit card utility. Similarly, Visa represents the joint needs of over 20,000 financial institutions, delivering payment products and services to its members.

Electronic Bill Presentment and Payment

The financial services sector is on the verge of adopting a new utility, EBPP. While the domain of EBPP encompasses several different models, some of which offer shared services and some of which do not. The Service Provider Consolidation Model, in either thick or thin form, offers a clearinghouse approach to electronic settlement and gives members the greatest opportunity for cost savings by aggregating the needs of all institutions in one utility.

Summary

The examples above typify the cooperative behavior that can exist between competitors in jointly developing functionality that serves the common good of an industry. The BPU concept uses the same cooperative philosophy, saving the FSPs billions of dollars currently spent on duplicated, non-differentiating processes.

Communications Industry Case Study

Market Forces Driving Cost Cutting

Communications companies are being transformed from simple dial tone carriers into providers of a wide range of advanced network services. This transformation is not a painless one. New services like broadband and third-generation wireless are proving to be costly, complex and capital intensive, with a much longer time-to-profitability than traditional products.

The high cost of product innovation is squeezing profit margins and placing a renewed emphasis on the careful monitoring of operational expenses. CSPs have new, higher-margin products in the pipeline, but these require today's first-generation of advanced technologies as a base. This leaves an uneasy interim. Trimming the cost of basic infrastructure components is essential for sustaining profit margins.

Non-Differentiating versus Competitive Processes

The emphasis on cost cutting has brought into question the Communications industry mantra "We build. We own. We operate." Increasing competition, and the need to weather economic uncertainty, now favors leaner and more agile corporate infrastructures. CSP executives are turning to outsourcing as a means of achieving increased flexibility and reducing the cost of operations.

Many local exchange carriers have to-date only flirted with outsourcing, ceding responsibility for peripheral functions such as telemarketing, or commodity processes like equipment manufacturing, to external providers. This reluctance has put carriers at a disadvantage. Cable companies, who compete directly with exchange carriers in the market for broadband services, routinely outsource customer care and billing processes. This has given cable operators the benefit of a significantly more streamlined cost structure.

Service fulfillment, service assurance, sales support, help desk, and routine account management are all activities common replicated across each CSP. These processes are considered a basic cost of doing business in the industry, and do not offer any company an advantage. As a result, the processes are prime candidates for outsourcing to a BPU.

The Advantages of a Business Process Utility

Greater Headroom for Innovation

The Communications industry is now on the leading edge of technical innovation. 3-G wireless and ubiquitous broadband are just some of the innovations that promise to revolutionize every aspect of business and private life. The price of this innovation is high, however, and CSP executives, dealing with the immediate problem of slumping revenues, are caught in a Catch-22 bind. The industry demands an "innovate or die" mentality, but there is no new money available for investment.

The BPU solves this problem by lowering the cost of operations. Replacing existing infrastructures with services of a BPU immediately reduces fixed costs, and frees budgets to be reallocated to revenue generating investments.

Improving EBITDA

EBITDA (earnings before interest, taxes, depreciation and amortization) is a key accounting metric among Communications companies. The capital-intensive nature of the industry places a heavy burden of amortization and depreciation on the balance sheet, clouding the financial health of the company. Highlighting cash earnings, via EBITDA, indicates to investor's profitability progress.

The BPU offers CSP executives a direct path to improving EBITDA. Not only does the BPU externalize the expenses associated with a business process, but it also produces massive, scale-based reductions in transaction costs.

CSPs offer a natural market for the BPU. The aggressive mergers and acquisitions strategies of many companies in the industry have resulted in process duplication across operations of affiliated organizations. Consolidating these activities internally realizes considerable savings: extending the consolidation outwards, to incorporate the processes of other company's, drives down costs dramatically. Studies of DSL customer acquisition processes indicated that outsourcing the activities of just three CSPs to a BPU generates savings of up to 16% on overall process cost.

Latent Infrastructure Value

The internal infrastructure for processing peripheral business activities represents a considerable asset to any CSP, but is often under-appreciated by the financial markets. Moving processing to a BPU allows the company to recognize this latent asset, with a corresponding increase in shareholder value. Delays in making a move to the utility provide a competitor with an opportunity to capture the value of their own infrastructure, emphasizing just how perishable these assets can be. The stored investment and expertise of internal teams can quickly fall behind that of a maturing utility with a dedicated focus on one business process.

Industry Examples

Cable companies have long considered customer-care and billing as ancillary to their core business activities, outsourcing these processes to companies like CSG Systems, Convergys and DST.

Playing in a competitive marketplace, where price is a significant factor in buyer decision-making, cable companies are keenly focused on operational expenses and core competitive differentiators. This focus has led these companies to divest themselves of operations that are not part of their core business. Using bureau-based providers, whose sole focus is delivering customer care and billing services, the cable companies have been able to externalize these activities. The ability to import the necessary processes expertise and technology, rather than accumulate it themselves, gives the cable companies a significant cost savings and improved management focus.

Summary

CSPs are facing tremendous pressure to lower operational costs and improve EBITDA and EPS. The utility model delivers the much-needed cost savings. In studies of three CSPs, outsourcing account service, fulfillment and account management functions, the BPU model resulted in $1.26 billion in annual savings, giving an average 15% increase in EPS.

Exigen

Recognizing the opportunity to significantly alter the operational cost structure of conventional outsourcing, Exigen developed the Business Process Utility model. The BPU delivers shared access to non-core, yet critical business activities in the Insurance, Financial Service and Communications industries. With specific domain and technology expertise, Exigen develops BPUs that deliver massive economies-of-scale from the aggregation of processing across an entire industry.

The Exigen technology framework provides the structure necessary for developing industry-specific utilities. The framework offers a platform for integrating legacy systems with newly automated business processes, maximizing the flexibility and reuse of technology solutions.

The utility-ready Exigen framework consists of a comprehensive stack of pre-integrated technologies that include; workflow automation, business rules, legacy systems integration, interaction management and sophisticated multi-platform presentation software. Applicable to a wide range of business processes, the framework is designed to support multiple tenancy and automates front office, multi-channel customer interactions through to back-office line-of-business processes.

The Exigen business model aligns growth with directly lowering customer Total Cost of Ownership. A unique focus on the customer need for measurable value from automation solutions has enabled Exigen to develop a holistic, vertical approach that places accountability for value generated squarely in the hands of the vendor. Unlike horizontal, best of breed and enterprise software solutions, that require customers to pay for every function and feature, regardless of whether they are needed, the Exigen utility-ready framework delivers automated end-to-end business processes that have been industry standardized and are ready for deployment as a BPU.

Conclusion

Recognizing that outsourcing represents an inevitable turn of events is the first step on the road to the BPU. The BPU model is unique in its ability to dramatically lower the cost curve of non-core, yet critical business activities, without requiring a build up of assets, infrastructure or sales volume. This presents utility users with a tremendous competitive advantage, and gives industry executives a strategy for maintaining EPS in the face of uncertain economic prospects. As the pace of technological change threatens to overwhelm even the most efficient organizations, the BPU gives companies a model to get out from under the yoke of legacy system maintenance costs, freeing budgets for new revenue enhancing innovation.

Exigen combines deep domain knowledge in Insurance, Financial Services and Communications, with a framework of utility-ready, pre-integrated technologies. This convergence of expertise puts Exigen in a unique position to develop industry specific BPUs that extend the benefits of traditional outsourcing, delivering massive economies of scale.

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[i] Vikas Kapoor – Outsourcing: The Case for Corporate "Dis-integration"

[ii] Vikas Kapoor – Outsourcing: The Case for Corporate "Dis-integration"
[iii] The Boston Consulting Group – The New Importance of Scale, April 2001
[iv] Gartner
[v] Gartner
[vi] The Boston Consulting Group – The New Importance of Scale, April 2001