

# Service Delivery Transformation in Procurement Outsourcing

## Authors:

- **Rajesh Agarwal**, World-wide Leader – Global Supply Advanced Analytics CoE, IBM India, Bangalore, rajesh.agarwal@in.ibm.com
- **Tom Ervolina**, Research Scientist, IBM USA, Yorktown Heights, NY, ervolina@us.ibm.com
- **Anant Sagar**, SCM/Procurement Program Manager - Global Enterprise Services Sourcing, IBM USA, Poughkeepsie, NY, asagar@us.ibm.com
- **Sumeet Agarwal**, Global Process Manager – eProcurement, IBM India, Bangalore, sumeetagarwal@in.ibm.com

## Extended Abstract:

The last few decades have seen a rapid shift from a manufacturing economy to a service economy. Effective management and transformation of service delivery is critical for success in the increasing important services-focused world.

In this paper, we share experiences and insights in service delivery management of procurement outsourcing services delivered from the Global Procurement Centers as part of IBM's Global Process Services business. We report on how various transformation experiences over the course of 2007-09 have achieved significant business improvements - process stabilization leading to 99.3% SLA attainment in the first year (2007), YoY reduction in cost per transaction by 48% (2008-09) and improvement in C-Sat by 9% (2008-09) taking it to above 90%.

The service delivery transformation journey started with first stabilization of the process (while managing rapid growth at the same time) to ensure that the contractual SLAs with the clients are met and there are no major client satisfaction issues. We systematically tracked all the process delivery issues, performed root-cause analysis, redesigned the end-to-end business process to fix any process gaps, trained our resources on the new processes and even trained our client resources to make it easier for them to follow the process.

Once the processes were stabilized, we focused our attention on improving cost, productivity and quality in the beginning of year-2008. We identified several levers of cost and productivity improvement and then applied each of these levers systematically across multiple accounts and multiple centers resulting in 48% reduction in cost per transaction in one year and improving the customer satisfaction by 9% at the same time.

We significantly improved utilization of our resources (and thereby reduced idle/ buffer time) by leveling resources on periodic basis and optimally sharing resources across multiple accounts to effectively manage peaks and troughs in volumes. We reduced our employee cost/hour by 25% by systematically reducing the overhead costs such as IT and facilities costs. For example, through effective shift planning, we increased our seat utilization (ratio of number of employees to number of seats) by 35% thereby reducing our facilities costs. We also increased span of control of our managers by globally integrating our teams across centers under a common management system and also reducing process complexity.

We improved our employee productivity (number of transactions per employee-hour) by 45% through process simplification and automation using a combination of structured Lean Sigma approach as well as implementing quick process improvement ideas. The former was driven by Lean Sigma experts through structured projects while the later was a result of an innovation culture that motivated employees to contribute to process improvement ideas. Some of the specific Lean Sigma projects resulted in increase in Hands-free (automated) Purchase Orders that required no buyer intervention, reduction in non-value added steps from the process and reducing the customer help requests per purchase order by 28%.

Most of these achievements were realized using qualitative analysis and management intuition and can be extended to other services areas as well beyond procurement outsourcing. However as the business model for service delivery scales in volume, complexity, and range of service offerings, we identify a number of future challenges that will require deeper services science and analytical approaches to be developed and matured for business to remain competitive.

With the growth of the services business, there is an increasing need for supply chain type predictive analytics to better forecast and measure the dynamics of the peaks and troughs, as well as prescriptive analytics (optimization and stochastic optimization) to optimize the resource staffing levers. Additionally, there is an opportunity to apply the concepts of Workforce Evolution to grow individual employee's skill level by exposing them to new work tasks so that they gain skill while being productive. This will help in developing a long-term more resilient and flexible employee pool. There are also challenges around the design of incentive systems that ensure that measurement criteria of individual employee performance drive an aggregated workforce performance that optimizes for overall business performance. Finally, devising a method that measures total value delivered by each employee either through core processing work or through process improvement initiatives, and then offering rewards based on total value delivered can be a focus area for future research.