

Managing BPM

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Several times I have been confronted with questions about Outsourcing. It's a hot topic and I'm often asked how BPM can help people trying to analyze or plan for outsourcing a process effort. I will try to give you a perspective that evolves from the SCOR framework, and then some more interesting perspectives about what seems to be evolving.

Some time ago, in the mid-80s, when certain types of defined Supply-Chain models emerged – OEM manufacturing, third party logistics, and so on (generically, “outsourcing”) – it became more and more important to create simple, universal ways to interlink processes between companies so the difficulty of the task of changing process sourcing would not be a barrier to launching. One approach to this was to specify the transaction information between companies in a simple way. ANSI X.12 EDI standards are a nice, complete library of transactions between companies, fairly generic, which provide for ways to link up, but they don't speak specifically to the use of information, or the reason for data, or the patterns of use. SCOR emerged later as an excellent process reference to support “globalized” supply-chain, providing an easy language to describe material flow, workflow, and transaction flow between companies to the degree that it is relatively easy to define process outsourcing relationships. Interestingly, SCOR also provides a set of metrics which, when you think about it, are actually nothing more than the “service level agreements” between companies at the process level.

An old friend of mine called me some time back to ask about patterns of OEM manufacturing setup in the context of his getting a team to set up the process flow. It was pretty easy to give him the 5 or so standard recipes, and then, also, the EDIFACT transaction sets for each of the flows; therefore, a fairly straightforward implementation followed. Also, he was also able to use metrics from the processes for benchmarking the tenders (bids) for the work, and to set up quickly the service agreements. He could have done special purpose processes, transactions, and service-level agreements, and had the provider companies do very customized proposals, but, really, why bother? If it is already “non-value-add” work, do you need special purpose implementations?

At HP, we have fairly standard process flows for most of our outsourced work that make it relatively simple and straightforward to outsource or collaborate on key processes. They have been honed over time to be highly optimized for shifting between key suppliers, depending on product launch, material availability, and so on. Adaptable and flexible are the keys.

In the context of SCOR, there are about 165 processes at “level 3,” or generic cross-industry level, independent of products, markets, and suppliers. According to Lehman Brothers, in a 2003 Supply-Chain Council presentation, “SCM has resulted in an estimated \$472 billion in incremental revenue from 1996 to 2002.”

- \$32 billion from SCM software providers (pure-plays and ERPs)
- \$223 billion from Electronic Manufacturing Services (EMS) companies
- \$33 billion from Foundries (2)
- \$131 billion from Original Device Manufacturers (ODM) companies (3)

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- \$53 billion from SCM service providers

So, let me connect some dots: The current set of 165 processes in SCOR (supply-chain) is worth \$472 billion in “outsourcing” value, roughly speaking. (SCOR covers both operational processes, as well as management processes including software.) Kind of breathtaking.

What then? Well, with CCOR, DCOR, and the other xCOR frameworks HP uses, there are also roughly 165 predefined processes ready for standardizing and outsourcing. Of course, many processes are already well out there. Post-sales support processes are well understood to be outsourced, and they nestle nicely in CCOR, but only about 24 key processes are visible. The iCOR (IT) framework neatly classifies already outsourced IT categories with nice sets of metrics and so forth, but again only a limited set of processes. Suddenly a huge gaping hole seems to be evolving: What else can be outsourced?

We use an 8-block high-level framework to describe HP’s enterprise model. It consists of four “execution” blocks of reference models: Marketing (MCOR), Customer (CCOR), Supply-Chain (SCOR), and Design (DCOR). Likewise there are four “resource” blocks of reference models: Human Resources, Financial Resources, Technology Resources (including IT), and Process Resources (a condensation of all BPM approaches).

Multiply those 8 groups by 165 generic level-3 processes per block, and you get 1320 core “outsourcable,” standardized, practice-catalogued, service-level defined processes. Suddenly I see eBay in terms of CCOR and MCOR (Marketing) outsourced “grouped sales” processes, as well as Salesforce.com. All that nice design collaboration so popular today? Those are DCOR processes. I can even classify consulting companies by which “PCOR” (Process Framework) processes they provide to management. And certainly the vogue for HR and Finance transaction outsourcing represents yet more framework process categories.

We, as a “process world” – perhaps due to globalization, due to cheap networking, and due to some level of standardization – seem to be moving inexorably to the process-provider model of company execution, with large companies being orchestrators. Organizations which have the most standardized and defined processes will probably have “first mover” advantage in offering process outsourcing, since they are easiest to do business with. I am very interested in watching exactly how this componentized business model distributes more and more processes across the globe, far away from their “business management.”

Takeaway: Frameworks provide a powerful, predictive, structured way to review processes in a company for potential outsourcing (Are they value add? Do they provide competitive advantage?). They can provide an excellent management tool for controlling outsourced providers and standardizing relationships to simplify implementation. They can provide a different perspective on the market for processes (It’s not manufacturing, it’s a supply-chain process market!), and they provide a great way to understand standard service practices, service levels, and bases for competition.

