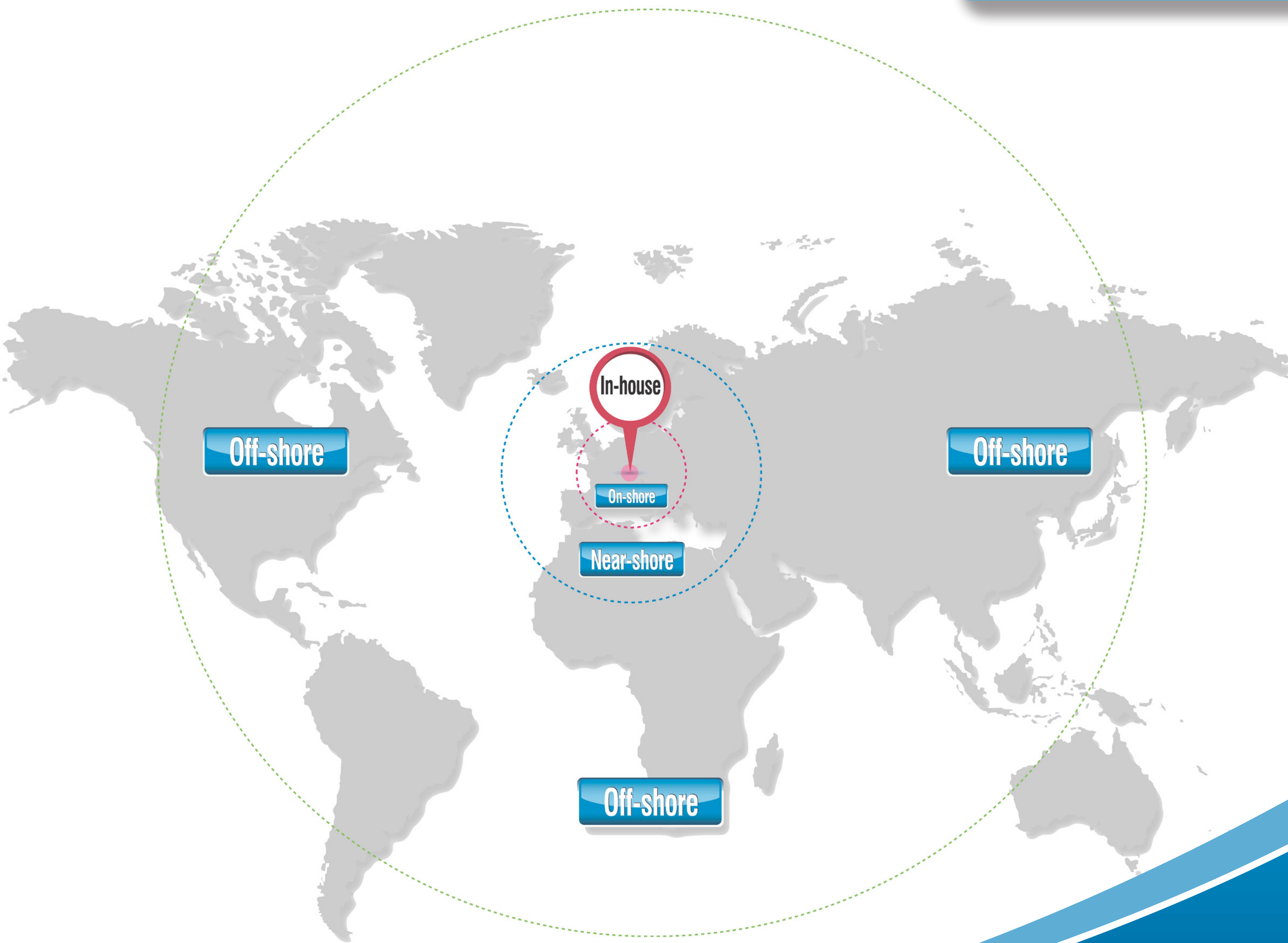
AIIM White Paper



Document Process Outsourcing:
in-house, onshore, near shore or offshore?

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About the White Paper

As the non-profit association dedicated to nurturing, growing and supporting the user and supplier communities of ECM (Enterprise Content Management) and Social Business Systems, AIIM is proud to provide this research at no charge. In this way the entire community can take full advantage of the education, thought-leadership and direction provided by our work. Our objective is to present the "wisdom of the crowds" based on our 80,000-strong community.

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Process used and survey demographics

The survey results quoted in this report are taken from a survey carried out in January – February of 2015, with 167 responses from individual members of the AIIM community surveyed using a web-based tool. Invitations to take the survey were sent via email to a selection of AIIM's 80,000 registered individuals. 68% of the respondents are from North America and 16% from Europe. They cover a representative spread of various industry sectors. Results from organizations of less than 11 employees have not been included, bringing the total respondents to 157.

About AIIM

AIIM has been an advocate and supporter of information professionals for nearly 70 years. The association mission is to ensure that information professionals understand the current and future challenges of managing information assets in an era of social, mobile, cloud and big data. AIIM builds on a strong heritage of research and member service. Today, AIIM is a global, non-profit organization that provides independent research, education and certification programs to information professionals. AIIM represents the entire information management community: practitioners, technology suppliers, integrators and consultants. AIIM runs a series of training programs, which can be found at http://www.aiim.org/Training.

About the author

Bob Larrivee is Director of Custom Research at AIIM, and an internationally recognized subject matter expert and thought leader with over thirty years of experience in the fields of information and process management. Bob is an avid techie with a focus on process improvement, and the application of advanced technologies to enhance and automate business operations.

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Introduction

Document Process Outsourcing (DPO) has been a feature of the business landscape for nearly three decades. Initially confined to scanning operations dedicated to digitizing historical records, the field now encompasses a wide range of services potentially covering every process from capturing inbound documents, forms and invoices (electronic or paper) to outbound print and multi-channel communications, with varying degrees of process involvement in between. However, the drivers for outsourcing have always been competency, cost or convenience.

The world, on the other hand, has changed considerably. Globalization has transformed market reach, re-defining the concept of multi-national operations, while at the same time re-mapping labor costs and local skill-sets. Communications has provided an increasing transparency of IT, particularly with regard to high volume scanned images. Modern business operations are modeled to focus on core competency, while sub-contracting or outsourcing non-core services.

For the individual business manager, decisions still need to be made against the competency, cost and convenience matrix. Decisions on which aspects of an end-to-end process to outsource, who to choose as an outsource provider, and how the DPO's business model might affect convenience and compliance, as well as cost.

In this report, we will survey users and non-users of outsource services, chart their drivers against the competence/cost/convenience matrix, and explore how their own policies for staffing profiles, operational risk, and regulatory compliance affect their evaluation and choice of DPO services. We will particularly focus on the trade-offs of in-house, on-shore, near shore and offshore models, and geographical regions that might be considered acceptable or unacceptable. We will also look briefly at the overall trade-off between automated recognition and manual keying processes.

Key Findings

- Savings related to office/building space reduction, is an often-overlooked driver and opportunity for DPO use, by most organizations. Especially those in major metropolitan areas like Rome, Paris, New York and London where the average costs for space could run between £90-£105 per sq. ft. or more. Cost and efficiency savings top the list of drivers for DPO use at 58%. 30% see a renewed focus on core business activities as their driver.

- DPO is in use for physical mailroom distribution by 16% while 23% say they would consider DPO for this purpose Outbound print (19%) and mailing (20%) are popular in terms of current use of DPO services with 27% considering it for outbound mailing and 26% for outbound print processes.

- 37% indicate they would be more likely to look at DPO providers for content analytics, process automation, or case management. 12% are looking to move this back in-house, but this may not match with the required skills.

- Main reasons for discontinuing with outsource contracts are a lack of next generation technology support, feeling of lack of control, little value seen for their investment, and service level dissatisfaction. All of these are indicators of an overall dissatisfaction with their providers. 44% of respondents indicate that they have not reversed a decision to outsource document processing and are continuing to use the same contractor(s).

- When it comes time to renew DPO services, service level performance (69%) and the value delivered (62%), are the critical factors being considered. While dissatisfaction for lack of supporting next generation was cited as a reason to discontinue service, it falls low in the consideration of DPO renewal (18%).

- There is a missed opportunity by many organizations to use DPO for day forward archive, inbound mailroom, and LOB processes. For 32% of respondents, Archive of back-file or historical scanning/conversion is a consideration. 18% say they would consider invoice processing in accounts payables as a near/offshore DPO option.

- 56% look at the technology infrastructure as the most significant factor when choosing an offshore location. This could be due to concerns over power outages, loss of connectivity, etc. in developing nations. 72% say cost is the biggest factor for choosing an offshore location.

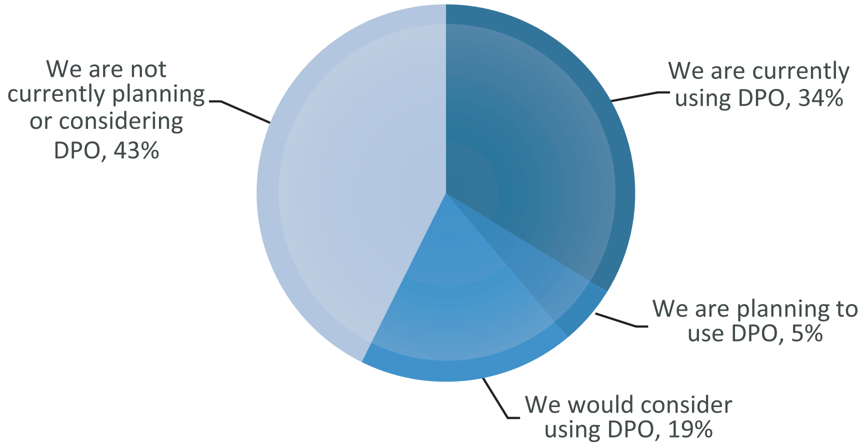
- There is significant interest in considering Southeast Asia (48%) and Eastern Europe (41%). India tops the list of locations for DPO with 31% indicating they use it now and 23% indicating it is a consideration.

- Reflecting the currency of a hybrid approach to cloud, partitioning DPO services can be seen as beneficial in addressing regulatory and compliance concerns. 54% of respondents indicate partitioning would or possibly could help with regulatory challenges.
- In similar fashion to partitioning, fragmented document processing is also seen as a potential way of addressing regulatory and compliance concerns. 52% indicate fragmented document processing would or could possibly be helpful in managing document sets.
- Spending is expected to increase for on-shore local and national locations in a net of 9% of organizations. Near shore intentions are flat; with a small net positive of those increasing offshore spend of 2%.

Business Drivers

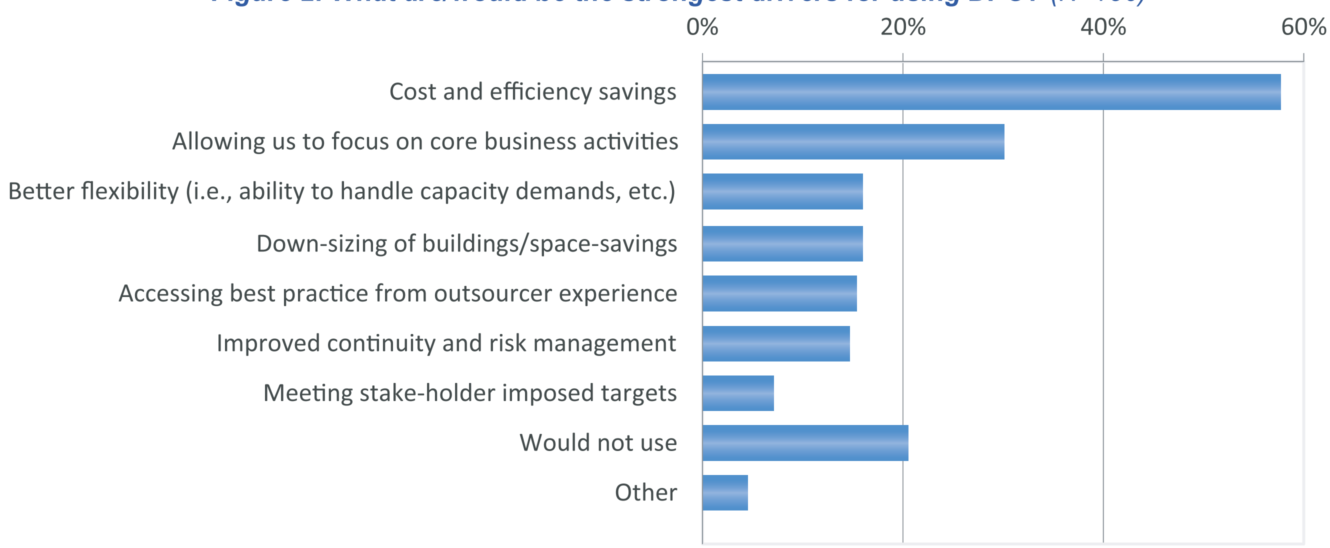
Looking at the current and potential use of DPO, we find that 34% of respondents are currently using it while 24% indicate they would consider or are planning to use DPO showing that the user community is looking to grow DPO within the organization and there are organizations willing to explore this option for the first time.

***Figure 1: Do you use, or are you planning to use Document Process Outsourcing (DPO)?** (N=157)*



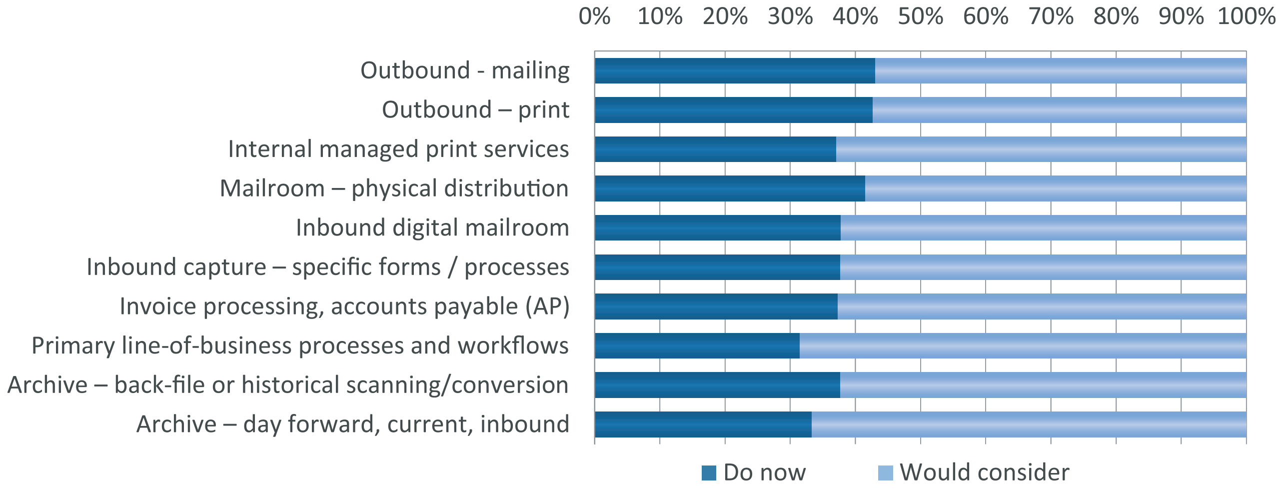
Cost and efficiency savings top the list of drivers for DPO use at 58% (Figure 2), yet 30% see a renewed focus on core business activities as their driver. Perhaps one driver that is often overlooked in relation to DPO is the driver of building space savings (16%), which for some organizations, based upon where they are located like Paris, Rome, New York, and London for, could be significant. Using London as the example, office rental rates in mid-town could average between £90-£105 per sq. ft. per annum. In this scenario, the cost of space alone for a ten thousand sq. ft. space would run between £900k-£1.05m per annum. Now add additional overhead costs like furniture, utilities if not included, and the total annual costs of this space can rise significantly.

***Figure 2: What are/would be the strongest drivers for using DPO?** (N=156)*



In Figure 3 we see there is interest in continuing and growing use of DPO for outbound print (26% would consider) and mailing (27% would consider). We also see that there is interest in addressing mailroom activities and costs associated with physical mailroom distribution, which is in use by 16% while an additional 23% say they would consider DPO for this purpose. This could represent the need to control costs or also be an indication that better control over inbound mail is in order for regulatory reasons in that the sooner it is captured and brought into the system, the sooner it is placed under corporate control and the governance practices of the organization.

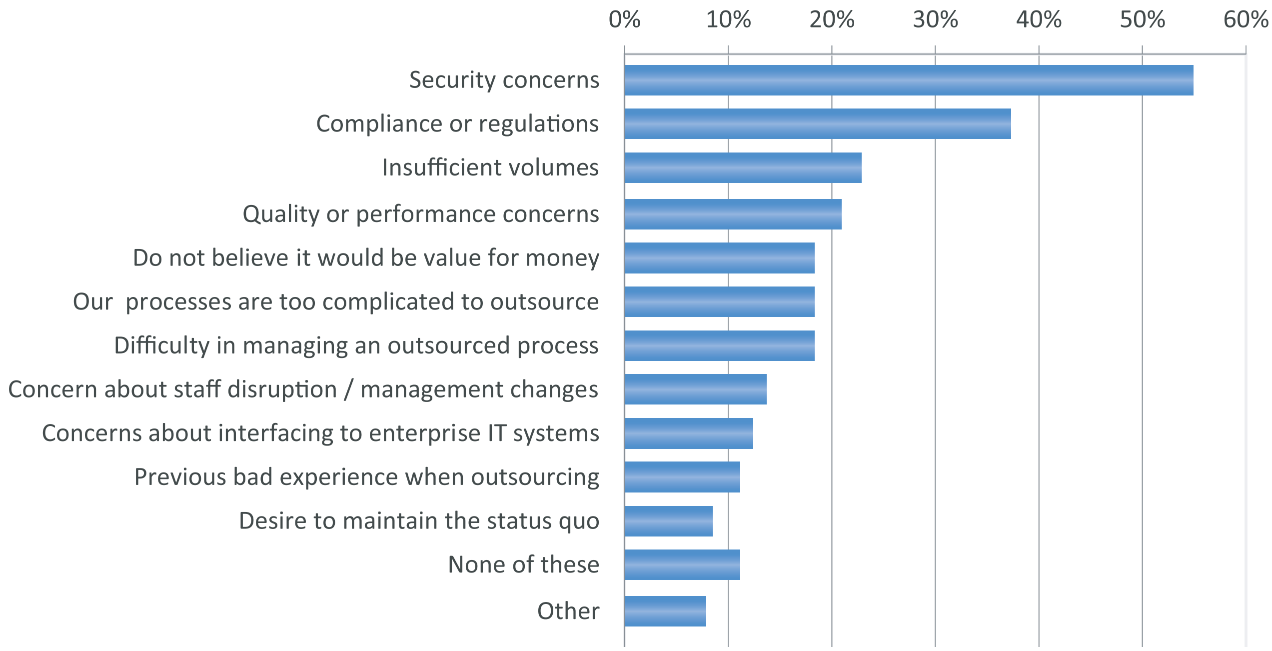
Figure 3: Which processes do you or would you consider for DPO? *(N=137)*



Challenges

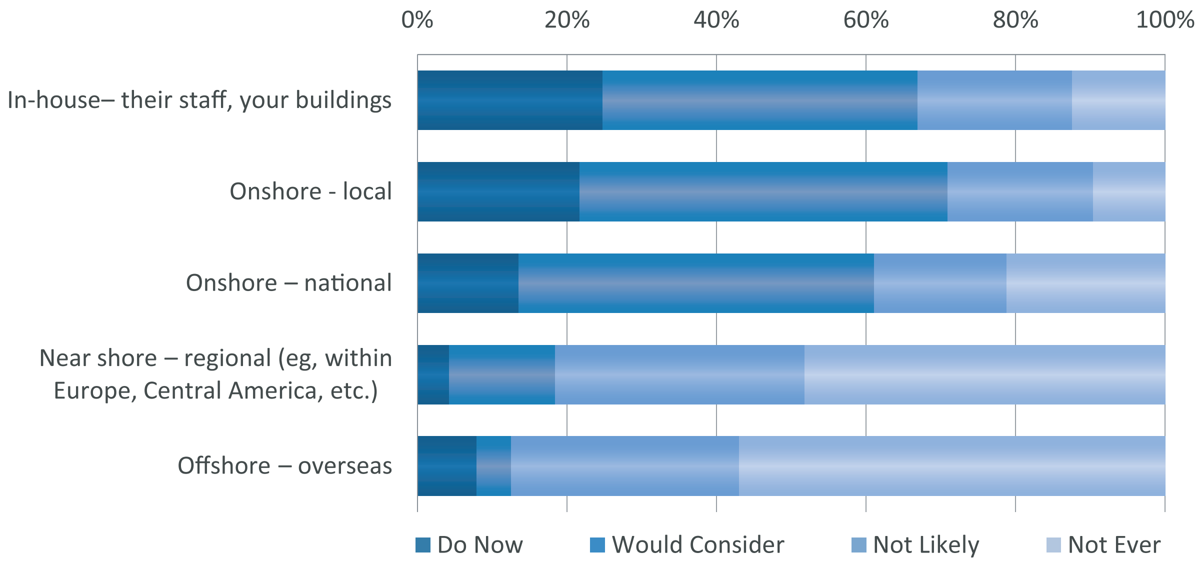
While DPO is seen as an opportunity for change, there are still concerns to be addressed within the user community. For some of our respondents, security (55%) and compliance (37%) top the list of barriers preventing DPO use. While these are undoubtedly issues, they are often invoked as a catch-all objection, without full investigation of the actual regulations, and a weighing up of the risks."The indication by 23% that insufficient volumes is a main reason for not adopting DPO, indicates the need for education on DPO value and a better ROI analysis, especially with cloud services. There may also be consolidation opportunities across multi-site organizations that would boost volumes and improve ROI. It appears that while there may be a general understanding of how DPO can help, it is unclear as to whether or not the whole picture in relation to DPO benefits is seen or recognized. This is where the space savings element may play a stronger role.

Figure 4: What would be the main reasons given in your organization for not using DPO? *(N=153)*



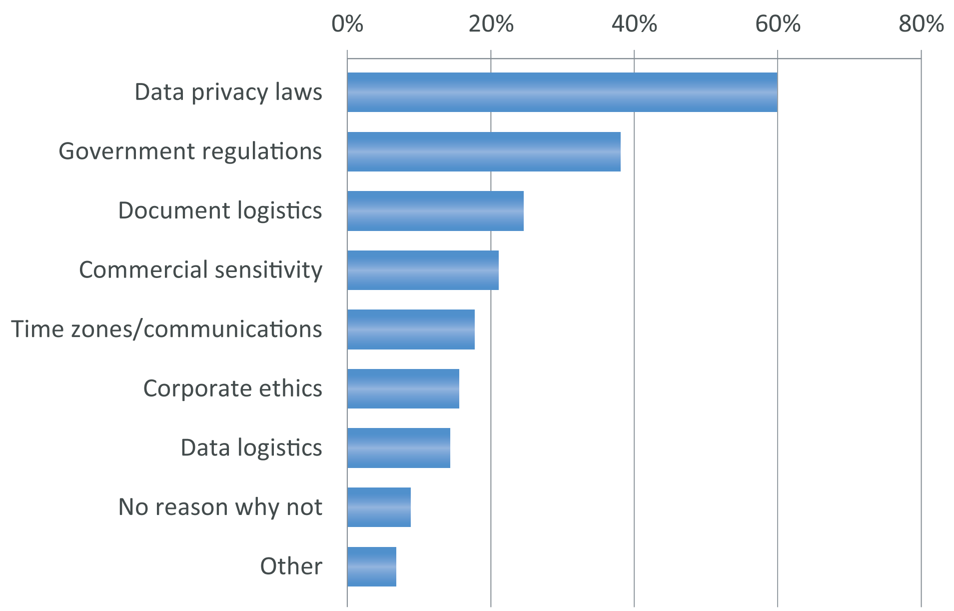
Focusing on location or regional preferences related to DPO use, 25% say they use DPO staff in-house with 42% looking at this approach. 52% of respondents say they are considering on-shore local DPO with 23% currently using this approach. This could be an indicator related to the previously presented concerns over security and compliance. The sense being that if it is on-shore and local, I can get there if need be, and if I use outsourced staff in my facilities, I have tighter control and can monitor what is taking place. Having said that, although relatively few are currently using near shore (4%) or offshore (8%) almost a half of our respondents would not rule out using them if they can be re-assured on a number of factors.

Figure 5: How do you feel about the following locations for DPO services? *(N=149)*



Exploring these factors further, respondents indicated data privacy concerns (60%) and government regulations (38%) are the top reasons they will not consider near or offshore DPO. Concerns over commercial sensitivity – which could be IP as in product design, ingredients, pricing, customer information, etc. also exist. This could reflect the current levels of understanding and education within the user community as to what DPO offers and how it can enhance operations while maintaining control, security, and compliance. Data privacy laws for the security of sensitive personal information, and where geographically such information may be stored, is an important issue in some geographies, and the regulations in Europe are set to become more strict, but these issues can become over-exaggerated as a blanket objection, rather than being considered on an application-by-application, and content-type by content-type basis.

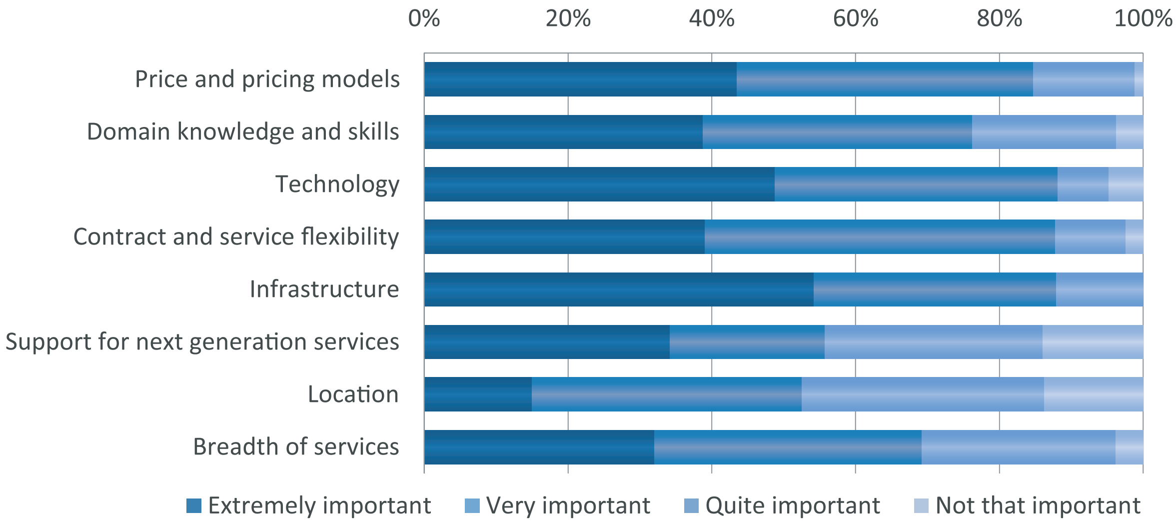
Figure 6: Are there specific reasons why you would not consider a near or offshore outsourcing location? *(N=147)*



Supplier Considerations

While price may be a primary consideration for some (44%), the majority of respondents cite that infrastructure and technology more important than price. For 54% of respondents, infrastructure is extremely important, perhaps indicating concerns over stability when it comes to power and connectivity in developing countries. 49% indicate that technology is extremely important for them along with support for next generation services (34%), while 39% cite domain knowledge and skills as their top priority. It is clear that respondents want to feel comfortable and secure, knowing that the choice they make will be able to support their current and future needs, using the latest technologies maintained within a stable and accessible environment.

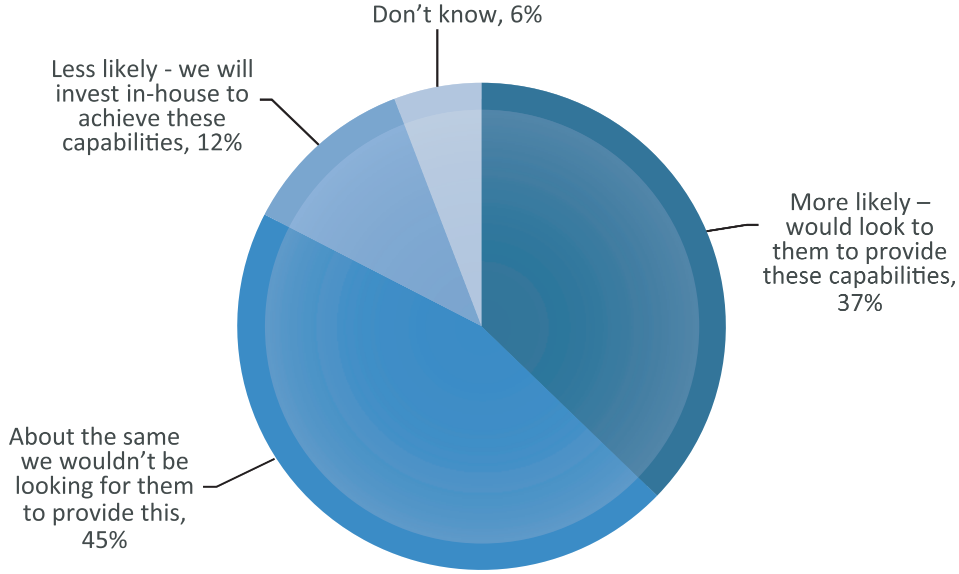
Figure 7: In choosing a DPO provider, how would you prioritize the following factors? *(N=86)*



In today's business world, keeping up with increased regulations, the need to provide enhanced services, and improve customer responsiveness, requires increased sophistication of document operations. For example, content analytics, process automation, and case management are areas of focus for improvement that can provide substantial benefit. When presented with this scenario, and asked how they would approach this, 37% of respondents indicated DPO providers would be sought for content analytics, process automation, or case management types of operations. This aligns with the section criteria presented earlier regarding domain knowledge, skills and support for next generation services. Organizations seeking to increase these capabilities will turn to outsource providers to fill in the gaps in these areas, allowing them to focus on their core business activities.

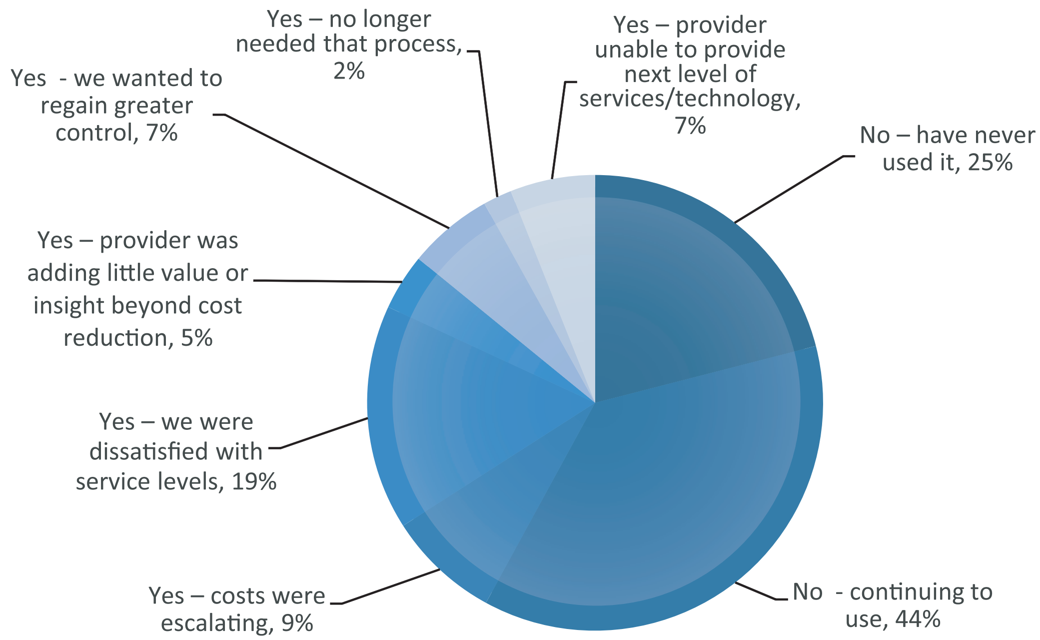
We also see that 12% indicate they are seeking to move these activities back in-house. While it is unclear as to the reason, Figure 9 of this report shows some respondents have reversed decisions regarding DPO use for reasons ranging from dissatisfaction with service levels to lack of support for next generation services.

Figure 8: Given the increasing sophistication of document operations, for example, content analytics, process automation, or case management, would you be more likely or less likely to use a DPO in the future? *(N=86)*



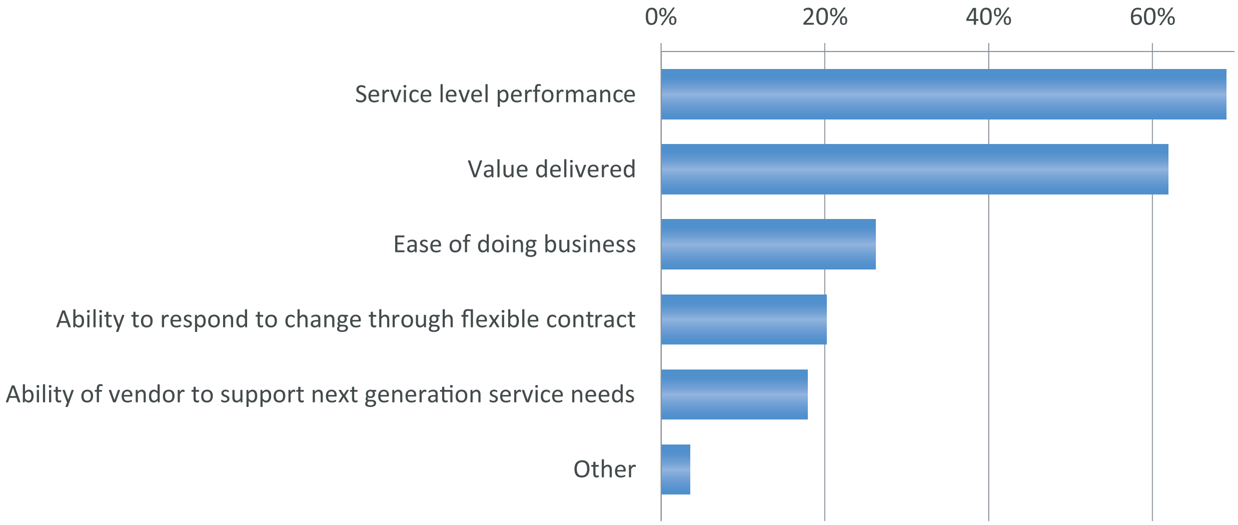
When we inquired about reversing decisions to use DPO, 44% indicate they have not reversed their decision and continue to use it today. Those who have indicated a reversal of their DPO decision cite service level dissatisfaction (19%), a lack of next generation support (7%), feeling of lack of control (7%), and little value seen (5%) as the main reasons. Regarding service level dissatisfaction and indications about a lack of demonstrated value, it is apparent that expectations set by the providers, were not met. It is also clear that these respondents feel there is no control and no sense of what the future holds for the next generation of DPO from their providers.

Figure 9: Have you ever reversed a decision to outsource document processing? *(N=85)*



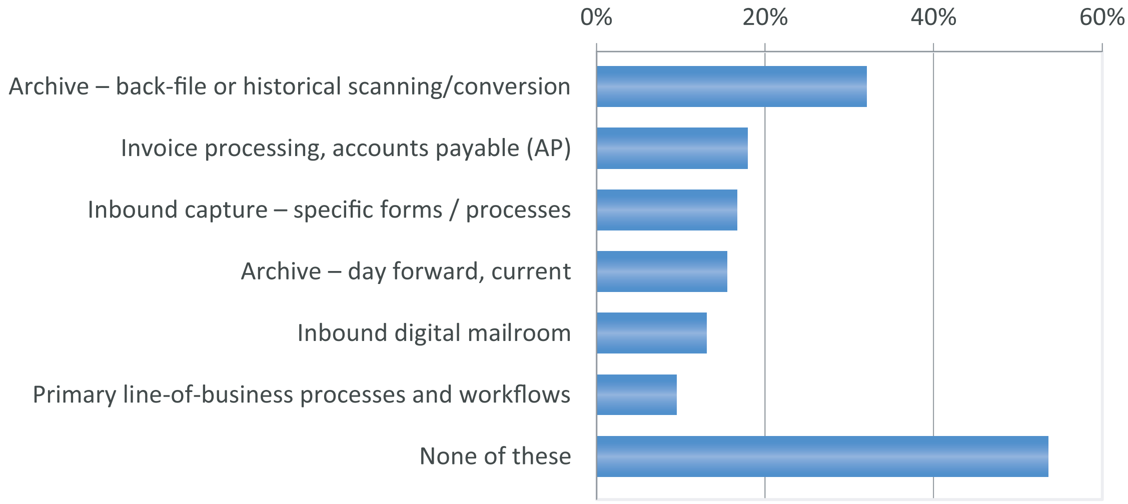
We can gain more insight into the reasons decisions were reversed by looking at the criteria cited for renewal decisions. When renewing DPO services, the two top factors cited are service level performance (69%) and value delivered (62%). With these as the top criteria, it is obvious that expectations must be set correctly and met, along with a complete picture of the value delivered, in order to maintain customer satisfaction and on-going renewals. It may be that service levels have been met and value delivered, but if the client is not clear on these points, they will change their minds.

Figure 10: At the time of renewal or review of a document outsourcing project, what are the two most critical factors that you consider? *(N=84)*



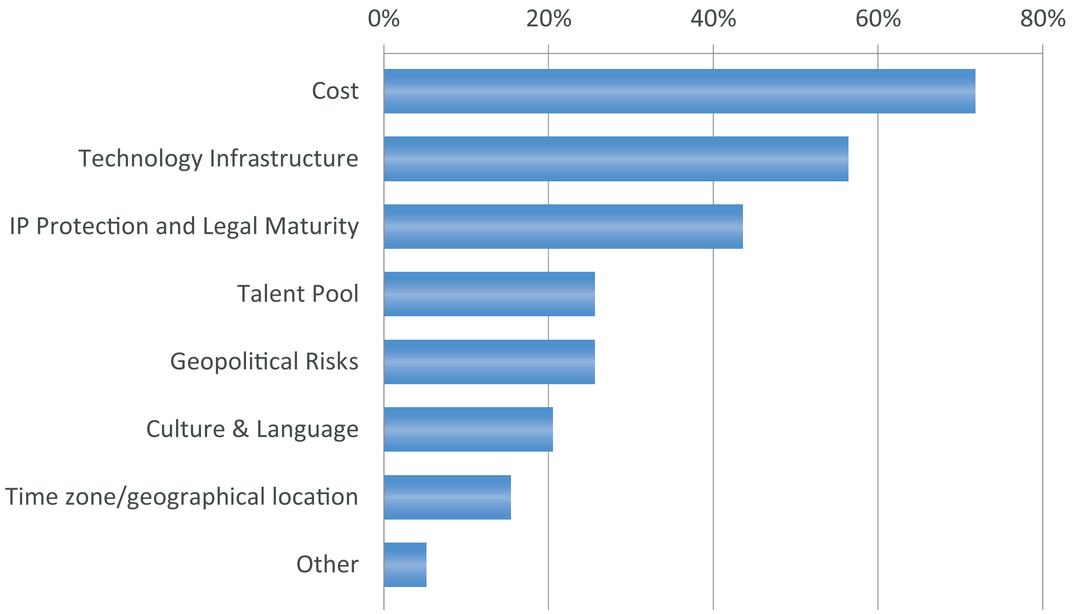
Traditionally, near shore and offshore DPO locations have been considered as low cost but somewhat remote options, and have therefore looked more attractive for more labor intensive operations that are not time sensitive. Obviously, this needs to be re-addressed with the improved communications and more sophisticated infrastructure now offered, and the user community may be missing opportunities in leveraging near shore and offshore DPO services for processes like day forward archive, inbound digital mailroom, and managing primary LOB processes and workflows. These operational areas represent an opportunity for organizations, as they do with outsourced capture, to leverage expertise, reduce internal dependencies, and align their focus on growing their core business. For 32% of respondents, more conventional use of DPO for archive of back-file or historical scanning/ conversion is a consideration.

Figure 11: Which of these processes do you or would you consider outsourcing to a near shore or offshore location? *(N=84)*



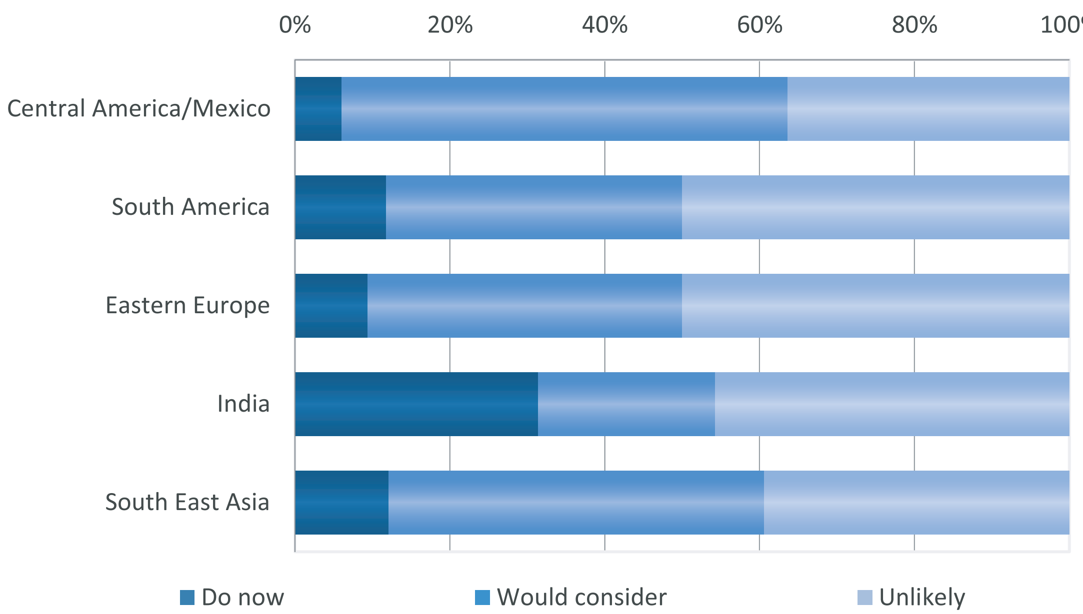
Looking at the criteria for offshore locations, 72% say cost is the big factor for choosing to use an offshore location, while 56% look at the technology infrastructure as the most significant. So while technology, infrastructure and domain knowledge are high on the list of priorities for providers being considered, cost is still a significant factor when making a choice of locations.

Figure 12: What are the most significant factors you consider/would consider in choosing an offshore location? *(N=39)*



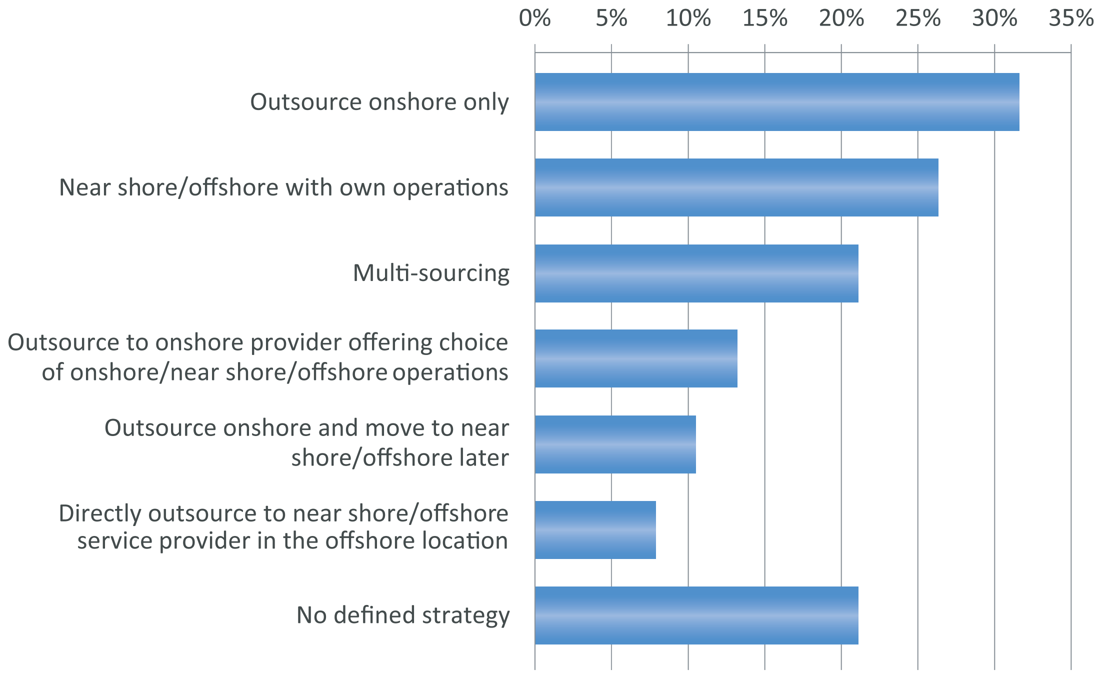
This leads us to the regions being considered for DPO services. While it may be of no surprise that India leads the way currently, there is significant interest in considering Southeast Asia (48%) and Eastern Europe (41%). This could be due to the perceived investment and increased stability of the utilities, and communications infrastructures in these regions. Additionally, for the Eastern European regions, there is a sense of demonstrable domain knowledge and skill sets due to the shift in workforce from state sanctioned universities and government agencies into the private sector.

Figure 13: Which of the following regions would you consider for outsourcing? *(N=137)*



For the most part, respondents are less likely to outsource directly with a provider in the offshore location, indicating that there is a desired comfort level of working with a provider locally to manage outsourced services offshore. 32% say on-shore is the only choice for them while 26% say near or offshore is fine, but under their own operational control.

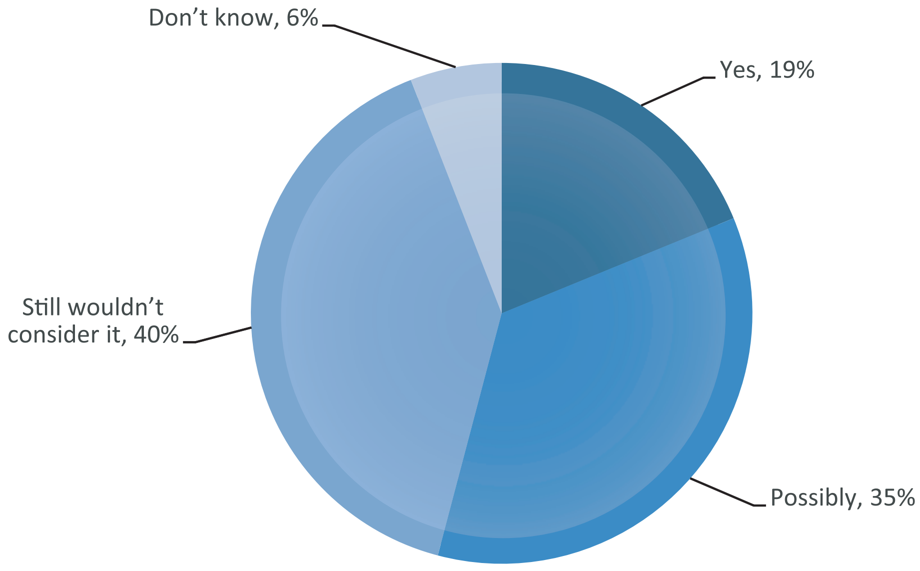
Figure 14: Which near/offshore strategy is your organization more likely to pursue? *(N=38)*



Benefit Perceptions

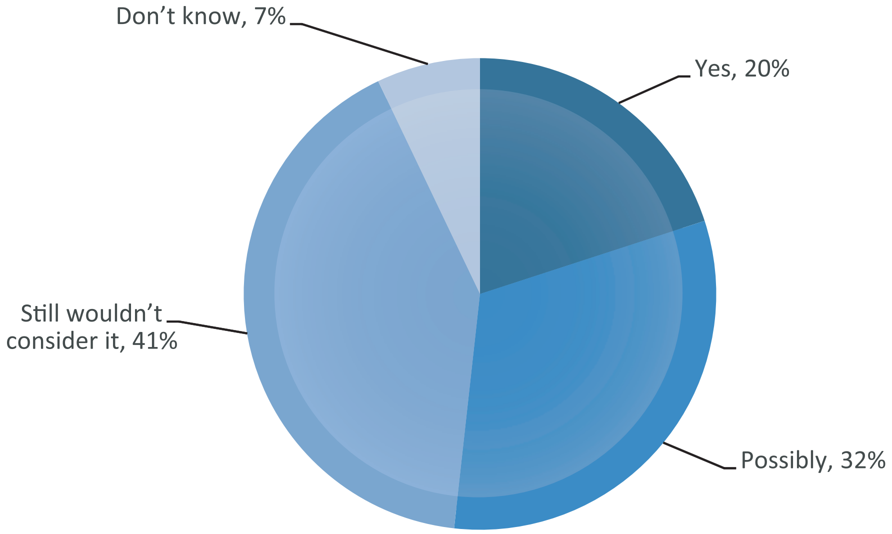
When polled about additional benefits or value an organization has or would have using a near or offshore destination provider, 35% say cost is the primary benefit, while 25% see flexibility in adjusting staffing needs as the benefit. Looking at the regulatory aspect of moving data outside borders, 54% of respondents feel that portioning would or could be of help in meeting these regulatory challenges, reflecting currency of a hybrid approach to cloud use.

Figure 15: Given the regulatory restrictions in some countries of moving data outside of borders, would it be helpful to you if DPO services could be partitioned such that some operations are hosted nationally, and others in a near or offshore location? *(N=85)*



In addition to partitioning, fragmentation of document processing would or could be helpful in managing document sets for 52% of respondents. This would certainly be a value point in relation to meeting compliance requirements and maintaining data privacy, in that only a segment of a document is shown to any one individual. The combination of partitioning to maintain and secure information regionally, with fragmentation to isolated segments of information provides a level of managed control that may be difficult and costly to administer internally, and would need to be fully automated.

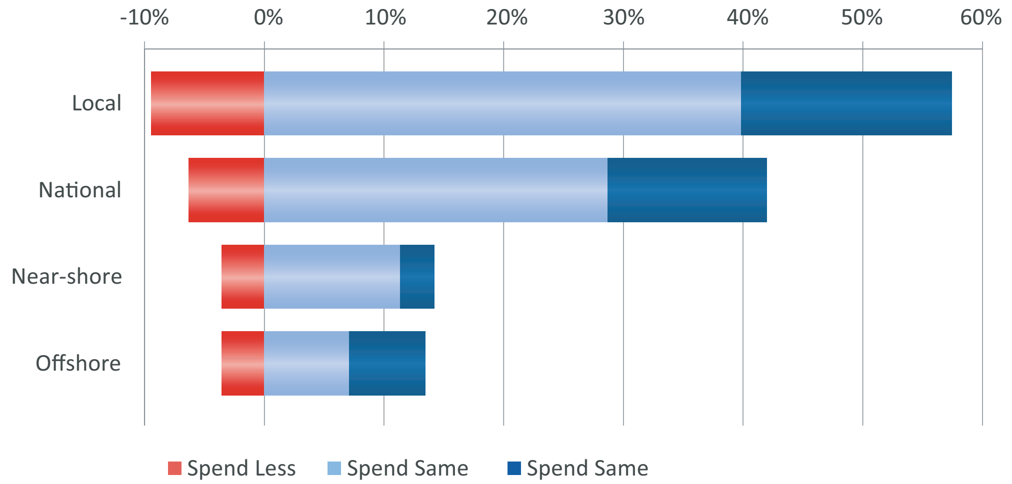
Figure 16: Would it be helpful if your DPO offered fragmented document processing to ensure that complete documents are not sent offshore, only individual elements? *(N=85)*



DPO Spend

Results show that for the most part there is a net increase of organizations spending more on local (9%) and national (7%), near shore is flat while a net of 2% say they will increase spending on offshore. While this may not seem significant, it still reflects growth and is unlikely to include consideration of outsourcing the missed opportunities of day forward archive, inbound mailroom, and LOB processes.

Figure 17: Do you plan to increase or decrease the amount of work you outsource to, near shore and offshore locations? *(N=150)*



Conclusion and Recommendations

While Document Process Outsourcing (DPO) has been a part of the business landscape for nearly three decades, there is still room for growth. The issue is that many organizations still see DPO, in relation to ECM, as focused or confined to scanning operations. Unlike some LOB apps like HR, where outsourcing has become the norm, organizations should look at DPO for capturing inbound documents, forms and invoices (both electronic and paper), outbound print and multi-channel communications, and support for managing documents related to LOB activities.

The fact that globalization has transformed market reach, re-defining the concept of multi-national operations, equates to a growing challenge in relation to regulatory compliance and matching the appropriate skill sets to accomplish the tasks. Re-mapping labor costs and local skill-sets is only part of the equation for DPO. The use of partitioning by region and fragmentation of document processing to ensure data privacy laws are met, is now a vital part of the DPO consideration and will help not only in choosing an approach to DPO but also in determining choice of on-shore, near shore and offshore locations. Modern business operations must maintain focus on their core competency, and not be concerned with non-core services if they are to grow and prosper.

Decisions will still be made with cost as the most common denominator, but emphasis will increasingly be placed on infrastructure, technology, domain knowledge, and skills sets of the provider. It is here where service level performance, support for next generation services, and ROI will weigh heavy. It is here that education would be beneficial in calculating ROI to include space cost savings along with labor costs. It is here that consideration should be given for the use of DPO in addressing day-forward archive, in-bound mailroom, and LOB processes. It is here where choice of location for use of, near shore, or offshore will be made.

Recommendations

Incorporating DPO as part of an overall strategy requires planning to ensure that the provider you choose aligns with your information management strategy, meets your business and regulatory requirements, and supports the way the user community functions. Some first steps you can take to move forward are to:

- Identify business areas where DPO will benefit in both labor and physical costs – include mailroom, archive, and LOB possibilities
- Document the regulatory requirements and match these to the DPO provider of choice
- Standardize and automate your processes whenever and wherever possible
- Establish goals and metrics related to DPO to ensure service levels are being met
- Calculate all related value areas like labor, physical plant, overhead to maintain the facility, etc.

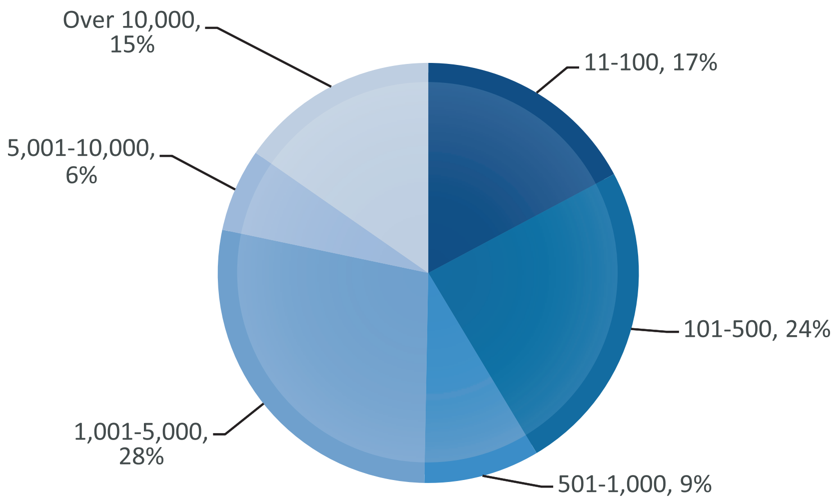
Appendix 1: Survey Demographics

Survey Background

The survey results quoted in this report are taken from a survey carried out between January and February of 2015 with 167 total responses (158 representing more than 10 employees) from individual members of the AIIM community surveyed using a web-based tool. Invitations to take the survey were sent via email to a selection of AIIM's 80,000 registered individuals.

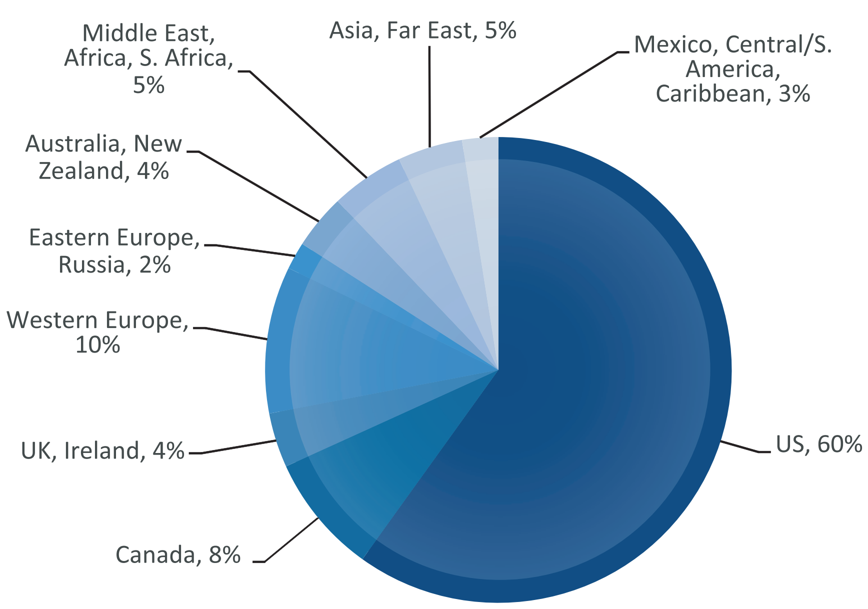
Organizational Size

Organizations with less than 11 employees are excluded from all of the results in this report. On this basis, larger organizations (over 5,000 employees) represent 21%, with mid-sized organizations (501 to 5,000 employees) at 37%. Small-to-mid sized organizations (11 to 500 employees) are 41%.



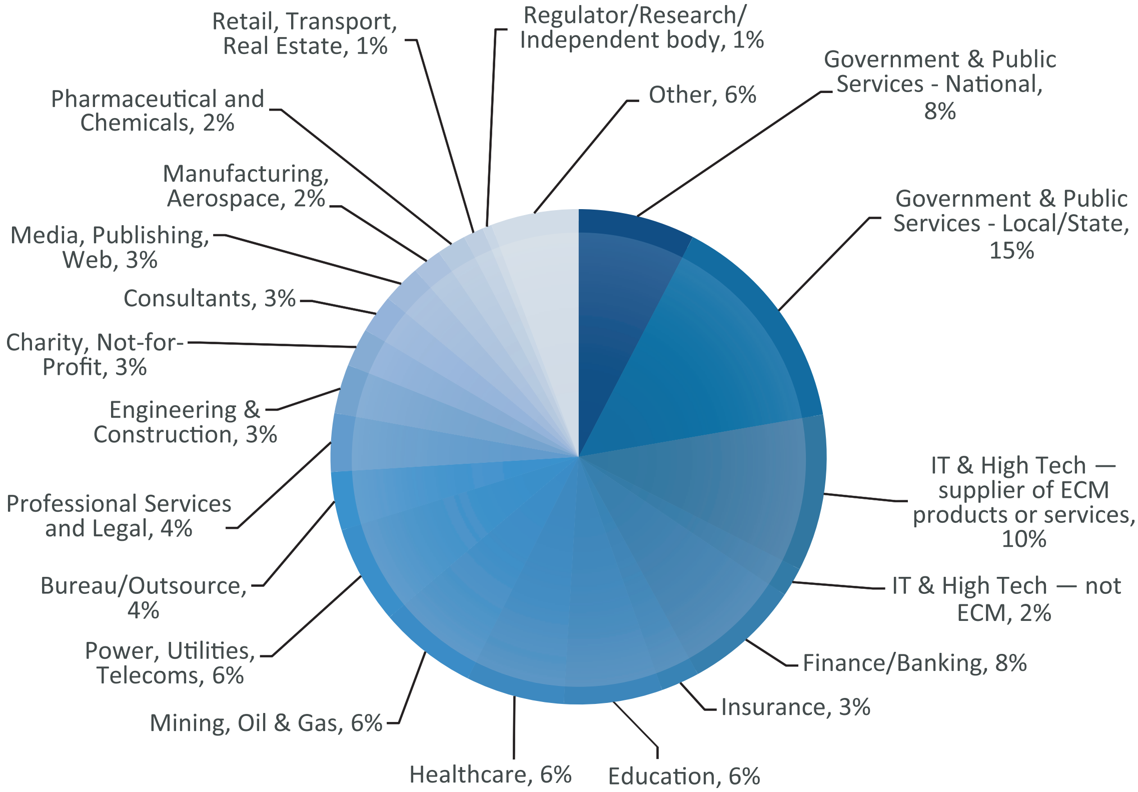
Geography

The survey was international, with US and Canada making up 68% of respondents, and 16% from Western Europe.



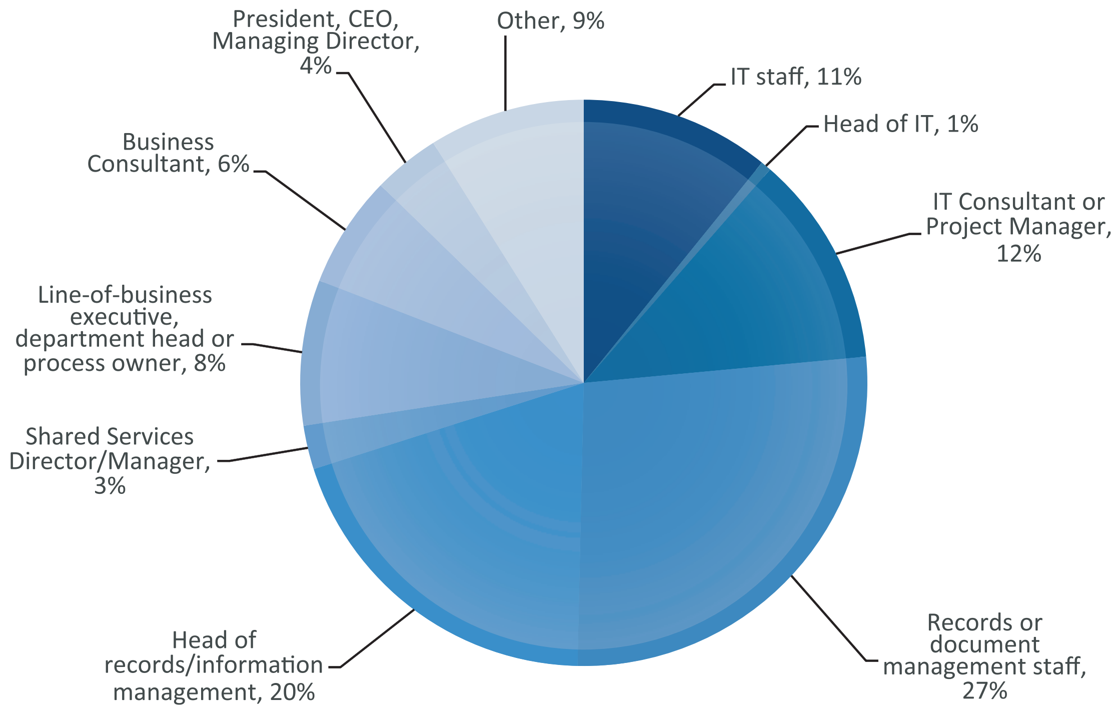
Industry Sector

Government represents 23%, IT and Tech 12%, and Finance and Insurance 11%.



Job Roles

24% of respondents are from IT, 47% have a records management or information management role and 12% are business management.



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AIIM (www.aiim.org) is the global community of information professionals. We provide the education, research and certification that information professionals need to manage and share information assets in an era of mobile, social, cloud and big data.

Founded in 1943, AIIM builds on a strong heritage of research and member service. Today, AIIM is a global, non-profit organization that provides independent research, education and certification programs to information professionals. AIIM represents the entire information management community, with programs and content for practitioners, technology suppliers, integrators and consultants.

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