
VALUE PROPOSITION OF A BPM SOLUTION

A significant amount of customers tend to look for the differential cost benefits primarily in the form of licensing costs that a BPM solution from different vendors has to offer. Vendors too need to respond to such demands and consequently the other benefits of a BPM solution get suppressed. Hence it is important that vendors point out the potentials and dimensions of benefits that a particular BPM solution can bring forth – not only from an operational cost savings perspective, but also from strategic angles.

In this white paper, 3 components – operational cost savings, training rationalization, and enterprise standard setting have been highlighted to showcase the value proposition of a BPM solution. A loan origination process has been chosen to demonstrate these approaches. The approaches undertaken are independent of any implementation technology and hence similar thought process would help other business solutions come up with appropriate value propositions. This paper explains the various means to capture the value proposition of a BPM solution highlighting some alternate means in which the benefits of a BPM solution can be projected. By doing so, it enables a vendor to differentiate itself in terms of the benefits that its solutions can offer; provides guidance on what all different scenarios could be considered for a return on investment analysis exercise for a BPM solution; and make a broader audience aware of the multiple ways in which the value proposition of a solution can be constructed.



WHITE PAPER



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Table of Contents

- INTRODUCTION 3
- BPM VALUE PROPOSITION DIMENSIONS – A SAMPLE CASE 3
 - OPERATIONAL COST SAVINGS 3
 - TRAINING RATIONALISATION 6
 - ENTERPRISE-WIDE STANDARDS SETTING 7
- CONCLUSION 9
- REFERENCES 9
- ABOUT THE AUTHOR 9
- ABOUT WIPRO TECHNOLOGIES 10
- WIPRO IN BUSINESS PROCESS MANAGEMENT 10



INTRODUCTION

Business Process Management (BPM) is hailed as one of the most promising solutions that promote collaboration between the “people-processes-technology systems” of an organization and its partners. The BPM market is promising and is growing at a compounded annual rate of 20 – 30%. Market estimates done with the help of analyst sources project a worldwide BPM market size of approximately US\$ 28.6 billion by 2007. Simultaneously, the penetration of BPM solutions are increasing in key industry verticals like financial services, insurance, retail, manufacturing , telecommunication services, energy and utility.

One very prominent aspect comes forward in the context of BPM - both the vendors and the customers are predominantly focused on the imminent cost savings that a BPM solution can provide by virtue of its process automation capabilities. This trend has resulted in a situation where the direct cost benefit differential (manifested in terms of license cost) of the competing solutions becomes the key criterion for selecting a solution. Though there is no immediate problem with this approach in the promising and growing BPM market, it is worthwhile to explore some alternate ways of projecting indirect cost benefits to customers.

BPM VALUE PROPOSITION DIMENSIONS – A SAMPLE CASE

To proceed forward, we would consider a typical loan origination process in a financial services company covering operations, training and enterprise-level standardization. In each of these categories, either direct or indirect cost savings brought forward by a BPM solution have been captured.

Operational Cost Savings

This section would demonstrate how operational cost savings would be brought forward by a BPM solution through automation and integration. Before putting down the actual methodology and calculations, 2 scenarios regarding loan origination system in a lending company, one prior to automation and one post-automation, have been depicted in the adjoining figures.

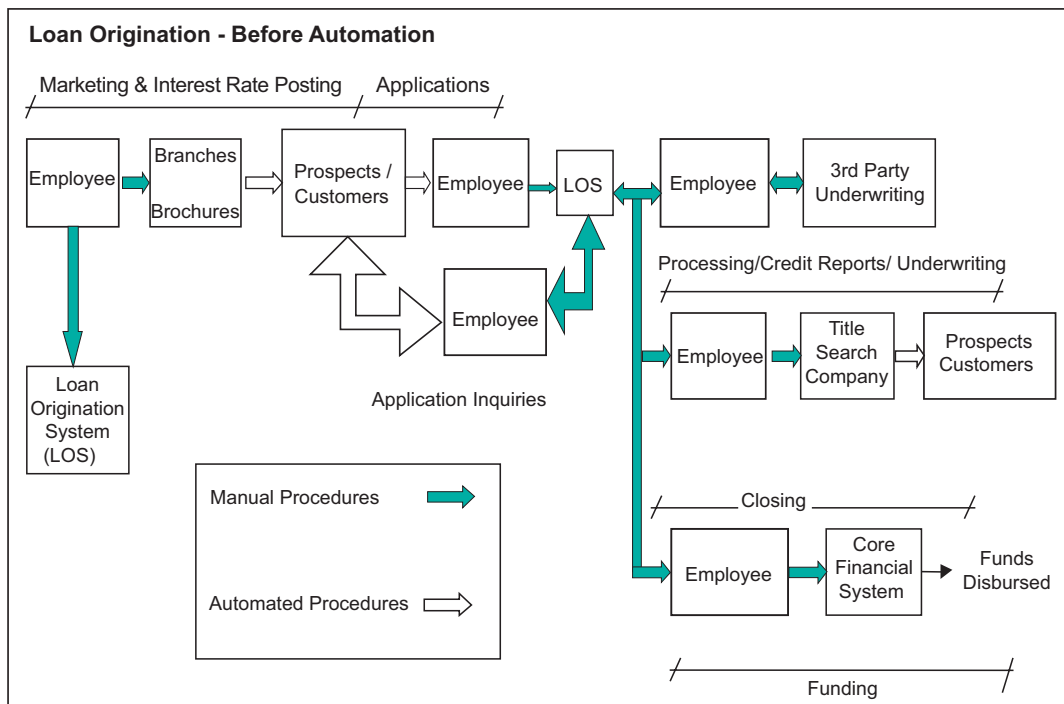


Figure 1: Loan origination system prior to automation



The loan origination system, post automation through a BPM system takes the shape as depicted in Figure 2. The reduction in the manual interfaces is clearly visible through the representations. Depending upon the complexities, there would be varying degrees of automation potential in various organizations.

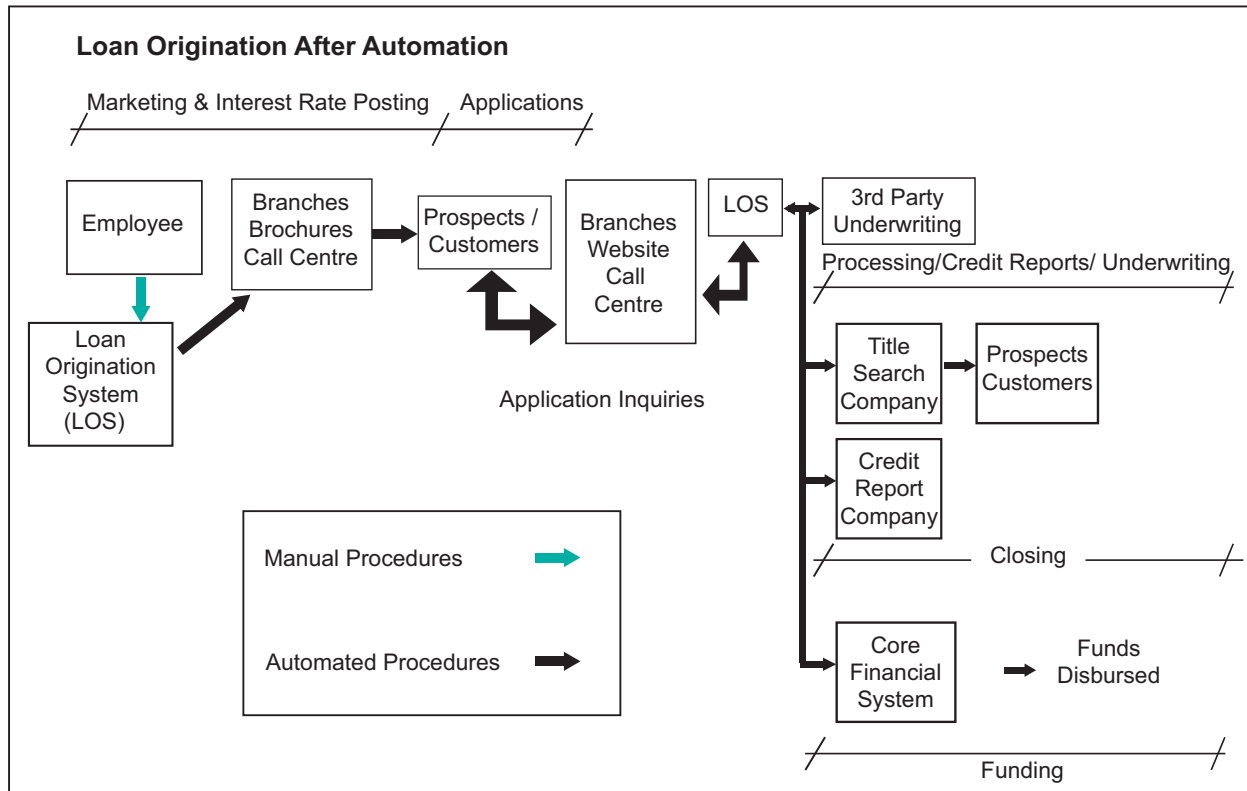


Figure 2: Loan origination system post automation

Table 1 demonstrates the various manual activities that are taken care of by the BPM solution. Industry average cost factors are attributed to each of the broad activities. Additionally, personnel requirement figures are calculated based upon a case where 100,000 loans are processed per annum.



High Level Activity	Details	Time Spent/ Personnel Requirement	Cost	Remarks
Marketing function	<ul style="list-style-type: none"> • Loan Design • Sending Info on prospects to branches • Sending loan product info to prospects • Coordinate brokers • Coordinate branches 	Year long continuous activity	1.8 – 2% of the origination cost	The coordination functionalities could be automated.
Loan application data processing	<ul style="list-style-type: none"> • Application data entered in LOS (Loan Origination System) • Borrower query resolution • Collate branch/broker data 	5 days on an average. 100 personnel would be involved assuming 100,000 loans being processed/ year. Each loan application processing takes 30 – 45 minutes.	8.5% of the origination cost	Data entry operations can be fully automated. Query handling procedure and tracking of the same can be automated to certain extent.
Application specific queries by the company	<ul style="list-style-type: none"> • Ask borrower for more information • Update refined data in LOS 	10 persons handling 600 + loan related clarifications per day		
Loan verification by 3 rd parties	<ul style="list-style-type: none"> • Update LOS data into 3rd party systems • Offer redesigned loan advice to applicants • Collate 3rd party reports for underwriting • Ask borrowers for more data • Handle 3rd party queries 	15 days on an average. 100 data entry operators can be used for coordinating with 3 rd parties	15% of the origination cost.	Data entry and collation can be automated fully.
Underwriting	<ul style="list-style-type: none"> • Validate loan approval based on collated inputs • Decision making • Ask for more clarifications • Interface with automated underwriting software 	5 days on an average	9% of the origination cost	Data entry operations can be automated
Loan Closing	<ul style="list-style-type: none"> • Get approved loan data from underwriter • Update LOS data in Financial systems • Interface with insurance companies regarding Escrow accounts • Update data in insurance company systems • Send data to closing agencies • Coordination with closing agencies 	15 days on an average	9% of the origination cost	Data entry and interfacing functions can be automated

Table 1: Operational cost savings (Industry averages obtained from [1])



From the details given in Table 1, with process automation making manual updates obsolete, optimistically 41% of cost reduction is possible in the loan origination costs. However, some amount of investment would be required in setting up a call center to handle the manual queries required at various stages. Hence realistically 30% (approximate) of savings in the loan origination cost can be achieved. Elimination of time required for redundant data entry at various stages indicate that around 13 days of a 40 day loan manufacturing process can be saved through the depicted automation route. Assuming a minimum wage rate of US\$ 100/day, this results in a US\$ 130 million savings per annum for a company processing 100,000 loan applications/year.

Training Rationalization

The benefits brought forward by the BPM solution can be projected from another perspective -reduction and rationalization in training needs for the employees of the lending company cited above. Since in the existing scenario, manual interactions are needed with diverse systems, the collective training requirements of the company would be quite high. In the modified case, where diverse systems are seamlessly integrated through a BPM solution, these trainings are no longer required. Table 2 captures the training needs under the new system vis-à-vis the existing one.

Manual Systems	Automated Systems (Training Needs)
LOS use	LOS use
Financial systems	Financial systems [only for IT department]
Loan application audit	Call center training
3rd party systems - - Credit bureau - Title search - Appraisal/verification systems - Employment verifications - Underwriting software data entry - Closing agent	Relationship development -> Required only for front office personnel
Insurance company handling	Underwriting software usage (limited degree)
Underwriting software usage by advanced users	
Relationship development (necessary at various levels since employees handling various activities needed to get in touch with customers)	

Table 2: Reductions in training needs



Thus at a qualitative level, the BPM-enabled Loan origination system demands only 40% of existing training needs which undoubtedly would add significantly to the bottom-line of the lending organization.

This analysis can be extended where one can project:

- The exact savings potential by working closely with a particular organization
- Savings in the ramp-up time of fresh hires – Would be significant in the event of attrition rate being high in the lending company

Furthermore, the annual training time savings that can be utilized by the employees in other customer oriented value-added activities.

Enterprise-wide Standards Setting

It is a well-established fact that having a common set of processes across the enterprise would propel:

- Facilitation of shared service operations and information systems
- Common training programs
- Establishment of common performance management systems and benchmark setting,
- Establishment of common customer interface and sharing of customers
- Ease in employee rotation, and
- Adoption of best practices across business units

In normal circumstances, even if an organization documents its processes, arriving at such standardization is a daunting task because of the unavailability of standardized process description and representation techniques. With the help of a BPM tool, one can arrive at a process map [2] that acts as a tool for process architecting. The same loan origination process is considered to come up with an appropriate process-centric architecture. The key points being -

- The entire set of activities/processes could be broken up under the broad activities that form the columns of the process map
- The detailed set of smaller processes can be organized under strategic, planning, controlling and operational categories.
- Once processes are mapped in the process map, the next step is to identify the degree of commonality in them. With automated process commonality identification facilities, BPM tool can highlight the degree of difference between processes that the business users would like to standardize. Process owners and designers can appreciate the rationale behind such differences and use the BPM tool to effectively customize the processes to suit such localization needs. With the process abstraction features of a BPM tool, this becomes a rather easy task.
- The tool can help users further in deciding upon the granularity of such standardization (across the enterprise or branch wise standardization). This would assume further significance when organizations would want to standardize across processes serving equivalent purposes of merged or acquired entities.

With the change management and process versioning facilities provided by a BPM tool, organizations can refine/optimize their processes further and thus embark in a journey of continuous improvement.



	Design Loan Product	Market Loan Products	Sell Loan Products	Process Order & Service Customers	Close Loans
S Strategic	Determine Product Mix & Market	Set Pricing & Channel Strategy	Target Customers	Set Customer Service Levels and Strategy	Closing Policy & Strategy
		Determine Market/ Customer Segments & Strategies	Develop Contract Guidelines and Policies	3rd Party validator policy and strategy	
		Determine Advertising/ Promotion Strategy	Develop Contract Strategies		
P Planning & Analysis	Forecast Demand	Conduct Market Research	Sales territory determination / broker distribution		Contract closing agencies and negotiate rates
	Optimise Short-term Product mix offered	Plan Marketing Budgets	Develop Sales plan, Budget and Account plan		
	Manage Demand	Analyse markets and Competitors	Forecast Sales		
			Segment Customers		
C Controlling & Monitoring	Monitor forecast vs. actual demand	Report Loan Product/ Market Profitability	Report Contract Effectiveness	Monitor Loan Processing Performance	Track Progress of loan closure
	Report Product profitability	Report Customer Profitability	Report Sales	Monitor Customer Service	Monitoring closing agent effectiveness
		Monitor Advertising / Promotion effectiveness	Report Segmentation efficiencies and effectiveness	Monitor 3rd Party validators' performance	
		Report Brokerage channel effectiveness	Report Segmentation efficiencies		
O Operational	Provide Assistance for Loan Product Maintain Loan Product Management Data	Create Marketing collaterals	Maintain Customer Data	Service Customers	Interact with Closing agents
		Maintain Market Information	Manage Customer Relationship	Compute Taxation	Deliver Loan
		Manage Channels (Brokers / Agents)	Lead/Prospect generation	Interact with 3rd party validators	Prparation of Loan Servicing data
		Set Channel Margins	Sell		
			Provide Product technical assistance		
		Distribute collaterals			

Locally Adapted	Minor variations across the Enterprise	Common across the Enterprise
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Figure 3: Process map – An important aspect of process management (adapted from [2])



CONCLUSION

In this paper an attempt has been made to go beyond the surface level benefits put forward by BPM solutions. A marketing value proposition in similar lines can go a long way in positioning vendors in the marketplace and eventually help them in winning customers. The exercise is time consuming and requires deep understanding of the customers' operations, but the benefits more than justify such an attempt. Since the methodology applied here is independent of any technology, it can act as a guidance to other business solutions to highlight their value propositions from different perspectives.

REFERENCES

1. Danford, David P. (1999), 'Online Mortgage Business Puts Consumers in Driver's Seat', - Mortgage Market Trends.
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ABOUT THE AUTHOR

Debanjan, as part of his current role of Practice Manager in the Business Process Management (BPM) Center of Excellence, handles multiple responsibilities spreading across strategic marketing, BPM business development for the BFSI industry and BPM consultancy assignments. He brings with him more than 8 years of industry experience in the fields of telecommunication network management and business process management.



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Wipro is the first PCMM Level 5 and SEI CMMi Level 5 certified IT services company globally. Wipro provides comprehensive IT solutions and services (including systems integration, IS outsourcing, package implementation, software application development and maintenance) and research & development services (hardware and software design, development and implementation) to corporations globally.

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