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European Business Process Outsourcing Spending Forecast: 2006 To 2011

This is the fourth document in the "European IT Services Spending Forecast" series.

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EXECUTIVE SUMMARY

Forrester's business process outsourcing (BPO) forecast tracks six service categories: human resources BPO, financial services back-office BPO, procurement BPO, finance and accounting BPO, customer care BPO, and other BPO. Forrester pegs the five-year compound annual growth rate at 11.5%, representing the highest growth of all IT service categories that we track. Total spending will rise from €11.0 billion in 2006 to €18.9 billion in 2011. Human resources BPO attracts the largest spend, followed by spending on financial services back-office BPO. Relative to their size, firms in the UK and the Netherlands will spend the most.

TARGET AUDIENCE

Chief information officer, IT sourcing professional, technology marketing, sales, and management professional

EUROPE'S BPO SPENDING CONTINUES TO HEAT UP

Forrester's IT services spending forecast covers enterprise spending growth in the 25 EU countries plus Norway and Switzerland for application outsourcing, business process outsourcing (BPO), infrastructure-related outsourcing, and project-based services.¹ In this, the fourth in a series of service-specific documents, we highlight the upcoming trends in expenditure on BPO services.

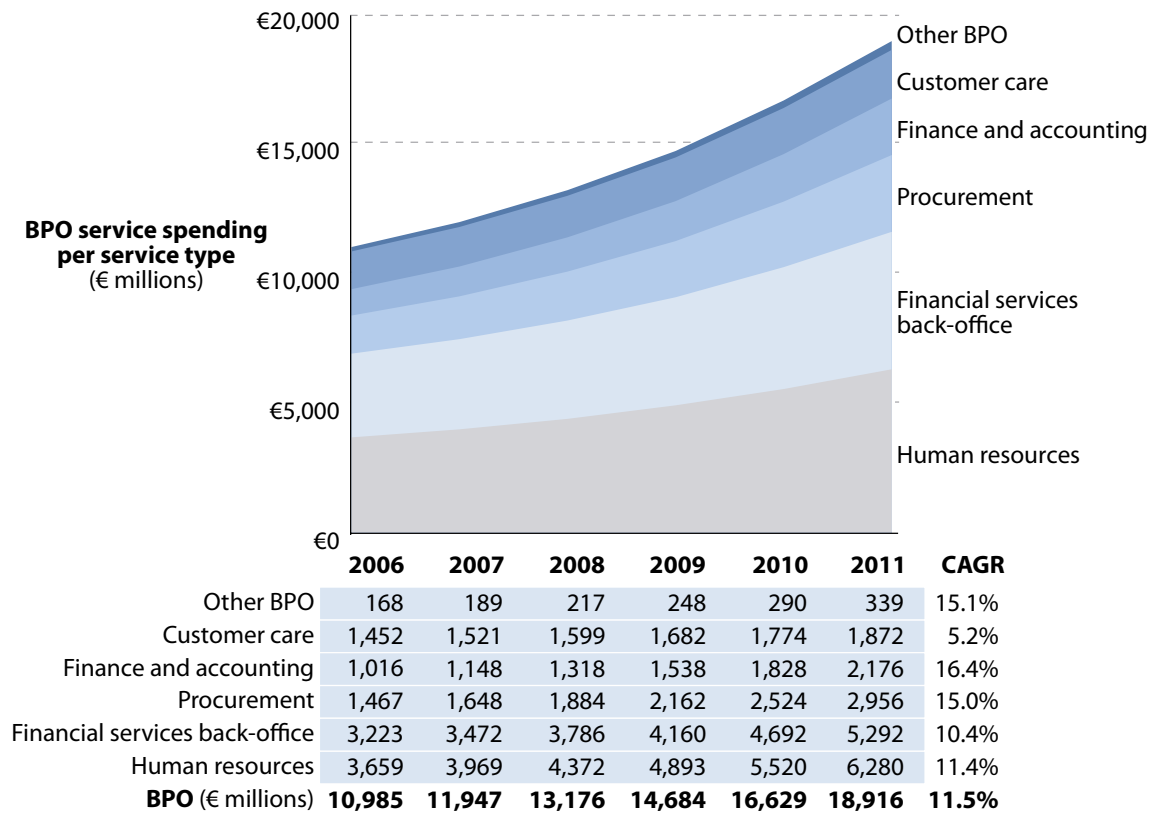
BPO Uptake Varies Widely

Forrester classified six BPO services for the forecast: financial services back-office BPO, customer care BPO, finance and accounting (F&A) BPO, human resources (HR) BPO, procurement BPO, and other BPO. European firms will spend €11.0 billion on these BPO services in 2006, and this is set to increase to €18.9 billion across the forecast period (see Figure 1). We define BPO as an arrangement to transfer assets and responsibility for the management and execution of a corporate function or process to an external service provider, with performance metrics tied to the business value of services provided and to customer satisfaction. For each individual BPO service, we found that:

- **HR BPO takes the lion's share of Europe's BPO spending.** A third of the total European BPO spending in 2006 will go to HR BPO.² This service type has the biggest spending share both now and up to 2011. UK firms lead, spending €1.4 billion in 2006, followed by German and French firms

at €587 million and €500 million, respectively. Demand for HR BPO has a visible impact on service providers. ARINSO, for example, reported seeing a doubling of the number of client employees that it serves in one year — much earlier than expected.³

- **Financial services back-office BPO comes a close second.** Ongoing automation and standardization within the financial services industry means firms here are likely to outsource the processing and administration that underpins financial services and insurance products. Spending will increase at a CAGR of 10.4% from 2006 to 2011. Although use of external services is quite common across Europe, uptake is biased toward Western Europe — with the most IT-advanced countries like the Netherlands, the Nordics, and the UK all expected to have a steeper increase in spending than the others.
- **Procurement BPO finds buyers in just a handful of countries.** Total spending on procurement BPO will amount to €1.5 billion in 2006 and will double in five years. Handing over indirect and direct goods procurement functions or processes to third parties will mostly occur in the larger economies of Europe. The UK, Germany, and France are driving the majority of the 15% CAGR.⁴
- **F&A BPO spending will grow quickly.** Spending on F&A BPO has the highest CAGR of all BPO services at 16.4%.⁵ From 2006 to 2007, nearly all countries will raise their expenditures on F&A BPO — with growth rates ranging from 8% to 10%. In the most outsourcing-experienced countries like the Netherlands and the UK, F&A BPO spending will seize about 13% of the total BPO spending in 2011. But other European countries will not match this growth in share of spending.
- **Customer care outlay will surge in Eastern Europe and the Baltic countries.** Firms in Western Europe started outsourcing customer care activities earlier and on a wider scale than those in Eastern Europe and the Baltic States. Their spending pattern has stabilized, but Forrester expects a steep rise in spending for the latter two regions in the coming years. Even so, the total spending will be modest — with €7 million of the total €1.9 billion of BPO spending in these countries going to customer care by 2011.
- **Other types of BPO continue to grow.** This category encompasses outsourcing of industry-specific and unique business processes, such as document processing or road toll provisioning. The CAGR is high at 15.1%, but with total spending of €168 million in 2006, this will remain the smallest BPO service category for the next five years. UK firms will be responsible for half of all activity here, and another third will come from Dutch, German, and French companies.

Figure 1 Forecast: European Business Process Outsourcing Spending, 2006 To 2011

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Source: Forrester Research, Inc.

Western Europe Takes The Lead In BPO Spending

Overall, the BPO CAGR is pegged at 11.5%, but uptake and spending in Europe is spread unevenly. Firms in IT-advanced countries like the UK, the Netherlands, and the Nordics and in the large economies of France and Germany are spending relatively more on BPO.

- **BPO spending opportunity lies in Western Europe.** Besides the usual suspects, firms in Austria, Belgium, Spain, and Switzerland will spend more than €100 million on BPO per country in 2011; in addition, each has a CAGR in excess of 10.5%. Almost the entire spending on BPO comes from Western European countries. In 2006, for example, less than 0.5% of total spending comes from Eastern Europe and the Baltic countries — this will not change in the five years that follow.

- **Financial services and public-sector organizations buy the most BPO.** From the outsourcing deals that Forrester tracks quarterly, we saw that financial services firms signed the majority of BPO deals.⁶ Firms in this sector drove most of the spending on procurement BPO. Government and public services agencies — especially in the UK — also spend big on BPO, with several councils and government departments closing HR-flavored deals for payroll and pension administration. Cases include London’s Metropolitan Police contract with LogicaCMG and the UK Crown Prosecution Service’s deal with Atos Origin.

ENDNOTES

- ¹ We updated our IT services spending forecast from November 2003. To do this, we surveyed 90 European firms — and conducted in-depth interviews with some of these. We also interviewed IT service providers operating in Europe. Overall IT services spending in Europe will grow to €146 billion in 2011. See the May 3, 2006, Trends “[European IT Services Spending Forecast: 2006 To 2011.](#)”
- ² HR BPO generates interest from both experienced firms and those with less outsourcing experience; the result is that across all European countries, buyers allocate at least a third of their total BPO spend to HR BPO. See the July 27, 2006, Trends “[European HR BPO Spending Forecast: 2006 To 2011.](#)”
- ³ Visit www.arinso.com for more information.
- ⁴ Forrester recently evaluated European procure-to-pay services vendors across 29 criteria. Although no outstanding provider emerged, Accenture led the pack. Ariba, IBM, Infosys BPO, and Xansa came in as strong performers. See the September 8, 2006, Tech Choices “[“The Forrester Wave”™: European Procure-To-Pay Services, Q3 2006.](#)”
- ⁵ Despite the high CAGR F&A BPO’s total spending will be just over €2 billion — making this the smallest of the BPO service categories that Forrester tracks. See the June 26, 2006, Trends “[European Finance And Accounting BPO Spending Forecast: 2006 To 2011.](#)”
- ⁶ Since 2004, Forrester has tracked IT outsourcing deals of €10 million or greater in total contract value and reports on a quarterly basis. See the June 20, 2006, Trends “[EMEA IT Outsourcing Deals: Q1 2006](#)” and see the September 14, 2006, Trends “[UK IT Outsourcing Deals Overview: 2004 To 2006.](#)”