

# Major Trends in BPO – What You Need to Know

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# BPO: Vigorous Commotion!

New Service Offerings from  
Existing IT Service Providers



New Service Providers  
Entering the Market



New Service  
Delivery Models



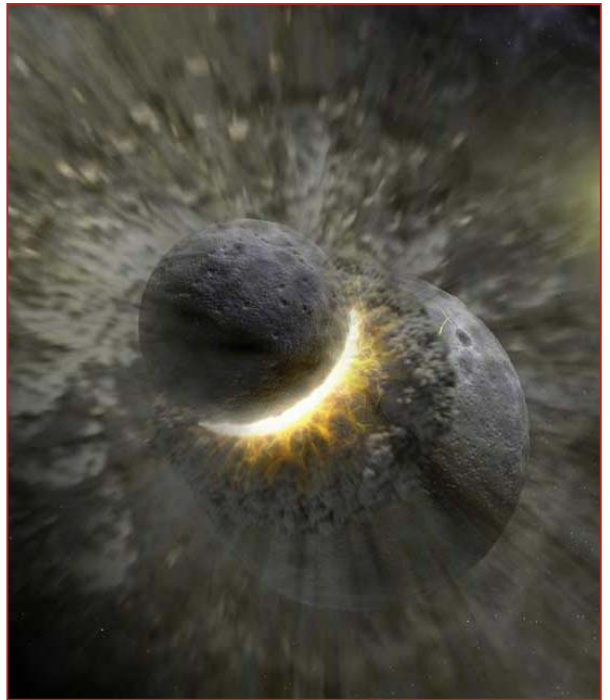
Mergers, Acquisitions  
and Joint Ventures



New Buying Centers



**Vigorous Commotion!**



Credit: NASA/JPL-Caltech/T. Pyle (SSC/Caltech)

## Client Issues

1. What is driving companies to outsource different processes?
2. How is the provider landscape for BPO changing?
3. What are the current and future trends in BPO delivery?

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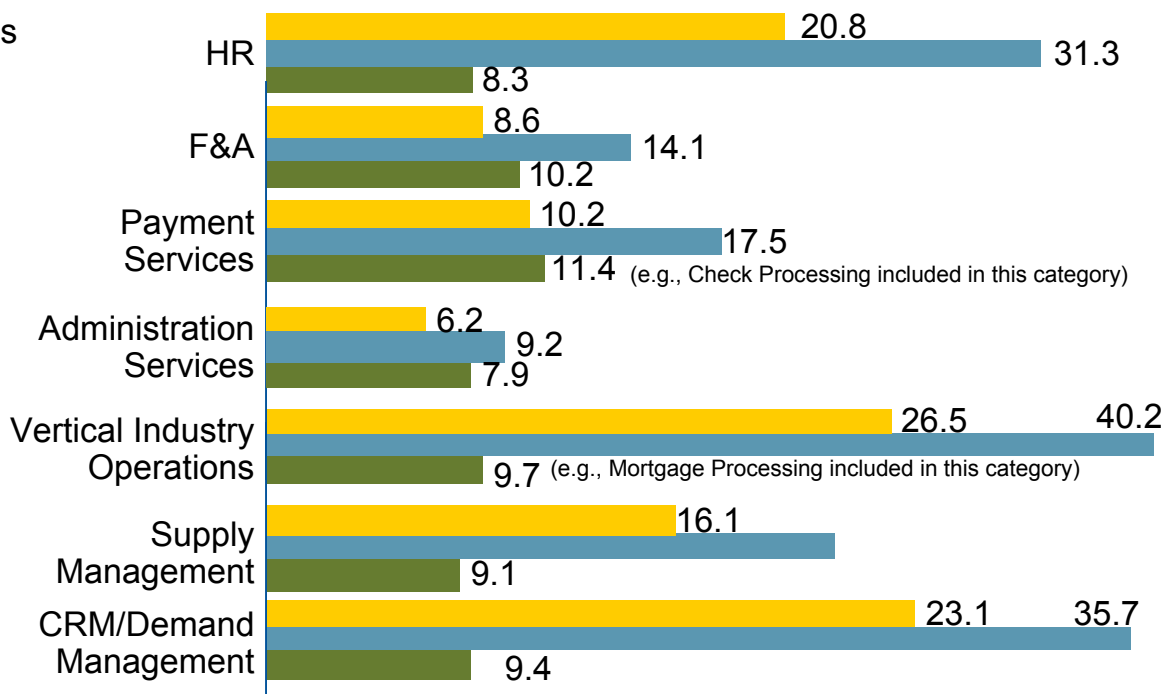
# Worldwide BPO Market Size & Forecast, 2004-2009

US\$ Billions

2004

2009

CAGR



A **\$132 billion** market in 2006, growing to **\$172 billion** by 2009

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## Why Do Companies Consider BPO?

- Focus on core business functions that create competitive differentiation in the marketplace
- Cost Reduction
- Improve Service Levels
- Verticals such as FS want vertical specific offerings such as mortgage processing, closed book insurance processing support
- ERP end of life SW contracts leading some prospective buyers to consider BPO as a mean of handling ongoing upgrades



# What Do Companies Worry about when they Consider BPO?

- **Loss of in house expertise – business functionality expertise**
- **Fear of losing control over design and execution of the business process**
- **Risk of Disruption of Services**
- **New Buying centers fearful of outsourcing in general**
- **Financial Risk to providers**



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# What Kinds of Companies Will Benefit From BPO?

**Large:** Improve focus on core business



**Competitive Market:** Gain competitive advantage through streamlining processes



**Deregulating:** Manage costs and create differentiation



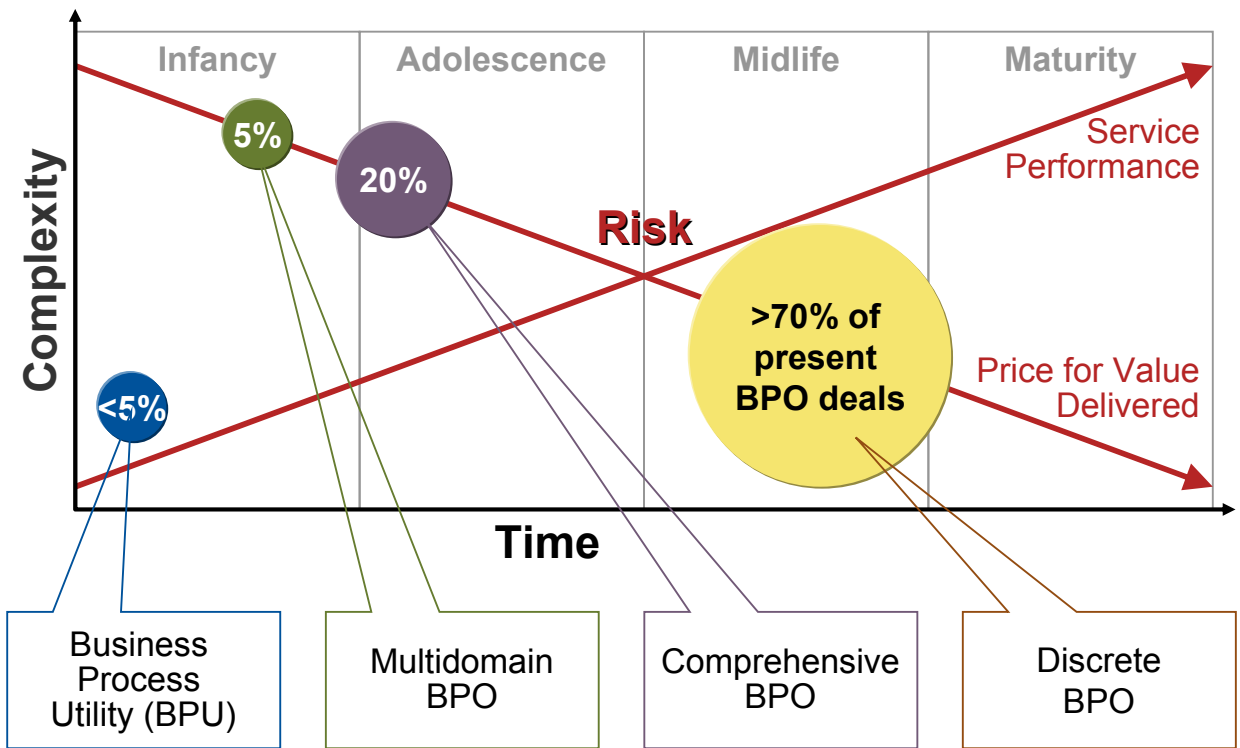
**Consolidating:** Hasten integration through process management



**Emerging:** Gain best-in-class processes without owning or acquiring technology or skills



# Four General Approaches to BPO



## Client Issues

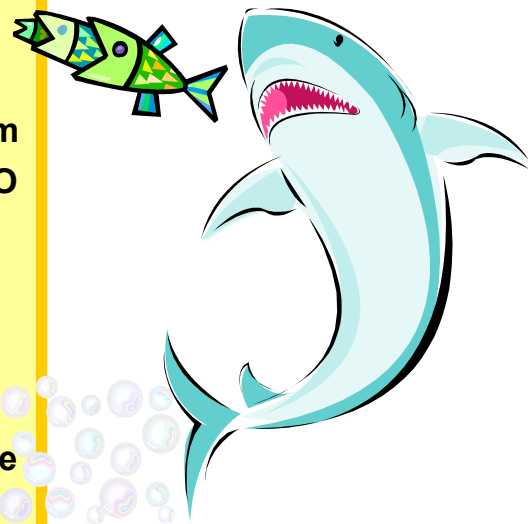
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# Evaluating the Strengths and Weaknesses of the Mix of BPO Providers

| Vendor Category             | Strengths   | Challenges  |
|-----------------------------|---|---|
| <b>Pure-Play BPO</b>        | <ul style="list-style-type: none"> <li>■ Process skills</li> <li>■ Innovative BPO</li> </ul>                | <ul style="list-style-type: none"> <li>■ Brand visibility</li> <li>■ Global consistency</li> </ul>                  |
| <b>IT Svcs. Heritage</b>    | <ul style="list-style-type: none"> <li>■ IT processing power</li> <li>■ Outsourcing</li> </ul>              | <ul style="list-style-type: none"> <li>■ Technology focus</li> <li>■ Deep Process Expertise</li> </ul>              |
| <b>Consultants</b>          | <ul style="list-style-type: none"> <li>■ Front-end skills</li> <li>■ Existing sales channels</li> </ul>     | <ul style="list-style-type: none"> <li>■ Operational Expertise</li> <li>■ Lengthy sales cycle</li> </ul>            |
| <b>Process Specialists</b>  | <ul style="list-style-type: none"> <li>■ Depth in process</li> <li>■ Proven capabilities</li> </ul>         | <ul style="list-style-type: none"> <li>■ Transaction-oriented</li> <li>■ Not a one-stop shop</li> </ul>             |
| <b>End-User Spinoffs</b>    | <ul style="list-style-type: none"> <li>■ Economies of scale</li> <li>■ Greater control by parent</li> </ul> | <ul style="list-style-type: none"> <li>■ Gaining incremental users</li> <li>■ Failures in marketplace</li> </ul>    |
| <b>Vertical Specialists</b> | <ul style="list-style-type: none"> <li>■ Depth of skills</li> <li>■ Proven capabilities</li> </ul>          | <ul style="list-style-type: none"> <li>■ Transaction Processing Focus</li> <li>■ Lack of broad solutions</li> </ul> |
| <b>Offshore BPO</b>         | <ul style="list-style-type: none"> <li>■ Labor arbitrage (low cost)</li> <li>■ Quality</li> </ul>           | <ul style="list-style-type: none"> <li>■ Staff turnover</li> <li>■ Process Expertise</li> </ul>                     |
| <b>BPU</b>                  | <ul style="list-style-type: none"> <li>■ Ease of deployment</li> <li>■ BPO on demand</li> </ul>             | <ul style="list-style-type: none"> <li>■ Immature model</li> <li>■ User Adoption of BPU model</li> </ul>            |

# Consolidation Aplenty – And Not About to Subside

- Accenture acq. Media Audits (Marketing Sciences)
- ACS acq. Mellon's HR operations including more than 3,000 HR consulting staff
- ACS acq. LiveBridge (demand management)
- ACS acq. Transport Revenue Division of Ascom
- Convergys acq. Deloitte Consulting's F&A BPO practice.
- Genpact acq. Creditek (order-to-cash and accounts receivable services)
- IBM acq. Equitant (order-to-cash processing services)
- IBM acq. Liberty Insurance Services (insurance sector skills)
- TCS acq. Comicro (Banking and Pensions in Chile)



# BPO Competitive Landscape: Be Careful What You Wish For...

## Process Specialists

### Human Resources

- ADP
- Accenture
- ACS
- Aon
- Arinso
- Ceridian
- Convergys
- ExcellerateHRO
- Fidelity
- Gevity HR
- Hewitt
- IBM
- Spherion
- Straightsource
- SummitHR
- TALX
- TriNet

### Document Management

- Xerox
- LASON
- WorkflowOne (Relizon)

### Finance & Accounting

- OPI
- HP
- Accenture
- IBM
- Capgemini
- ACS
- Genpact
- NCO
- TCS

### Logistics

- Ryder
- Menlo
- Schneider
- Penske
- Odyssey
- Transplace

### Procurement

- New Roads
- Vastera

### Procurement

- ICG Commerce
- Prosero

### Customer Care

- Convergys
- Teleperformance
- Genpact
- Wipro
- Sykes
- ClientLogic
- MphasiS
- Patni
- Vertex

## Vertical Specialists

### General Banking

- Fiserv
- Metavante
- Open Solutions
- ACS
- Accenture
- WNS
- ICICI OneSource
- iGate
- SBS
- EDS
- Infosys/Progeon
- Unisys

### Mortgage Processing

- Fidelity
- PNC
- EDS/Wendover
- ACS
- Straat
- WNS
- Skipton Bldg Soc.
- Wipro

### Transport

- TransWorks
- WNS

### Check Processing/ Payment Svcs.

- First Data
- Fiserv
- Symcor
- Unisys
- Viewpointe
- Federal Reserve
- Metavante
- Symcor
- Bankserv

### Insurance

- CSC
- Bisys
- IBM
- CGI
- EDS

- Perot
- Fiserv
- Exl Service
- Sherwood
- Accenture
- iGate
- TCS

### Healthcare

- McKesson
- Trizetto
- Misys
- Perot
- Tele
- Accretive
- Vision Health.
- ACS
- CGI
- EDS
- Convegys
- WNS

### Hospitality

- TCS
- Savista

### Telecom

- Convergys
- Amdocs
- ACS
- EDS
- TCS
- Cincom
- Aon

Source: Gartner 2004

Note: This is not a definitive list

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# BPO Landscape: An Asia-Pacific perspective

## Countries by Market Size

- Australia\*\*
- China
- New Zealand\*\*
- Korea
- Hong Kong
- Taiwan
- India\*
- Singapore\*
- Malaysia
- Indonesia
- Thailand\*\*

\* Growth rate > 30%, \*\* Growth rate 15% - 30%

## Sectors by Market Size

- |                          |                                      |
|--------------------------|--------------------------------------|
| • Financial Services     | • Healthcare                         |
| • Government             | • Transportation                     |
| • Communications         | • Education                          |
| • Discrete Manufacturing | • Agriculture, Mining & Construction |
| • Retail Trade           | • Wholesale                          |
| • Utilities              |                                      |
| • Services               |                                      |

## Sector Specialists

### Financial Services

- Australia Post
- Citec
- First Data
- Fiserv
- HPA
- KAZ Group
- Misys
- NCS
- Sitel
- TeleTech

### Communications

- Amdocs
- Australia Post
- Convergys Corp.
- CSG
- Datacom
- HPA
- SK C&C
- Sitel
- TeleTech

### Government

- Australia Post
- Citec
- Datacom
- HPA
- KAZ Group
- Kolon Data Communications
- LG-CNS
- NCS
- Salmat

### Discrete Manufacturing/ Retail Trade

- Datacom
- KAZ Group
- LG-CNS
- Salmat
- Sykes
- Sitel
- TeleTech

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# Choosing the Partner: BPO Vendor Selection Criteria

**Ensure vendor has a consistent track record of delivery and a long-term commitment to BPO**

## What Buyers Want

- Customer Service & Support
- Financial Stability
- Industry Expertise
- Trusted Partner

## Too often overlooked – but important

- Referenceable Accounts
- Cultural Fit

## Single Suppliers Becoming Preferred



- BPO clients are growing weary of coordinating the work of piecemeal processes and suppliers
- Multiple vendors are often in competition with each other and disinclined to work together
- Delivery of integrated solutions will become the preferred sourcing model
- Greater adoption of comprehensive or multidomain BPO (unlike selective ITO)
- Most comprehensive BPO relationships will come in increments, not through an initial “big bang” contract.

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## Client Issues

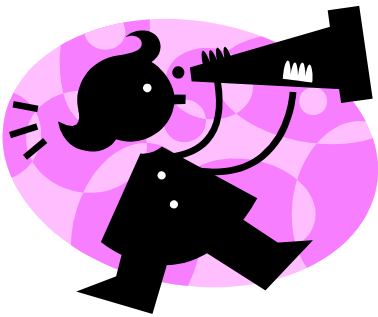
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## Where We've Come From: A Look Back at BPO in 2005

- Consolidation among providers continued, as the middle ground of providers was acquired.
- Continued new players bubbled up at the lower end of the market for niche or vertical solutions.
- Offshore morphed into global delivery, and increased to over 5% of total labor cost in global BPO
- Offshore contact center turnover rates skyrocketed
- SOX continued as a drag on BPO growth overall, especially F&A.



## Where We're Going: A Look Ahead at BPO in 2006-2007



- The largest providers will prevail in terms of size and share of total CV – they will struggle in the mid-market.
- One large provider will exit the market, or at minimum will no longer include BPO as part of their portfolio of services.
- Acquisition of internal shared services centers that span multiple countries and processes by BPO providers, or spun-off as commercially-facing BPO purveyors.
- Megadeals will continue to be the exception, rather than the rule -- most BPO activity will continue around smaller, more-focused deals growing by increments.

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# BPO Is a Sum of Many Markets, Some More Mature than Others

## Human Resources

- Mainstay of horizontal BPO activity.
- Will enjoy healthy growth on a solid base of revenue in the future.
- Majority of deals remain in discrete niches, such as payroll and benefits administration
- Major providers will pursue comprehensive relationships.

## Finance & Accounting

- SOX stalled adoption in the U.S.
- European CFOs needed FAO to gain process transparency.
- Little success among offshore providers outside of accounts payable and components of the order to cash and billing processes.

## CRM

- Vendors expanding capacity and improving visibility into target accounts.
- The combo of BPO, ITO and voice-specialist organizations present another sourcing option

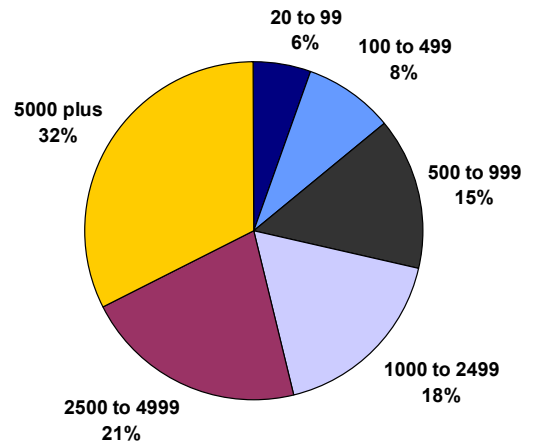
## Procurement Services

- Small but fast-growing
- Indirect procurement BPO predominates, and most is partial.
- No clear leading supplier of Procurement BPO at a worldwide level currently.

# What About Mid-market Businesses? Underserved, Underoutsourced?

- Mid-market fast-growing in BPO, uptake is not yet mainstream.
- Niche specialists and smaller vendors have been more successful in penetrating this space
- Offshore vendors not actively selling to the mid-market, nor have offshore BPO services been in demand among mid-size businesses.
- Transaction processing providers, such as ADP for payroll and Fiserv for midsize banks, have long profited from this underserved sector
- Cost of sales & service delivery profitability will hamper larger comprehensive vendors

Process Management Services (Core BPO), 2006



## SMB BPO:

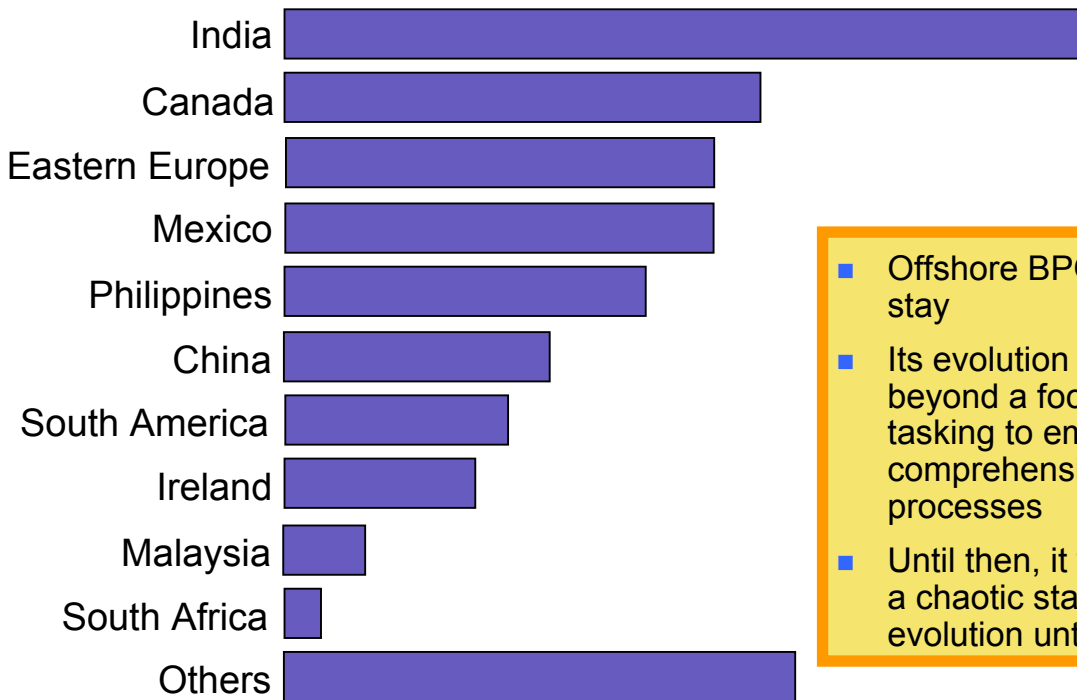
*Nearly half the market opportunity (48.9%) rests with businesses with less than 2500 employees!*

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# The Offshore BPO Debate is Over: Diversity and Pervasiveness of Global Delivery is Here to Stay

Percent of Vendor Respondents

0% 10% 20% 30% 40% 50% 60% 70% 80% 90%



- Offshore BPO is here to stay
- Its evolution must go beyond a focus on out-tasking to embrace comprehensive business processes
- Until then, it will remain in a chaotic state of evolution until it can adapt

# Automation Will Have a Major Impact on Future BPO: The Rise of the BPU

## Offshore BPO

- Cost takeout because of labor arbitrage
- Scalability of process delivery over time
- Spin-off of captive shared service centers
- Immature today

**Need for:**  
Cost control  
High volume  
Quality  
Security  
Language/cultural skills

## Process Automation (BPU)

- Remove the higher-cost human element of BPO
- No need for high customization in processes
- Technology as the process "actor"
- Immature today

**Need for:**  
Cost control  
High volume  
Speed to delivery  
Streamlined processes  
Discipline — standardized processes not suitable for all

## Recommendations

- ✓ Anticipate change – as vigorous commotion besets the BPO market, create contracts that enable change within multiyear BPO deals.
- ✓ Understand the BPO delivery model that is most appropriate to your business.
- ✓ Choose the right BPO sourcing strategy – most companies have a difficult time coordinating multiple BPO providers and opt for a comprehensive approach
- ✓ As vendor consolidation continues, ensure that exit management becomes an important part of contract terms and conditions.